



SONGA BULK

Songa Bulk ASA  
Financial Report Q1 2017

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# SONGA BULK

## First Quarter 2017 Highlights, events, results and fleet

### FIRST QUARTER 2017 HIGHLIGHTS

The net loss in the first quarter of 2017 is mainly a result of the Group being in the start-up phase. Only 4 vessels were delivered as of 31 March 2017 and expenses include start-up costs and non-cash expenses by issuance of warrants. As the Group was formed in Q4 2016, there exist no comparatives from Q1 2016. The highlights below focus on comparing Q1 2017 versus Q4 2016.

- Net loss was \$1.8 million in Q1 2017, compared to \$2.0 million in Q4 2016.
- Total TC-out days were 240 in Q1 2017, TC-out days in Q4 2016 were 17.
- Total time charter earnings were \$1.5 million in Q1 2017, up from \$0.1 million in Q4 2016.
- Average time charter equivalent (TCE) in Q1 2017 was \$6 289 per day, compared to \$6 591 in Q4 2016.
- Total operating days were 255 in Q1 2017, operating days in Q4 2016 were 22.
- Ordinary ship operating expenses (OPEX) in Q1 2017 were \$5 097 per day, compared to \$5 315 in Q4 2016. In addition to ordinary OPEX, start-up costs for delivery of vessels in Q1 2017 amounted to \$263 thousand.

### FIRST QUARTER 2017 EVENTS

#### VESSEL DELIVERIES:

- On 23 January 2017, the Group took delivery of a Supramax bulk carrier, the Songa Marlin. The purchase price was \$11.85 million, of which \$2.37 million were paid in 2016. The vessel was built at Tsuneishi Zhoushan in 2008 and has a deadweight of 58 693 tons. The vessel is currently chartered out on a time charter contract with expected redelivery during fourth quarter 2017.
- On 1 February 2017, the Group took delivery of a Supramax bulk carrier, the Songa Glory. The purchase price was \$14.85 million, of which \$1.49 million was paid in 2016. The vessel was built at Nacks Kawasaki in 2012 and has a deadweight of 58 680 tons. The vessel is currently chartered out on a time charter contract for about one year with redelivery during first quarter 2018. The vessel was purchased from North East Star Maritime, an affiliate of former board member Ghikas Goumas.
- On 22 February 2017, the Group took delivery of a Kamsarmax bulk carrier, the Songa Genesis. The purchase price was \$13.15 million. The vessel was built at STX in 2010 and has a deadweight of 80 705 tons. The vessel is currently chartered out on a time charter contract with expected redelivery around third or fourth quarter 2017.

#### VESSEL ADDITIONS:

- On 8 February 2017, the Group entered into a purchase agreement for a Kamsarmax bulk carrier, the Songa Flama. The purchase price was \$14.78 million, of which a 20% deposit was paid during first quarter 2017. The vessel was built at STX in 2011 and has a deadweight of 80 448 tons.
- On 17 March 2017, the Group entered into a purchase agreement for a Kamsarmax bulk carrier, the Songa Delmar. The purchase price was \$18.7 million, of which a 10% deposit was paid during first quarter 2017. The vessel was built at Hyundai Samho Heavy Industries in 2011 and has a deadweight of 81 501 tons.
- On 23 March 2017, the Group entered into a purchase agreement for a Kamsarmax bulk carrier, the Songa Grain. The purchase price was \$14.14 million, of which a 10% deposit was paid during first quarter 2017. The vessel was built at Tsuneishi in 2008 and has a deadweight of 82 672 tons.
- On 29 March 2017, the Group entered into a purchase agreement for a Kamsarmax bulk carrier, the Songa Hadong. The purchase price was \$20.05 million. The vessel was built at Tsuneishi in 2012 and has a deadweight of 82 158 tons.

- On 30 March 2017, the Group entered into a purchase agreement for an Ultramax bulk carrier, the Songa Wave. The purchase price was \$23.30 million. The vessel was built at Dacks Kawasaki in 2017 and has a deadweight of 61 491 tons.

## SUBSEQUENT EVENTES

At the date of this report, the Group has taken delivery of 8 vessels and has entered into purchase agreements to buy 2 additional vessels.

- On 12 April, the Group entered into a purchase agreement for a Capesize bulk carrier, the Songa Mountain. The purchase price was \$27.95 million. The vessel was built at Hyundai Heavy Industries in 2009 and has a deadweight of 179 147 tons.
- On 18 April 2017, the Group took delivery of the Kamsarmax bulk carrier Songa Flama. The purchase price was \$14.78 million, of which a 20% deposit was paid during first quarter 2017. The vessel was built at STX in 2011 and has a deadweight of 80 448 tons.
- On 20 April 2017, the Group took delivery of the Ultramax bulk carrier Songa Wave. The purchase price was \$23.30 million. The vessel was built at Dacks Kawasaki in 2017 and has a deadweight of 61 491 tons.
- On 27 April 2017, the Group took delivery of the Kamsarmax bulk carrier Songa Hadong. The purchase price was \$20.05 million. The vessel was built at Tsuneishi in 2012 and has a deadweight of 82 158 tons.
- On 12 May 2017, the Group took delivery of the Kamsarmax bulk carrier Songa Delmar. The purchase price was \$18.7 million, of which a 10% deposit was paid during first quarter 2017. The vessel was built at Hyundai Samho Heavy Industrues in 2011 and has a deadweight of 81 501 tons.

## CORPORATE:

- On 31 January 2017, 1 million new shares were issued in a private placement. Total gross proceeds were \$5 million. The shares were subscribed by North East Star Maritime Ltd, an affiliate of former board member Ghikas Goumas. In connection with the share issuance, a total of 75 000 warrants were issued to the founding shareholders
- On 17 February 2017, 20 million new shares were issued in a private placement. Total gross proceeds were \$100.2 million (the subscription price was fixed at NOK 42 per share). In connection with the share issuance, a total of 325 000 warrants were issued to the founding shareholders

**FIRST QUARTER 2017 RESULTS**

in \$ thousands		
Financial performance	Q1 2017	Q4 2016
Operating revenue	1 571	117
Time charter earnings	1 509	117
Time charter equivalent (TCE) – \$ per day	6 289	6 591
Loss before financial items, taxes and depreciations	-640	-823
Operating loss	-961	-861
Net loss	-1 813	-2 037
Earnings per share - \$ per share	-0.072	-0.242
Financial position	31 March 2017	31 December 2016
Total assets	174 991	72 813
Cash and cash equivalents	116 781	57 688
Total equity	172 676	71 205
Cash flow statement	Q1 2017	Q4 2016
Net cash flow from operating activities	-470	-154
Net cash flow used in investing activities	-42 835	-15 000
Net cash flow from financing activities	102 398	72 838
Net change in cash and cash equivalents	59 093	57 684

**Financial performance**

As the Group was formed in Q4 2016, there exist no comparatives from Q1 2016. This section, both the table above and the comments below are focused on comparing Q1 2017 versus Q4 2016.

The Group reports a net loss of \$1.8 million in Q1 2017. Net loss in Q4 2016 was \$2.0 million. The Group is in the start-up phase with results influenced by the limited number of vessels delivered.

The Groups' vessels are chartered out on time charter contracts. Time charter earnings were \$1.5 million in Q1 2017 compared with \$0.1 million in Q4 2016. During Q1 2017, the Group took delivery of a total of three vessels, adding to the one vessel delivered in Q4 2016. TC-out days increased from 17 in Q4 2016 to 240 in Q1 2017, which explains the increase in revenues.

Operating expenses were \$2.5 million, compared to \$1.0 million in Q4 2016. The increase relates mainly to ship operating expenses as operating days increased from 22 in Q4 2016 to 255 in Q1 2017.

Net financial expenses were \$0.1 million in Q1 2017, down from \$0.3 million in Q4 2016. Financial expenses are mainly the change in fair value of warrants.

The tax expense in Q1 2017 is the tax effect of tax deductible share issuance costs recognized directly in equity. The tax expense is non-payable.

**Financial position**

The Groups' total assets amounted to \$175.0 million at 31 March 2017, up from \$72.8 at 31 December 2016. Non-current assets, which comprise of vessels delivered and paid deposits on vessels for future delivery, increased from \$15.0 million at 31 December 2016 to \$57.5 million at 31 March 2017 mainly through delivery of three vessels in the quarter.

Total equity was \$172.7 million at 31 March 2017, \$71.2 million at 31 December 2016. The equity increase mainly comes from net proceeds from share issuances during the quarter.

**Cash flow**

Net cash flow from operating activities was \$-0.5 million in Q1 2017. Net cash flow from financing activities was \$102.4 million which were the net proceeds from share issuances during the quarter. \$42.8 million were used in investing activities in the quarter being purchases of vessels. Net change in cash and cash equivalents from 31 December 2016 to 31 March 2017 was \$59.1 million.

## THE FLEET

By the end of the first quarter 2017, the delivered fleet consists of 4 bulk carriers:

Vessel Name	Ex Name	Type	DWT	Built	Yard
Songa Glory	Equinox Glory	Supramax	58 680	2012	Nacks Kawasaki
Songa Marlin	Tenki Maru	Supramax	58 693	2009	Tsuneishi Zhoushan
Songa Genesis	Maverick Genesis	Kamsarmax	80 705	2010	STX Jinhae
Songa Maru	Ten Maru	Kamsarmax	82 687	2008	Tsuneishi Zhoushan

Total operating days in Q1 2017 were 255. TC-out days were 240. A total of 15 waiting days in periods from delivery of vessels to the Group until re-delivery to charterers are deducted from total operating days to calculate TC-out days.

The vessels are all chartered out on medium to long term contracts, being up to about 12 months. During first quarter 2017, about 4 days off hire were recorded in total for the fleet. The off hire days occurred are related to minor periods, mainly due to hold condition failure prior to loading of clean cargo and supply of stores in owners' time.

# MARKET

## Market, outlook and strategy

### DRY BULK MARKET IN Q1 2017

With first quarter 2016 lackluster earnings still fresh in memory, expectations for first quarter 2017 were low well into December 2016. In spite of a high influx of newbuildings the market exceeded most analyst rate forecasts.

Average weighted time charter earnings as reported by the Baltic Exchange for the three first months of 2017 were:

- Supramax (SM6TC): \$8 171 per day compared to \$3 809 same quarter last year
- Panamax (PC4TC): \$8 284 per day compared to \$3 068 same quarter last year
- Capesize (CS5TC): \$11 170 per day compared to \$2 719 same quarter last year

A total of 206 bulkers in excess of 10.000 dwt were delivered by the end of first quarter which was more or less in line with the previous year. 53 vessels were scrapped during the first three months compared to 167 same quarter last year. This resulted in a net fleet growth in deadweight carrying capacity of 1.6 % as opposed to 3.4% in Quarter 1 last year.

The main reason why the market delivered better than expectations derived from demand.

Compared to the previous quarter, first quarter demand grew by 1.1%, which is contrarian to normal seasonality. Year on year growth was about 5.5%, which took utilization of the dry bulk fleet up to 83%. A supply/demand balance that many following the industry considered to be structurally damaged a year ago.

Looking into the main commodities, this can be broken down as follows:

- Iron ore: +1.4% compared to the previous quarter and +8.2 % year on year
- Coal: -4.8% compared to the previous quarter and +4.4% year on year
- Grain / soya: +7.1% compared to the previous quarter and +7.2% year on year
- Others: -2.1% compared to the previous quarter and -1.5% year on year

On the back of a market that delivered better than expectations, there was a further strengthening of sentiment leading to more buying interest of second hand tonnage. The S&P activity was brisk and many vessels changed hands. In turn this had an impact on second hand values.

A five-year-old Supramax (56 000 dwt) was worth MUS\$ 16 by the end of first quarter 2017 compared to MUS\$ 14 at the end of the previous quarter.

A five-year-old Panamax (76 000 dwt) moved from MUS\$ 14 to MUS\$ 18, while the biggest uptick was witnessed for a five-year-old Capesize (180 000 dwt) which moved to MUS\$ 33,5 from MUS\$ 24 the previous quarter.

In spite of the improved market conditions few orders are being placed at the yards. Several letters of intent have been signed but a limited number made effective. By the end of first quarter the official order book stands at 8.5% of the existing fleet and shrinking. New regulations for water ballast treatment and fuel emissions ( BWTS/ NOX / SOX ) coming into force should stimulate scrapping of older tonnage. There are about 1 800 vessels older than 15 years (>20 000 dwt) and 925 older than 20 years while the order book stands at 700 units.

## **OUTLOOK AND STRATEGY**

Shipping analysts are expecting a moderate supply growth of about 2% for 2017 followed by zero net fleet growth in 2018. There is a wider spread among the same analysts when it comes to demand growth, but consensus is that demand growth measured in ton miles will outperform supply growth leading to a higher utilization of the dry bulk fleet which should result in an improved freight environment. The forward freight market is indicating a rather flat market through third quarter with an upswing in fourth quarter 2017

The asset values continued to rise through the month of April, but during the last few weeks they have stabilized. Until we see a sustained improvement in freight levels which has a strong correlation with asset values it is believed that second-hand prices will remain around present levels.

Songa Bulk ASA is in the process of taking on moderate leverage. This will enable the Company to grow further within “the mandate” described in the prospectuses in connection with the successful raising of equity in November 2016 and February 2017 respectively.

When the last vessel of the 10 vessels purchased will be delivered in September Songa Bulk ASA will have an unlevered cash breakeven of \$5 750 per day. This is ex. dry dockings and startup costs in connection with delivery of the assets. The Company is pleased with the fact that we have been able to upscale the operation without adding costs.

Songa Bulk is focused to create shareholder values and if the market lives up to expectations, dividends will be considered from first quarter 2018 or alternatively buying back own shares.

Songa Bulk ASA has from the end of first quarter 2017 covered about 650 days of its Supramax exposure at an average net TCE of \$7 275 per day and about 1 000 days of its Kamsarmax exposure at a net TCE of \$8 415 per day. The Capesize vessel to be named Songa Mountain, which is expected to be delivered in July, is still unfixed.

The general chartering strategy is to fix the ships for periods of up to about one year. The duration will to a large extent depend on the market expectations and the prevailing sentiment.

Oslo, 24 May 2017

The Board of Directors of Songa Bulk ASA

# FINANCIAL INFORMATION

## Condensed Statement of Comprehensive Income

in \$ thousands	Note	Q1 2017 (Unaudited)
Operating revenue		1 571
<b>Total operating income</b>		<b>1 571</b>
Voyage expenses		36
Ship operating expenses		1 563
General and administrative expenses		612
Depreciation	3	321
<b>Total operating expenses</b>		<b>2 532</b>
<b>Operating loss</b>		<b>-961</b>
Financial income		123
Financial expenses		-263
<b>Net financial expenses</b>		<b>-140</b>
<b>Loss before taxes</b>		<b>-1 101</b>
Tax expense		712
<b>Net loss</b>		<b>-1 813</b>
<b>Total comprehensive loss</b>		<b>-1 813</b>
<b>Basic and diluted earnings – \$ per share</b>		<b>-0.072</b>



## Condensed Statement of Financial Position

in \$ thousands	Note	31 March 2017	31 December 2016
		(Unaudited)	(Unaudited)
Vessels		51 238	11 108
Deposit vessels		6 239	3 855
<b>Total non-current assets</b>	<b>3</b>	<b>57 477</b>	<b>14 963</b>
Inventories		221	26
Trade receivables		10	3
Other receivables		501	132
Financial investments		1	1
Cash and cash equivalents		116 781	57 688
<b>Total current assets</b>		<b>117 514</b>	<b>57 850</b>
<b>TOTAL ASSETS</b>		<b>174 991</b>	<b>72 813</b>
Share capital		21 620	9 085
Share premium		154 331	63 756
Other paid-in capital		574	400
Retained earnings		-3 849	-2 036
<b>Total equity</b>	<b>4</b>	<b>172 676</b>	<b>71 205</b>
Financial liabilities at fair value through profit or loss		588	327
<b>Total non-current liabilities</b>		<b>588</b>	<b>327</b>
Trade payables		510	682
Income taxes payable		395	393
Other liabilities		822	206
<b>Total current liabilities</b>		<b>1 727</b>	<b>1 281</b>
<b>Total liabilities</b>		<b>2 315</b>	<b>1 608</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>174 991</b>	<b>72 813</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	9 082	65 188	-	-	74 270
Share issuance costs	-	-1 432	-	-	-1 432
Warrants issued to employees	-	-	400	-	400
Net loss	-	-	-	-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	12 535	92 711	-	-	105 246
Share issuance costs	-	-2 136	-	-	-2 136
Warrants issued to employees	-	-	174	-	174
Net loss	-	-	-	-1 813	-1 813
<b>Equity 31 March 2017</b>	<b>21 620</b>	<b>154 331</b>	<b>574</b>	<b>-3 849</b>	<b>172 676</b>

## Condensed Statement of Cash Flows

in \$ thousands	Q1 2017 (Unaudited)
Profit before taxes	-1 101
Depreciation	321
Change in inventories	-195
Net change in trade receivables/payables	-179
Employee benefit expenses in connection with issuance of warrants	174
Change in financial liabilities at fair value through profit or loss	261
Net change in other current items	249
<b>Net cash flow from operating activities</b>	<b>-470</b>
Purchase of vessels	-36 596
Paid deposit vessels	-6 239
<b>Net cash flow used in investment activities</b>	<b>-42 835</b>
Proceeds from share issuance	105 246
Share issuance costs	-2 848
<b>Net cash flow from financing activities</b>	<b>102 398</b>
<b>Net change in cash and cash equivalents</b>	<b>59 093</b>
Cash and bank deposits at beginning of period	57 688
<b>Cash and bank deposits at end of period</b>	<b>116 781</b>

# 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 2016, which have been prepared in accordance with IFRS, as adopted by the EU.

## 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:

- Amendments to IAS 12 – Income taxes regarding recognition of deferred tax assets for unrealised losses, for periods beginning on or after January 1, 2017
- Amendments to IAS 7 – Cash flow statements, for periods beginning on or after January 1, 2017

The above pronouncements did not 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 January 1, 2018, assuming European Union adoption. The Group is evaluating the impact of these changes on the financial statements of the Group:

- IFRS 15 – Revenue from contracts with customers, for periods beginning on or after January 1, 2018
- IFRS 9 – Financial instruments, for periods beginning on or after January 1, 2018
- IFRS 16 – Leases, for periods beginning on or after January 1, 2019

## Note 2 Segment information

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

## Note 3 Vessels and deposit vessels

in \$ thousands	Q1 2017	Q4 2016
Closing balance previous period	14 963	0
Purchase of vessels delivered in the period	36 596	11 145
Paid deposits on vessels for delivery in future periods	6 239	3 855
Depreciation in the period	-321	-37
Closing balance	57 477	14 963

As of 31 March 2017, the Group is the owner of a total of four bulk carrier vessels. During Q1 2017 the Group took delivery of three bulk carrier vessels, of which two were agreed upon and paid deposits for in Q4 2016. The Group entered into memorandum of agreements for another five bulk carrier vessels during Q1 2017 for delivery in future periods, of which deposits were paid for three vessels during the quarter.

Management have assessed indicators of impairment as of 31 March 2017 and concluded that no such indicators are present.

#### Note 4 Share capital and shareholders

As of 31 March 2017 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 a board meeting on 31 January 2017 the Board of Directors resolved to issue 1 000 000 new shares under a proxy from the general meeting. Total proceeds from the share issuance were \$5 million. It was also resolved to issue 75 000 warrants to the founding shareholders. For further information see note 5.

In an extraordinary general meeting on 17 February 2017 it was resolved to issue 20 000 000 new shares. Total proceeds from the share issuance were \$100.2 million (the subscription price was fixed at NOK 42 per share). It was also resolved to issue 325 000 warrants to the founding shareholders. For further information see note 5.

#### Note 5 Warrants

In connection with the two share issuances taking place in Q1 2017, as mentioned in note 4, warrants have been granted to the founding shareholders. Warrants are granted under the same warrant agreement as mentioned in note 8 to the annual report.

*Granted warrants as at 31 March 2017 to shareholders that are also employed by the Group:*

Share issue	No of warrants	Tranche 1		Tranche 2			Tranche 3		
		Value per warrant (NOK)	Value per warrant (USD)	No of warrants	Value per warrant (NOK)	Value per warrant (USD)	No of warrants	Value per warrant (NOK)	Value per warrant (USD)
4 November 2017	201 094	5.87	0.72	201 094	5.84	0.71	201.094	4.54	0.56
31 January 2017	13 750	7.53	0.90	13 750	7.87	0.94	13 750	6.37	0.76
17 February 2017	59 583	6.85	0.82	59 583	6.99	0.84	59 583	5.52	0.66

Valuation date is on the date of the respective share issuance. Subscription price is NOK 40.89 for warrants issued on 4 November 2016, NOK 41.63 for warrants issued on 31 January 2017 and NOK 42.00 for warrants issued on 17 February 2017. Warrants are accounted for as employee benefit expenses with a corresponding increase in equity. Total recognized amount in Q1 2017 was \$174 thousand.

*Granted warrants as at 31 March 2017 to shareholder that is not employed by the Group:*

Share issue	No of warrants	Tranche 1		Tranche 2			Tranche 3		
		Value per warrant (NOK)	Value per warrant (USD)	No of warrants	Value per warrant (NOK)	Value per warrant (USD)	No of warrants	Value per warrant (NOK)	Value per warrant (USD)
4 November 2017	164 531	7.80	0.91	164 531	8.27	0.96	164 532	6.75	0.79
31 January 2017	11 250	7.51	0.88	11 250	7.85	0.92	11 250	6.36	0.74
17 February 2017	48 750	7.41	0.86	48 750	7.71	0.90	48 750	6.21	0.72

Valuation date is on 31 March 2017. These warrants are recognized as financial liabilities, since the strike price is not in the functional currency of the entity, and valued at fair value through profit or loss. The fair value of all issued warrants to shareholder not employed by the Group at 31 March 2017 was \$588 thousand. The recognized expense in Q1 2017, which is classified as a financial expense, was \$260 thousand.

**Note 6 Financial instruments**

Set out below is a comparison by category for carrying amounts and fair values of all of the Group'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	31 March 2017		31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair Value
<i>Financial assets:</i>				
Trade receivables	10	10	3	3
Other receivables*	120	120	77	77
Financial investments	1	1	1	1
Cash and cash equivalents	116 781	116 781	57 688	57 688
<i>Financial liabilities:</i>				
Financial liabilities at fair value through profit or loss	588	588	327	327
Trade payables	510	510	682	682
Income taxes payable	395	395	393	393
Other current liabilities*	522	522	115	115

\*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.

*Categories of financial instruments*

In USD	Cash and loans and receivables	At fair value through profit or loss	Available for sale	Liabilities at amortized cost	Total
<i>Financial assets:</i>					
Trade receivables	10	-	-	-	<b>10</b>
Other receivables	120	-	-	-	<b>120</b>
Financial investments	-	-	1	-	<b>1</b>
Cash and cash equivalents	116 781	-	-	-	<b>116 781</b>
<i>Financial liabilities:</i>					
Financial liabilities at fair value through profit or loss	-	588	-	-	<b>588</b>
Trade payables	-	-	-	510	<b>510</b>
Income taxes payable	-	-	-	395	<b>395</b>
Other current liabilities	-	-	-	522	<b>522</b>

*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. Except from financial liabilities at fair value through profit or loss, all financial instruments 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 7 Related party transactions**

The Group has purchased corporate services from Arne Blystad AS under the corporate service agreement as mentioned in the annual report for 2016.

The Group has purchased technical management services from Songa Shipmanagement Ltd for the vessel Songa Maru under the technical management agreement as mentioned in the annual report for 2016. In addition, the Group has entered into technical management agreements with Songa Shipmanagement Ltd for the rendering of technical management services for the vessels Songa Genesis and Songa Marlin.

The Group has entered into a technical management agreement with Equinox Maritime Ltd for the vessel Songa Glory. Equinox Maritime Ltd is an affiliate of former board member Ghikas Goumas.

On 31 January 2017, 1 million new shares were issued in a private placement. Total proceeds were \$5 million. The shares were subscribed by North East Star Maritime Ltd, an affiliate of former board member Ghikas Goumas.

On 1 February the Group took delivery of the vessel Songa Glory. The vessel was purchased from North East Star Maritime Ltd, an affiliate of former board member Ghikas Goumas.

#### **Note 8 Subsequent events**

On 12 April, the Group entered into a purchase agreement for a Capesize bulk carrier, the Songa Mountain. The purchase price was \$27.95 million. The vessel was built at Hyundai Heavy Industries in 2009 and has a deadweight of 179 147 tons.

On 18 April 2017, the Group took delivery of the Kamsarmax bulk carrier Songa Flama. The purchase price was \$14.78 million, of which a 20% deposit was paid during first quarter 2017. The vessel was built at STX in 2011 and has a deadweight of 80 448 tons.

On 20 April 2017, the Group took delivery of the Ultramax bulk carrier Songa Wave. The purchase price was \$23.30 million. The vessel was built at Dacks Kawasaki in 2017 and has a deadweight of 61 491 tons.

On 27 April 2017, the Group took delivery of the Kamsarmax bulk carrier Songa Hadong. The purchase price was \$20.05 million. The vessel was built at Tsuneishi in 2012 and has a deadweight of 82 158 tons.

On 12 May 2017, the Group took delivery of the Kamsarmax bulk carrier Songa Delmar. The purchase price was \$18.7 million, of which a 10% deposit was paid during first quarter 2017. The vessel was built at Hyundai Samho Heavy Industries in 2011 and has a deadweight of 81 501 tons.