



SONGA BULK

Songa Bulk ASA  
Financial Report Q2 2017

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# SONGA BULK

## Second Quarter 2017 Highlights, Events, Results and Fleet

### SECOND QUARTER 2017 HIGHLIGHTS

The Group net result in Q2 2017 increased compared to Q1 2017 as the Group took delivery of four vessels in the quarter and vessels were chartered out on higher time charter (TC) rates. The highlights below focus on comparing Q2 2017 versus Q1 2017.

- Net loss was \$0.1 million in Q2 2017, compared to a net loss of \$1.8 million in Q1 2017.
- Total days on charter were 605 in Q2 2017, as opposed to 240 days on charter in Q1 2017. Days on charter do not include dry-docking days and handover days from delivery of the vessels to the Group until delivery to charterers.
- Total time charter earnings were \$4.9 million in Q2 2017, up from \$1.5 million in Q1 2017.
- Average time charter equivalent (TCE) in Q2 2017 was \$8 043 per day, compared to \$6 289 per day in Q1 2017.
- Total operating days were 627 in Q2 2017, operating days in Q1 2017 were 255.
- Ordinary ship operating expenses (OPEX) in Q2 2017 were \$4 987 per day, compared to \$5 097 per day in Q1 2017. Ordinary ship operating expenses do not include start-up costs in connection with delivery of vessels to the Group.

### SECOND QUARTER 2017 EVENTS

#### VESSEL DELIVERIES:

- On 18 April 2017, the Group took delivery of a Kamsarmax bulk carrier, the Songa Flama. The purchase price was \$14.78 million, of which \$2.96 million were paid during first quarter 2017 and \$11.82 million in second quarter 2017. The vessel was built at STX in 2011 and has a deadweight of 80 448 tons. The vessel is currently chartered out on a time charter contract with expected redelivery during second quarter 2018.
- On 20 April 2017, the Group took delivery of an Ultramax bulk carrier, the Songa Wave. The purchase price was \$23.30 million. The entire amount was paid during second quarter 2017. The vessel was built at Dacks Kawasaki in 2017 and has a deadweight of 61 491 tons. The vessel is currently chartered out on a time charter contract with expected redelivery during first quarter 2018.
- On 27 April 2017, the Group took delivery of a Kamsarmax bulk carrier, the Songa Hadong. The purchase price was \$20.05 million. The entire amount was paid during second quarter 2017. The vessel was built at Tsuneishi in 2012 and has a deadweight of 82 158 tons. The vessel is currently chartered out on a time charter contract with expected redelivery to new charterers during third quarter 2017. Redelivery from new charterers is expected during first quarter 2018.
- On 12 May 2017, the Group took delivery of a Kamsarmax bulk carrier, the Songa Delmar. The purchase price was \$18.70 million, of which \$1.87 million were paid in first quarter 2017 and \$16.83 million during second quarter 2017. The vessel was built at Hyundai Samho Heavy Industries in 2011 and has a deadweight of 81 501 tons. The vessel is currently chartered out on a time charter contract with expected redelivery during second quarter 2018.

#### VESSEL ADDITIONS:

- On 12 April 2017, the Group entered into a purchase agreement for a Capesize bulk carrier, the Songa Mountain. The purchase price was \$27.95 million, of which \$5.59 million were paid during second quarter 2017. The vessel was built at Hyundai Heavy Industries in 2009 and has a deadweight of 179 147 tons. The vessel was delivered on 20 July 2017.
- On 14 June 2017, the Group entered into a purchase agreement for a Capesize bulk carrier, the Songa Opus. The purchase price was \$28.85 million, of which \$2.89 million were paid during second quarter 2017. The vessel

was built at STX in 2010 and has a deadweight of 180 706 tons. The vessel is expected to be delivered by the end of August 2017.

#### CORPORATE:

- On 30 May 2017, the Group issued a \$75 million senior secured bond with a total borrowing limit of \$150 million. The bond has a floating interest rate of LIBOR plus a margin of 4.50%. The bond was issued on 13 June 2017 and final maturity is 13 June 2022.

#### SUBSEQUENT EVENTS:

- On 20 July 2017, the Group took delivery of the Capesize bulk carrier Songa Mountain. The purchase price was \$27.95 million, of which \$5.59 million were paid in second quarter 2017 and \$22.36 million upon delivery. The vessel was built at Hyundai Heavy Industries in 2009 and has a deadweight of 179 147 tons.
- On 3 August 2017, the Group took delivery of the Kamsarmax bulk carrier Songa Grain. The purchase price was \$14.14 million, of which \$1.41 million were paid during first quarter 2017 and \$12.73 million upon delivery. The vessel was built at Tsuneishi in 2008 and has a deadweight of 82 672 tons.
- On 7 August 2017, the Group entered into a purchase agreement for a Kamsarmax bulk carrier, the Songa Sky. The purchase price was \$18.28 million. The vessel was built at Sumitomo in 2010 and has a deadweight of 81 466 tons. Expected delivery is November 2017.
- On 15 August 2017, the Group announced the successful completion of a tap issue of \$45 million under the existing bond terms for the senior secured bond.
- On 18 August 2017, the Group entered into a purchase agreement for a Kamsarmax bulk carrier, the Songa Hirose. The purchase price was \$19.20 million. The vessel was built at Sanoyas in 2011 and has a deadweight of 83 494 tons. Expected delivery is during fourth quarter 2017.

#### SECOND QUARTER 2017 RESULTS

in \$ thousands		
Financial performance	Q2 2017	Q1 2017
Operating revenue	4 866	1 571
Time charter earnings	4 866	1 509
Time charter equivalent (TCE), \$ per day	8 043	6 289
Profit (-loss) before financial items, taxes and depreciations	823	-640
Operating loss	-341	-961
Net loss	-126	-1 813
Earnings per share, \$ per share	-0.003	-0.072
Financial position	30 June 2017	31 March 2017
Total assets	250 283	174 991
Cash and cash equivalents	109 451	116 781
Total equity	172 550	172 676
Cash flow statement	Q2 2017	Q1 2017
Net cash flow from operating activities	466	-470
Net cash flow used in investing activities	-81 858	-42 835
Net cash flow from financing activities	74 062	102 398
Net change in cash and cash equivalents	-7 330	59 093

## Financial performance

The comments below are focused on comparing Q2 2017 versus Q1 2017.

The Group reports a net loss of \$0.1 million in Q2 2017. Net loss in Q1 2017 was \$1.8 million.

Time charter earnings increased from \$1.5 million in Q1 2017 to \$4.9 million in Q2 2017. During Q2 2017, the Group took delivery of a total of four vessels, adding to the four vessels delivered per Q1 2017. Days on charter increased from 240 in Q1 2017 to 627 in Q2 2017. TCE was \$8 043 per day in Q2 2017 compared to \$6 289 per day in Q1 2017.

Operating expenses were \$5.2 million in Q2 2017, compared to \$2.5 million in Q1 2017. The rise in operating expenses relates mainly to ship operating expenses and depreciation, since operating days increased from 255 in Q1 2017 to 627 in Q2 2017. Consequently, the total fleet grew from four to eight vessels.

Net financial income was \$0.2 million in Q2 2017, up from a net financial expense of \$0.1 million in Q1 2017.

## Financial position

The Group's total assets amounted to \$250.3 million at 30 June 2017, up from \$175.0 million at 31 March 2017. Non-current assets, which comprise of vessels delivered and paid deposits on vessels for future deliveries, increased from \$57.5 million at 31 March 2017 to \$138.2 million at 30 June 2017. This was mainly due to the Group taking delivery of four vessels in the second quarter.

Total equity remained unchanged during the quarter, while interest-bearing debt increased by \$74.1 million through issuance of bond.

## Cash flow

Net cash flow from operating activities was \$0.5 million in Q2 2017. Net cash flow from financing activities was \$74.1 million, which were the net proceeds from debt issuance during the quarter. \$81.9 million were used in investment activities this quarter, hereunder the purchase of additional vessels. Net change in cash and cash equivalents from 31 March 2017 to 30 June 2017 was \$-7.3 million. Cash and cash equivalents at the end of Q2 2017 was \$109.5 million.

## THE FLEET

By the end of the second quarter 2017, the delivered fleet consists of 8 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 Wave	Xing Fu Hai	Ultramax	61 491	2017	Dacks Kawasaki
Songa Flama	Flama	Kamsarmax	80 448	2011	STX Jinhae
Songa Genesis	Maverick Genesis	Kamsarmax	80 705	2010	STX Jinhae
Songa Delmar	Delmar	Kamsarmax	81 501	2011	Hyundai Heavy Industries
Songa Hadong	Hanjin Hadong	Kamsarmax	82 158	2012	Tsuneishi Zhoushan
Songa Maru	Ten Maru	Kamsarmax	82 687	2008	Tsuneishi Zhoushan

Total operating days in second quarter 2017 were 627. Days on charter were 605. There were a total of 9 handover days in periods from delivery of vessels to the Group until delivery to charterers. Additionally, there were 13 days in dry dock. The 22 days are deducted from total operating days to calculate days on charter.

The vessels are all chartered out on medium to long term contracts, being up to about 12 months. Except from off hire in connection with the dry docking of the vessel Songa Hadong, no further off hire occurred during second quarter 2017.

At the date of this report, the Group has acquired 13 vessels of which 10 has been delivered.

# MARKET

## Market, Outlook, Strategy and Forward-Looking Statements

### DRY BULK MARKET IN Q2 2017

The first quarter surprised on the positive side ending on a strong note with Capesize spot TC-rates just below \$20 000 per day and Panamax TC-rates just over \$11 000 per day. In general, the positive factors that contributed positively to the first quarter results, levelled off during the second quarter. Subsequently, we saw rates for all dry bulk segments sliding throughout the three-month period.

In the Capesize sector, lower iron ore exports from Brazil to China was substituted by stronger exports from Australia. This had a negative effect on the ton mile demand resulting in weakening freight levels in this segment. Average spot TC-rates for Capesize (180 000 dwt) came all the way down from \$18 250 per day at the beginning, to \$7 600 per day on 22 June 2017 before recovering slightly to \$8 900 per day at the end of the quarter.

Strong grain activity contributed positively to the Panamax and Supramax rates during the first quarter. During the second quarter, we saw a leveling off in this trade, which together with lower port congestion, put pressure on freight rates. In addition, we saw a draw-down on coal stocks in China. Consequently, Panamax TC-rates came off from \$11 000 per day on 3 April 2017 to a low \$6 280 per day on 7 June before improving to \$8 900 at the end of the quarter.

- Supramax (SM6TC): \$8 603 per day compared to \$8 171 Q1
- Panamax PC4TC): \$8 801 per day compared to \$8 284 Q1
- Capesize (CS5TC): \$12 041 per day compared to \$11 170 Q1

The dry bulk fleet had a relatively modest growth in the second quarter, with a net growth of 6.6 million dwt compared with 12.6 million dwt in the first quarter. We believe the fleet growth will taper off further for the balance of the year.

Compared to the previous quarter, the second quarter demand grew by 1.2%, year on year growth was about 6.5%. The utilization of the dry bulk remained steady at 83%. Looking into the main commodities, this can be broken down as follows:

- Iron ore: + 0.8% compared to the previous quarter and + 5.8 % year on year
- Coal: - 0.7% compared to the previous quarter and + 5.6% year on year
- Grain / soya: + 4.8% compared to the previous quarter and +12.1% year on year
- Others: + 4.1% compared to the previous quarter and + 0.5% year on year

The sale and purchase market has a strong correlation with the chartering market and in particular with time charter employment in excess of one-year duration. Consequently, asset values remained flat through the quarter with a minor negative correction for Supramaxes.

A five-year-old Supramax (56 000 dwt) was worth \$15 million by the end of first quarter 2017 compared to \$16 million at the end of Q2.

A five-year-old Panamax (76 000 dwt) was worth \$18 million, same as at the end of Q2. A five-year-old Capesize (180 000 dwt) was worth \$33.5 million, again flat compared to second quarter.

The most important ingredient of the second quarter statistics, is the low number of new building orders being contracted and made effective. The slightly overstated official order book makes up 7% of the existing fleet by the end of the second quarter and is still shrinking.

## OUTLOOK AND STRATEGY

Well into the third quarter, the expected summer lull never hit the commodity markets nor the steel industry. It is in particular encouraging to observe recent Chinese data showing increased steel production combined with low inventories in spite of reduced exports. The dry bulk market has shown strength so far in August and in particular within the Capesize segment. Even though the forward curve is in backwardation, the entire curve has shifted up over the last few weeks. If the market remains at present levels, we could expect a step up in asset values in the coming weeks.

Songa Bulk ASA has taken on moderate leverage through the successful placement of a senior secured bond in May of \$75 million, followed by the recent tap issue of \$45 million. The Group is in the process of putting the money at work, and further investments in modern dry bulk assets will be announced shortly.

Following the tap issue and expected fleet additions, Songa Bulk ASA will have a cash breakeven of about \$7 000 per day (including interest). This is excluding dry dockings and startup costs in connection with delivery of the assets, and further when fully invested with an expected fleet of about 15 vessels. The Company is pleased with the fact that we have been able to upscale the operation without adding costs.

The Group has from the end of the second quarter 2017 covered about 500 days of its Supramax exposure at an average net TCE of \$7 850 per day.

About 850 days of its Kamsarmax exposure is covered at a net TCE of \$8 740 per day. Two Kamsarmax vessels have been fixed on index linked charters (Songa Grain and Songa Genesis) against the daily Panamax 4 T/C published by the Baltic Exchange. One Kamsarmax, to be named Songa Sky with expected delivery in November, is still unfixed.

The Capesize vessel to be named Songa Opus, which is expected to be delivered end of August, is fixed for a minimum period of five months at a net TCE of \$14 300 per day. Songa Mountain is participating in the CCL Pool, a spot pool with participating vessels from Bocimar, Star Bulk, Golden Ocean and CTM, and is exposed to the prevailing spot market.

With a growing fleet, the chartering strategy is to have a majority of the fleet employed at fixed time charters with durations dependent on the prevailing market at the time of fixture.

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

## 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 Group is through its operations exposed to a variety of market, operational and financial risks.

The most significant risk for the Group is the market risk related to the cyclical dry bulk market. Changes in national and international economic conditions, including for example interest rate levels, inflation, employment levels, may influence the valuation of real and financial assets. In turn, this may impact the demand for goods, services and assets globally and thereby the macro economy. The current macroeconomic situation is uncertain and there is a risk of negative developments. Such changes and developments – none of which will be within the control of the Group – may negatively impact the Group's investment activities, realization opportunities and overall investor returns.

The demand for, and the pricing of the underlying assets are outside of the Group's control and depend, among other things, on the global economy, the global trade growth, as well as the prices of oil and gas. On the supply side there are uncertainties tied to the ordering of new vessels and scope of future scrapping. The actual residual value of the vessels in the underlying investments, and/or their earnings after expiration of the fixed contract terms, may be lower than the Company estimates.

In view of operational risk, the Group is considering different factors such as misdelivery of cargoes, cargo claims, off hire due to technical reasons, as well as arrests and/or hijacking of vessels. However, the Group is taking measures to minimize the exposure and the probability of such risks.

The Group is exposed to credit risk and time charter contract risk in the case that receivables from customers and other parties are not paid and time charter contracts are early terminated. The customers are in general large companies with excellent credit rating. For new customers, a credit evaluation is performed.

Liquidity risk may arise if the Group is not able to pay its financial obligations at due date. The Group applies cash flow forecasting to ensure that the activities are adequately financed at all times. Cash flows from operations and from financing activities are considered sufficient to settle all financial obligations.

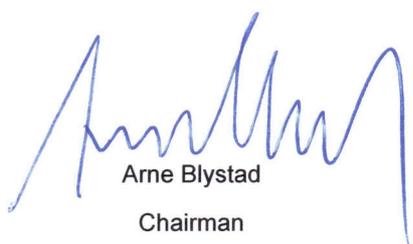
## RESPONSIBILITY STATEMENT

We confirm, to the best of our knowledge, that the condensed set of financial statements for the period 1 January to 30 June 2017 have been prepared in accordance with IAS 34 – Interim Financial Reporting, and gives a true and fair view of the Group'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, 22 August 2017

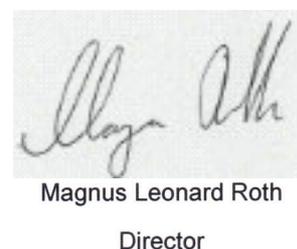
The Board of Directors of Songa Bulk ASA



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 2017 (Unaudited)	YTD Q2 2017 (Unaudited)
Operating revenue		4 866	6 437
<b>Total operating income</b>		<b>4 866</b>	<b>6 437</b>
Voyage expenses		60	96
Ship operating expenses		3 270	4 833
General and administrative expenses		714	1 326
Depreciation	3	1 164	1 485
<b>Total operating expenses</b>		<b>5 207</b>	<b>7 739</b>
<b>Operating loss</b>		<b>-341</b>	<b>-1 302</b>
Interest income		220	225
Interest expenses		-210	-210
Other financial income		205	59
<b>Net financial income</b>		<b>215</b>	<b>74</b>
<b>Loss before taxes</b>		<b>-126</b>	<b>-1 227</b>
Tax expense		0	712
<b>Net loss</b>		<b>-126</b>	<b>-1 939</b>
<b>Total comprehensive loss</b>		<b>-126</b>	<b>-1 939</b>
<b>Basic and diluted earnings – \$ per share</b>		<b>-0.003</b>	<b>-0.064</b>

## Condensed Statement of Financial Position

in \$ thousands	Note	30 June 2017	31 December 2016
		(Unaudited)	(Unaudited)
Vessels		128 274	11 108
Deposit vessels		9 897	3 855
<b>Total non-current assets</b>	<b>3</b>	<b>138 171</b>	<b>14 963</b>
Inventories		1 016	26
Trade receivables		18	3
Other receivables		1 628	133
Cash and cash equivalents		109 451	57 688
<b>Total current assets</b>		<b>112 112</b>	<b>57 850</b>
<b>TOTAL ASSETS</b>		<b>250 283</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		-3 975	-2 036
<b>Total equity</b>	<b>4</b>	<b>172 550</b>	<b>71 205</b>
Interest-bearing debt	6	74 123	0
Financial liabilities at fair value through profit or loss		355	327
<b>Total non-current liabilities</b>		<b>74 477</b>	<b>327</b>
Trade payables		1 083	682
Income taxes payable		393	393
Other liabilities		1 780	206
<b>Total current liabilities</b>		<b>3 256</b>	<b>1 281</b>
<b>Total liabilities</b>		<b>77 733</b>	<b>1 608</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>250 283</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	-	-	-	-1 939	-1 939
<b>Equity 30 June 2017</b>	<b>21 620</b>	<b>154 331</b>	<b>574</b>	<b>-3 975</b>	<b>172 550</b>

## Condensed Statement of Cash Flows

in \$ thousands	YTD Q2 2017 (Unaudited)
Profit before taxes	-1 227
Depreciation	1 485
Change in inventories	-990
Net change in trade receivables/payables	386
Employee benefit expenses in connection with issuance of warrants	174
Change in financial liabilities at fair value through profit or loss	28
Net change in other current items	139
<b>Net cash flow from operating activities</b>	<b>-4</b>
Purchase of vessels	-114 399
Paid deposit vessels	-9 897
Dry-docking paid	-397
<b>Net cash flow used in investment activities</b>	<b>-124 693</b>
Proceeds from share issuance	105 244
Share issuance costs	-2 846
Proceeds from issuance of debt	74 625
Debt issuance costs	-563
<b>Net cash flow from financing activities</b>	<b>176 460</b>
<b>Net change in cash and cash equivalents</b>	<b>51 763</b>
Cash and bank deposits at beginning of period	57 688
<b>Cash and bank deposits at end of period</b>	<b>109 451</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 accounting policies since annual financial statements

#### Interest-bearing debt

Interest-bearing debt is initially recognised at its fair value less transaction costs. After initial recognition, interest-bearing debt is measured at amortised cost using the effective interest method.

### 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 1 January 2017
- Amendments to IAS 7 – Cash flow statements, for periods beginning on or after 1 January 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 1 January 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 1 January 2018. The current practice of recognizing revenue on a discharge-to-discharge basis is not in line with IFRS 15. The model for recognition is likely to be that revenue is to be recognized on a load-to-discharge basis, with voyage expenses incurred prior to loading to be 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 contract to be expensed as incurred. As of 2017 all vessels are on time charter and so this change currently does not impact the Group.
- IFRS 9 – Financial instruments, for periods beginning on or after 1 January 2018
- IFRS 16 – Leases, for periods beginning on or after 1 January 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	Q2 2017	YTD Q2 2017	2016
Closing balance previous period	57 477	14 963	0
Purchase price vessels delivered in the period	77 803	118 254	11 145
Paid deposits previous periods on vessels delivered in the period	-4 825	-3 855	0
Paid deposits on vessels for delivery in future periods	8 483	9 897	3 855
Dry-docking in the period	397	397	0
Depreciation in the period	-1 164	-1 485	-37
Closing balance	138 171	138 171	14 963

As of 30 June 2017, the Group is the owner of a total of eight bulk carrier vessels. During first half year of 2017, the Group took delivery of seven vessels, of which four were delivered in the second quarter of 2017. The Group entered into memorandum of agreements for the purchase of another three bulk carrier vessels during first half year 2017, two of them in the second quarter, for delivery in future periods.

Management have assessed indicators of impairment as of 30 June 2017 and concluded that no such indicators are present.

**Note 4 Share capital and shareholders**

As of 30 June 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 gross 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 gross 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 first half year 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 30 June 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 first half year 2017 was \$174 thousand, the amount in second quarter 2017 was 0.

Granted warrants as at 30 June 2017 to shareholder that is not employed by the Group:

Share issue	No of warrants	Tranche 1		Tranche 2		Tranche 3		Value per warrant (USD)	
		Value per warrant (NOK)	Value per warrant (USD)	Value per warrant (NOK)	Value per warrant (USD)	Value per warrant (NOK)	Value per warrant (USD)		
4 November 2017	164 531	5.03	0.60	164 531	4.84	0.58	164 532	3.63	0.43
31 January 2017	11 250	4.83	0.58	11 250	4.59	0.55	11 250	3.41	0.41
17 February 2017	48 750	4.72	0.56	48 750	4.46	0.53	48 750	3.31	0.39

Valuation date is 30 June 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 as of 30 June 2017, was \$355 thousand. The recognized net expense in first half year 2017 was \$28 thousand. The amount in Q2 2017 was an income of \$233 thousand. The items are classified as other financial income.

#### Note 6 Interest-bearing debt

On 30 May 2017, the Group issued a \$75 million senior secured bond with a total borrowing limit of \$150 million. The bond has floating interest rate, of LIBOR plus a margin of 4.50%. Settlement was 13 June 2017 and the bond shall be repaid in full on the maturity date which is 13 June 2022.

in \$ thousands	30 June 2017	31 December 2016
Nominal value of issued bond	75 000	0
Debt issuance cost	-877	0
Interest-bearing debt	74 123	0

The following financial covenants exist under the bond terms:

- Vessel Loan To Value ratio shall at all times be below 75.0%
- The liquidity of the Group shall at all times exceed the sum of the interest payments falling due on the four following interest payment dates (interest payments are quarterly).

## Note 7 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	30 June 2017		31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair Value
<i>Financial assets:</i>				
Trade receivables	18	18	3	3
Other receivables*	803	803	78	78
Cash and cash equivalents	109 451	109 451	57 688	57 688
<i>Financial liabilities:</i>				
Interest-bearing debt**	75 000	75 000	0	0
Financial liabilities at fair value through profit or loss	355	355	327	327
Trade payables	1 083	1 083	682	682
Income taxes payable	393	393	393	393
Other current liabilities*	1 316	1 316	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.

\*\*The difference between the balance sheet item Interest-bearing debt and the table above is the debt issuance costs as detailed in note 6.

### 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 8 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, Songa Marlin, Songa Delmar and Songa Hadong.

### **Note 9 Subsequent events**

On 20 July 2017, the Group took delivery of the Capesize bulk carrier Songa Mountain. The purchase price was \$27.95 million, of which \$5.59 million were paid in second quarter 2017 and \$22.36 million upon delivery. The vessel was built at Hyundai Heavy Industries in 2009 and has a deadweight of 179 147 tons.

On 3 August 2017, the Group took delivery of the Kamsarmax bulk carrier Songa Grain. The purchase price was \$14.14 million, of which \$1.41 million were paid during first quarter 2017 and \$12.73 million upon delivery. The vessel was built at Tsuneishi in 2008 and has a deadweight of 82 672 tons.

On 7 August 2017, the Group entered into a purchase agreement for a Kamsarmax bulk carrier, the Songa Sky. The purchase price was \$18.28 million. The vessel was built at Sumitomo in 2010 and has a deadweight of 81 466 tons. Expected delivery is in November 2017.

On 15 August 2017 the Group announced the successful completion of a tap issue of \$45 million under the existing bond terms for the senior secured bond.

On 18 August 2017, the Group entered into a purchase agreement for a Kamsarmax bulk carrier, the Songa Hirose. The purchase price was \$19.20 million. The vessel was built at Sanoyas in 2011 and has a deadweight of 83 494. Expected delivery is during fourth quarter 2017.