Songa Container AS

Financial Report Q3 2019

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CONTENTS

SONGA CONTAINER

Third Quarter 2019 Highlights, Events, Results and Fleet

THIRD QUARTER 2019 HIGHLIGHTS

Songa Container AS' (the Issuer and its subsidiaries, hereinafter the "Company") net loss during Q3 2019 was $4.3 million. The Interim Financial Statements are presented in accordance with IFRS as of September 30, 2019.

Please find highlights for the third quarter as follows:

- EBITDA was $0.2 million in Q3 2019, compared to $0.5 million in Q2 2019.
- Total time charter equivalent earnings[1] were $9.81 million in Q3 2019, compared to $10.01 million in Q2 2019.
- Total Operating days[2] were 1 380 in Q3 2019. Total Trading days[3] was 1 210 days, implying a utilization of 87.65%. The utilization in Q2 2019 was 96.45%.
- Adjusted Time Charter Equivalent (TCE[4]) in Q3 2019 was $8 107 per day, compared to $7 605 per day in Q2 2019.
- Adjusted Operating expenses (OPEX[5]) in Q3 2019 were $6 072 per day, down from $6 341 per day Q2 2019.

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[1] **Adjusted Time Charter Equivalent (TCE)** represents time charter revenue and pool revenue, adjusted for the Songa City AS controlled vessels, divided by the number of Trading days for the consolidated vessels during the reporting period.

[2] **Time charter equivalent revenue** is operating income and other operating income (-expenses).

[3] **Operating days** per day represents the number of ownership days of consolidated vessels during the reporting period.

[4] **Trading days** are ownership days minus days without revenue, including commercial, uninsured technical and dry dock related off-hire days.

[5] **Adjusted Operating Expenses per day (OPEX)** represents operating expenses divided by the number of ownership days of consolidated vessels during the reporting period, adjusted for the Songa City AS controlled vessels.

3RD QUARTER 2019 RESULTS

in $ thousands			
Financial performance	**YTD Q3 2019**	**Q3 2019**	**Q2 2019**
Operating revenue	24 242	7 360	7 929
Operating expenses, incl. G&A and depr.	26 283	9 010	8 859
Operating profit (-loss)	**-2 041**	**-1 650**	**-930**
EBITDA	**2 944**	**220**	**527**
Change in fair value long-term loan	-3 234	-26	-1 640
Net financial result	-11 567	-2 696	-4 308
Net result	**-13 609**	**-4 346**	**-5 238**
Financial position		**30.09.2019**	**31.12.2018**
Total assets		203 016	212 983
Cash and cash equivalents		44 991	54 376
Total equity		68 679	79 375
Cash flow statement	**YTD Q3 2019**	**Q3 2019**	**Q2 2019**
Net cash flow from operating activities	-5 978	-2 708	-189
Net cash flow used for investing activities	-7 407	-3 639	-2 311
Net cash flow from financing activities	3 999	3 999	-
Net change in cash and cash equivalents	**-9 386**	**-2 348**	**-2 500**

Financial performance

The Company`s operating loss increased by $0.72 million in Q3 2019 compared to the last quarter, from a loss of $0.93 million in Q2 2019 to a loss of $1.65 million in Q3 2019. EBITDA in Q3 2019 decreased by $0.31 million, from a profit of $0.53 million in Q2 2019 to a profit of $0.22 million in Q3 2019.

Operating revenues decreased from $7.93 million in Q2 2019 to $7.36 million in Q3 2019. The lower operating revenues comes mainly as a result of the positioning costs related to the CAPEX program and commercial off hire.

Operating expenses increased by $0.15 from Q2 2019 to Q3 2019 and is in line with the previous period.

Net financial loss was $11.57 million per Q3 2019. The long-term loan is measured at fair value through profit and loss. Please see note 2.7, 3 and 6 in the Financial Report for additional information.

Financial position

The Company's total assets was $203.02 million at 30 September 2019, down from $212.98 million at 31 December 2018. Non-current assets, which comprise of vessels delivered, scrubber investments and acquired loans, decreased from $155.33 million at 31 December 2018 to $152.73 million at 30 September 2019. The change is mainly due to the depreciation of the vessels, the CAPEX program and change in the measured fair value of the long-term loan. Please see note 2.7, 3 and 6 in the Financial Report for additional information.

Total equity decreased from $79.37 million at 31 December 2018 to $68.68 million at 30 September 2019, whilst the interest-bearing issued bond remains unchanged after the bond issued in December 2018.

Cash flow

Net cash flow from operating activities was negative with $2.71 million in Q3 2019, mainly due to positioning costs related to the CAPEX program, upgrading of three vessels and commercial off hire. $3.64 million were used for investment activities in Q3 2019. Net cash flow from financing activities were $4.0 in Q3 2019 due to a capital contribution from the shareholders in September. Net change in cash and cash equivalents from 30 June 2019 to 30 September 2019 was negative with $2.35 million. Cash and cash equivalents at the end of Q3 2019 were $44.99 million.

THE FLEET

By the end of Q3 2019, the fleet consists of 15 container vessels:

Vessel Name	TEU	DWT	Built	Yard	Reefer plugs	Gear
Anne Sibum	1 036	13 172	2007	SSW Schicau Seebeck, Germany	250	Gearless
Grete Sibum	1 036	13 172	2008	SSW Schicau Seebeck, Germany	250	Gearless
Stefan Sibum	1 036	13 172	2008	SSW Schicau Seebeck, Germany	251	Gearless
FS Ipanema	1 794	25 860	2009	Taizhou Kouan, China	319	Geared
Songa Bonn	1 970	28 632	2010	Hyundai Mipo, South Korea	442	Gearless
Songa Nuernberg	1 970	28 630	2010	Hyundai Mipo, South Korea	442	Gearless
Songa Iridium	2 015	27 247	2008	Zhejiang Shipyard, China	506	Geared
City of Beijing	2 564	34 333	2009	Xiamen Shipbuilding,China	342	Geared
City of Hongkong	2 564	34 295	2009	Xiamen Shipbuilding, China	342	Geared
City of Shanghai	2 564	34 269	2009	Xiamen Shipbuilding, China	342	Geared
Songa Antofagasta	2 851	35 534	2008	Zheijang Yangfan, China	530	Gearless
Nordic Stralsund	3 421	46 000	2014	Rongcheng Shenfei, China	538	Geared
Songa Haydn	3 534	41 989	2010	Shanghai & Chengxi, China	595	Gearless
Songa Calabria	4 256	50 353	2010	Jiangsu New Yanzijang, China	698	Gearless
Songa Toscana	4 957	62 272	2013	Jiangsu New Yanzijiang, China	600	Gearless

SCRUBBER CONTRACTS AND CAPEX PROGRAM

The Company continues to place strong focus on the implementation of its scrubber retrofit program on its fleet of container vessels. As reported in the Q2 2019 report, the amount of off-hire time required to position the vessels for drydock as well as additional time spent at shipyards has increased compared to initial estimates and along the lines of what the industry is experiencing. The shipyard market has become strained by the number of vessels seeking to retrofit prior to the implementation of IMO2020, mainly as a result of limited access to enough qualified labour and subcontractors ultimately leading to longer lead times for retrofitting. Songa Container is no exception to these industrywide experiences being made.

Songa Container continues to see interest in its promotion of the fuel profit sharing (“FPS”) scrubber clause. The FPS clause is based on the principle that actual fuel savings obtained are split between the charterers and the owners, where a large portion of any savings made by the charterers on fuel expenses are paid back to Songa Container. The alternative way of obtaining payback on the scrubber investment and utilization of the scrubber fitted fleet is to enter into fixed premium time charter contracts where a premium is added to the market TC rate to reflect the added benefit for charterers.

As reported in the Q2 2019 report, Songa Container have concluded four (4) time charter contracts for scrubber fitted vessels. Three of the contracts have been concluded with a duration of between 1 and 3 years and done at market TC rates with a FPS clause, whilst the fourth contract (an optional period) has been entered into with a fixed premium on top of a market TC rate. For the FPS concluded contracts, the ratio is between 80-90% of any actual fuel saving obtained by the Charterer. The fixed premium contract indicates a rapid repayment of the scrubber investment for the vessel in question, whilst the FPS related contracts will have a payback subject to the spread between Compliant and Non-Compliant fuel. Of the scrubber contracts already concluded, one vessel has already been delivered onto its scrubber contract, whilst a second vessel will deliver onto its scrubber contract in December 2019. The remaining contracts will commence upon completion of the scrubber installations in 2020.

The ability to achieve competitive terms on the FPS ratio is dependent on the relative adoption of the scrubber technology in the segments in which we operate. We continue to expect the scrubber penetration of the feeder fleet to remain low in the foreseeable future. In total, Clarkson Research expects less than 10% of the vessels up to 5,000 TEU to be fitted with scrubbers. Clarkson counts less than 100 vessels already fitted with a scrubber for vessels larger than 1,000 TEU and below 5,000 TEU, and another ~70 known existing vessels expected to be retrofitting going forward. On order, an additional 70 vessels are expected to be fitted with scrubbers on delivery. That being said, the adoption of scrubber technology is not foreign to the container industry as a whole; roughly 40% of all vessels above 10,000TEU and close to 60% of the same orderbook is expected to have scrubbers installed. Clarkson's observations of scrubber adoption on smaller vessels corresponds with our impressions from the market; we continue to consider this to be an overall advantageous number for Songa Container.

The Company will continue to evaluate fixed premium structures vs FPS for future contracts on a case by case basis. Whether to favour either FPS or a fixed premium is dependent on many factors, such as the volatile view of the oil markets concerning the implied spread between Compliant and Non-Compliant fuel, potential payback period on the scrubber investment and charterers' preferences/trade.

The spread has developed favourably for scrubber fitted vessels during Q3 2019 and into Q4 2019. We believe the sudden rise observed on the price of HSFO in Singapore/Asia during September was an example of the preparations the entire supply chain of marine fuel oils' had been working on for months whilst a significant amount of shipowners were still applying HSFO as their source of fuel for their vessels. More recently in Q4 2019, we have continued to see spreads widening and shipowners switching fuel grades. Interestingly, the price of Compliant Fuel (LSFO/MGO) has remained fairly steady, whilst the price of HSFO has dropped.

We experience that the fixing out of scrubber fitted vessels, or soon to be completed scrubber fitted vessels, is much related to the tangible fuel spreads in the market and the spot readiness of the vessel(s) out of the shipyard. We expect further interest from charterers seeking vessels equipped with scrubbers as the Company's vessels come closer to their retrofit completion dates.

MARKET

Market, Outlook, Strategy and Forward-Looking Statements

CONTAINER MARKET IN Q3 2019

At the end of September, the scrubber retrofit work in the shipyards reached a new record of a total 500,000 TEU, representing 3% of the global cellular fleet. Numerous vessels experienced delays because of high demand in the shipyards, affecting the overall supply demand balance further. For this reason, forthcoming months are predicted to be busy with 'gap-fillers' and additional extra loaders required. The scrubber installation together with the IMO2020 regulation are the major parameters behind the rate improvement for the largest tonnage and is expected to continue in to 2020. Panamaxes experienced a rate increase of 30% during the quarter and rates for wide-beam designs (such as the “Songa Toscana”) rose with 50% during the quarter, back up to a more “normalized” rate spread compared to smaller tonnage.

During Q3, container volume worldwide, head-haul and regional trades had a marginal growth. Far East-Europe trade is stable, despite losing momentum with only small growth in the quarter. Whereas the volume growth in Asia- North America did not experience any significant climb, primarily due to decline of US imports from China. In contrast, both Intra Europe trade and Middle East (UAE and Saudi Arabia) experienced a more significant increase in import volumes from Asia and North America.

With unresolved trade conflicts, the WTO dropped its 2019 world trade growth estimate from 2.6% in Q2 to 1.2% in Q3. A global slowdown continues to represent the biggest threat to containerized trade growth going into 2020.

As to demolition, there was a minor drop in demolition activity in Q3 compared to Q2. However, the container ship recycling in 2019 is predicted to reach a total of 0.25m TEU which is more than double the capacity scrapped in 2018.

The overall fleet size has increased by 0.9 million TEU so far this year.

The average operating speeds have decreased by 2% YTD, a sign that liner operators are making their preparations for IMO2020 and higher fuel costs. This is expected to continue into Q4 2019 and 2020 as liner operators are implementing measures to withstand the effects of worsened fuel economics. Compared to 2008, average containership speeds have been reduced by 25%.

Newbuild contracting remain dominated by the larger vessels with 72% of the capacity ordered with a size of +10,000 TEU and above whereas 28% of the orders are vessels from 0-5,400 TEU.

INDICATIVE TIME CHARTER RATES THIRD QUARTER

Size	Gear	Beam	Jul 2019	Aug 2019	Sep 2019
700 TEU	N	All	5,000	5,000	5,000
1,100 TEU	Y	All	6,350	6,500	6,500
1,700 – 1,800 TEU	Y	All	8,500	8,500	8,600
2,400 – 2,600 TEU	Y	All	9,500	9,500	9,600
2,700 – 2,800 TEU	N	All	9,000	9,000	10,500
3,300 – 3,600 TEU	N	All	9,500	11,000	11,500
4,000 – 4,500 TEU	N	< 32.2 m	11,500	13,000	14,000
5,000 – 5,300 TEU	N	< 32.2 m	12,000	14,000	14,500
4,500 – 5,400 TEU	N	> 32.3 m	16,000	19,000	22,000
5,500 – 6,000 TEU	N	All	16,500	18,000	21,000
6,300 – 7,000 TEU	N	All	22,500	24,000	25,000
8,000 – 9,000 TEU	N	< 48 m	30,000	32,000	32,000

Source: Maersk Broker October 2019 report

AS PER NOVEMBER 2019

Size	Gear	Beam	Aug 2019	Sep 2019	Oct 2019
700 TEU	N	All	5,000	5,000	5,000
1,100 TEU	Y	All	6,500	6,500	6,400
1,700 – 1,800 TEU	Y	All	8,500	8,600	8,400
2,400 – 2,600 TEU	Y	All	9,500	9,600	9,500
2,700 – 2,800 TEU	N	All	9,500	10,500	10,500
3,300 – 3,600 TEU	N	All	11,000	11,500	11,600
4,000 – 4,500 TEU	N	< 32.2 m	13,000	14,000	13,500
5,000 – 5,300 TEU	N	< 32.2 m	14,000	14,500	13,500
4,500 – 5,400 TEU	N	> 32.3 m	19,000	22,000	21,000
5,500 – 6,000 TEU	N	All	18,000	21,000	20,000
6,300 – 7,000 TEU	N	All	24,000	25,000	24,000
8,000 – 9,000 TEU	N	< 48 m	32,000	32,000	31,000

Source: Maersk Broker November 2019 report

OUTLOOK AND STRATEGY

Songa Container is an investment vehicle established to invest in container vessels, with the strategy to acquire, own and operate small to midsize container vessels. The Company's chartering strategy remains unchanged with its fleet employed in a mix of revenue sharing pools and on direct TC contracts with durations depending on the prevailing market at any given time. The Company currently has 4 vessels employed on bilateral contracts with liner operators whereas the remaining 11 vessels are employed in revenue sharing pools.

The Board of Songa Container is satisfied with the size of the fleet of the Company, and currently has no plans to increase the fleet further.

The Company remains firm in its belief that the strategy of installing scrubbers will enable the Company to provide a technically proven, environmentally beneficial, commercially attractive and risk mitigating fleet of container vessels to the Liner Operators for their future business development.

The overall box trade growth is expected to increase by 2.0% in 2019 and 2.6% in 2020 in terms of TEU-miles, according to Clarksons. The supply side is expected to grow by 3% p.a. in the same period, however with significantly skewed growth towards the larger vessels. The overall orderbook is at a historically low level (11%) as owners remain sceptical to order new vessels. The average age of the feeder fleet continues to increase with close to 20% of all vessels below 3,000 TEU being 20 years and older.

Songa Container does not expect the current world economic outlook to represent a rapid fundamental rebalancing of the demand/supply dynamics of the container market. However, impacts such as reduced vessel speeds and ships out of service for retrofitting, coupled with a historically low orderbook and stronger demand growth in the feeder segments than the container market as whole, suggests a step-by-step recovery of the markets in which we operate.

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. The Company cannot give assurances that expectations regarding the outlook will be achieved or accomplished.

RISK FACTORS

Risk Factors and Responsibility Statement

MAIN RISK FACTORS

The Company is through its operations exposed to a variety of market, operational and financial risks. The risk factors below are a summary of the risk factors that might affect the Company. The order of appearance is not intended to indicate importance of likelihood of occurrence.

- The demand for, and the pricing of the underlying assets depend, among other things, on the global economy and global trade growth, ordering of new vessels and scope of future scrapping. Future obtainable day rates may not be sufficient to cover operating expenses.
- All vessels carry pollutants. Accordingly, there will always be certain environmental risks and potential liabilities involved in the ownership of commercial shipping vessels. The Company’s insurances and indemnities may not adequately cover all risks or expenses.
- The Company is a relatively newly formed entity with limited operating history upon which to evaluate the Company's likely performance.
- The Company’s operations are subject to regulations and restrictions governing health and safety as well as environmental requirements, social impacts, and other laws and regulations. Changes in legal, governmental, tax and regulatory regimes within the relevant jurisdictions may have an adverse effect on the Company's business.
- The Company's success will materially depend upon the skill and expertise of key persons involved in the management of the Company.
- Political and economic policies may affect the Company’s business and results of operations.
- The financial performance of the Company depends heavily on its counterparties' ability to perform their obligations under agreed charter parties.
- The Company may not have sufficient funds to make the required redemption of Bonds upon a Change of Control Event and the Bonds may be subject to optional redemption.
- Norwegian government issued a white paper in October 2015 describing a tax reform for the period 2016-2018 which includes the possible introduction of withholding tax on interest payments from Norway. Any changes in Norwegian law with respect to the possible introduction of withholding tax on interest (and possibly with retroactive effect), may result in the Bondholders receiving a lower coupon payment than originally agreed in the Bond Terms since the Company is under no obligation to make any gross up on interest in order to guarantee that the investors will receive the coupon payments in full (without any such deductions).
- The Songa City Vessels (as defined in the Bond Presentation/Bond Term Sheet) are not currently owned by the Company, but subject to contractual purchase options in favour of Songa City AS, and the transfer of legal title and ownership is dependent on the counterparty granting such purchase options' ability to comply with their obligations under the Option Agreements (as defined in the Bond Presentation/Bond Term Sheet).
- The Company will conduct a CAPEX program as described in the Bond Presentation/ Bond Term Sheet and this is subject to risk. All related items, including, but not limited to, cost, off-hire and positioning may deviate from the company’s estimates.
- Fuel prices are volatile. Significant changes in future fuel prices may have material adverse effect on the Company’s business.

RESPONSIBILITY STATEMENT

We confirm, to the best of our knowledge, that this condensed set of financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and generally accepted accounting principles, 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 this 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, 29 November 2019

The Board of Directors of Songa Container AS

Arne Blystad Chairman	Magnus Leonard Roth Director
Jon Christian Syvertsen Director	Fredrik Platou Director
Rowil Ponta Director	

FINANCIAL INFORMATION

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in $ thousands	Q3 2019	YTD Q3 2019	Q3 2018	YTD Q3 2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Time charter revenue	7 360	24 242	9 478	24 092
Total operating income	**7 360**	**24 242**	**9 478**	**24 092**
Ship operating expenses	6 127	18 360	4 689	13 567
General and administrative expenses	987	2 863	957	2 143
Tonnage tax	25	75	20	56
Depreciation	1 870	4 985	1 386	3 993
Total operating expenses	**9 010**	**26 283**	**7 051**	**19 758**
Operating profit (-loss)	**-1 650**	**-2 041**	**2 428**	**4 334**
Interest income	166	660	6	40
Interest expenses	-2 783	-8 469	-1 123	-2 577
Net income/(loss) on long-term loan measured at fair value	-26	-3 234	-346	4 794
Other financial income (-expenses)	-53	-524	-42	-119
Net financial income	**-2 696**	**-11 567**	**-1 505**	**2 138**
Profit before taxes	**-4 346**	**-13 609**	**923**	**6 473**
Taxes	0	0	1	4
Profit for the period	**-4 346**	**-13 609**	**922**	**6 469**
Other comprehensive income				
Items that are or may be reclassified to profit and loss				
Exchange differences	-962	-1 087	-102	-419
Other comprehensive income for the period	**-962**	**-1 087**	**-102**	**-419**
Total comprehensive income for the period	**-5 308**	**-14 695**	**819**	**6 050**
Profit is attributable to				
Equity holders of the parent company	-4 132	-13 369	858	6 283
Non-controlling interests	-214	-239	64	186
Total comprehensive income is attributable to				
Equity holders of the parent company	-5 048	-14 408	766	5 909
Non-controlling interests	-260	-287	54	141

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

in $ thousands	Note	30 September 2019	31 December 2018
		(Unaudited)	(Unaudited)
Vessels	5	105 467	110 298
Docking	5	3 890	4 315
Constructions in progress	5	11 573	3 518
Long-term loans	6	31 800	37 200
Total non-current assets		**152 730**	**155 330**
Inventories		2121	842
Trade receivables		402	794
Other receivables		2 772	1 640
Cash and cash equivalents		44 991	54 376
Total current assets		**50 286**	**57 653**
TOTAL ASSETS		**203 016**	**212 983**
Share capital		7 725	7 325
Share premium		69 525	65 925
Reserves		-1 230	4 533
Uncovered losses		-9 011	-364
Non-controlling interests		1 670	1 957
Total equity		**68 679**	**79 375**
Bond loan		128 782	128 286
Mortgage loan		0	0
Total non-current liabilities		**128 782**	**128 286**
Trade payables		2 877	3 038
Tax payable		85	81
Other liabilities		2 593	2 204
Total current liabilities		**5 555**	**5 323**
Total liabilities		**134 337**	**133 609**
TOTAL EQUITY AND LIABILITIES		**203 016**	**212 983**

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

in $ thousands	30 September 2019	30 September 2018
	(Unaudited)	(Unaudited)
Profit before taxes	-13 609	6 398
Income taxes paid	-71	0
Net interest	7 809	2 537
Interest paid	-8 568	-2 450
Interest received	2 447	618
Change in fair value of long-term loans	4 723	-4 007
Gain on non-current assets	0	0
Depreciation	4 985	3 993
Net change in inventories, trade receivables/payables	-851	453
Net change in other current items	-2 843	-1 817
Currency items	0	384
Net cash flow from operating activities	**-5 978**	**6 109**
Investment in vessels and constructions in progress	-7 785	-32 021
Payments for long-term receivables at fair value		-32 213
Repayments of long-term receivables at fair value	379	0
Net cash flow used in investment activities	**-7 407**	**-64 234**
Proceeds from borrowings	0	42 509
Repayment of borrowings	0	-3 969
Proceeds from issues of shares	4 000	14 000
Agio items	0	0
Incorporation costs	-1	0
Dividends paid to non-controlling interests		-745
Net cash flow from financing activities	**3 999**	**51 795**
Net change in cash and cash equivalents	**-9 386**	**-6 330**
Cash and bank deposits at beginning of period	54 376	15 914
Cash and bank deposits at end of period	**44 991**	**9 584**

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

in $ thousands	Share capital	Share premium	Translation reserve	Fair value reserve	Retained earnings	Non-controlling interest	Total equity
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Equity 1 January 2018	**5 925**	**53 320**			**-147**	**2442**	**61 540**
Incorporation expenses		5					5
Share issuance	1 400	12 600					14 000
Dividends						-744	-744
Profit for the period				4 007	2 276	186	6 469
Other comprehensive income			-374			-45	-419
Equity 30 September 2018	**7 325**	**65 925**	**-374**	**4 007**	**2 129**	**1 839**	**80 851**
Equity 1 January 2019	**7 325**	**65 925**	**-475**	**5 007**	**-364**	**1 957**	**79 375**
Share issuance	400	3 600					**4 000**
Profit for the period				-4 723	-8 646	-239	**-13 610**
Other comprehensive income			-1 039			-48	**-1 087**
Equity 30 September 2019	**7 725**	**69 525**	**-1 514**	**283**	**-9 011**	**1 670**	**68 679**

NOTES

Note 1 General

Corporate information and history

Songa Container AS (the Company) is a public limited company incorporated and domiciled in Norway. The Company was incorporated on 17 October 2016. The address of the main office is Haakon VIIs gate 1, 0161 Oslo. The Norwegian Enterprise no. is 918 003 762.

Songa Container AS and its subsidiaries (the Group) owns and operates container feeder vessels.

On 6th. June 2019 the Company’s bond were registered with Oslo Stock Exchange under the ticker ISIN NO0010837248.

Basis for preparation

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

The annual financial statements for the year ended 31 December 2018 have been prepared in accordance with the Norwegian Accounting Act of 1998 and generally accepted accounting principles in Norway (NGAAP). The condensed consolidated interim financial reporting for the 3rd quarter 2019 have been prepared in accordance with IFRS, as adopted by the EU. The reconciliations of equity, cash flows and total comprehensive income presented in accordance with NGAAP to amounts presented in accordance with IFRS are included in note 3.

The consolidated interim financial statements have been prepared on a historical basis except for financial assets at fair value through profit or loss. The consolidated interim financial statements are prepared under the going concern assumption.

Note 2 Accounting policies

Note 2.1 Basis of consolidation

The consolidated financial statements comprise the financial statements of Songa Container AS and all subsidiaries over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated.

Note 2.2 Functional and presentation currency

The consolidated financial statements are presented in USD, which also is the functional currency for the Company as well as for all other entities in the Group, except for one.

Foreign currency

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are recognised in profit or loss and presented within finance income or finance cost.

The assets and liabilities of foreign operations are translated into USD at the exchange rate at the reporting date. The income and expenses of foreign operations are translated into USD at the exchange rates at the dates of the transactions. These translation differences are recognised in OCI and accumulated in the translation reserve within equity, except to the extent that the translation difference in allocated to non-controlling interests. When adopting IFRS for the first time, the Group choose, according to IFRS 1, that the cumulative translation differences of all foreign operations are deemed to be zero at the date of transition to IFRS (1 January 2018).

Note 2.3 Income

Revenues are generated for time charter (TC) agreements. The TC contracts contains both a lease component that is in the scope of IFRS 16 and a service component that is in the scope of IFRS 15.

The TC contract gives the charterer the right to control the use of an identified vessel for a period in exchange for consideration. The lease contracts are for less than a year and are classified as operational leases. Income is recognised in profit and loss on a straight-line basis over the lease period.

The service component cover crew costs and other operating costs for the vessel and is recognised as income in profit and loss on a straight-line basis over the contract period.

Both the lease and service component are recognized together as time charter revenue in statement of profit and loss.

Note 2.4 Vessels

Vessels are measured at cost, less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated on a straight-line basis over the useful life of the asset, taking residual values into consideration, and adjusted for impairment charges, if any.

If significant parts of a vessel have different useful lives, then they are accounted for as separate items (major components) of vessels.

Any gain or loss on disposal is recognised in profit and loss.

Vessels and related equipment aquired have expected useful lives of 3-15 years. Future depreciations are based on depreciation schedules including residual values. Expected useful lives, and residual values, are reviewed at each reporting date and adjusted if appropriate. Residual values for the vessels are based on steel price time lightweight tonnage.

Ordinary repairs and maintenance expenses are charged to profit and loss when incurred.

Costs related to major inspections/classification (docking) are recognised as a separate item and depreciated based on estimated time to next inspection, normally 5-7 years.

The vessels are reviewed for indication of impairment at each reporting date, and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of a vessel exceeds its recoverable amount, an impairment loss is recognised. The recoverable amount is the highest of the vessels fair value less cost of disposal and its value in use.

Note 2.5 Inventories

Inventories, which comprise principally of bunker fuel, luboil and stores, are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in, first-out principle.

Note 2.6 Cash and cash equivalents

For presentation in the statement of cash flows, cash and cash equivalents includes cash on hand and demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Note 2.7 Financial assets

Financial assets are measured at fair value at initial recognition.

The Group classify financial assets as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss based on both:

(a) the entity's business model for managing the financial assets and

(b) the contractual cash flow characteristics of the financial asset.

When assessing the business model, the information considered includes:

-the stated policies and objectives for the portfolio and the operation of those policies in practice. ‘

-how the performance of the portfolio is evaluated and reported to the Group’s management

-the risks that affect the performance of the business model and how those risks are managed

-the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument and this includes,

-contingent events that would change the amount or timing of cash flows

-terms that may adjust the contractual coupon rate

-prepayment and extension features, and

-terms that limit the Group’s claim to cash flows from specified assets

Accounts receivables

Accounts receivables are measured at fair value upon initial recognition. The Groups accounts receivables are kept in a business model where the purpose is to collect contractual cash flows. Consequently, accounts receivables are subsequently measured at amortized cost less provision for expected lifetime losses.

Long term loans

The Group has acquired three mortgage loans from Commerzbank Aktiengesellshcaft April 30, 2018 where three container vessels are pledged as security. The loans are not considered to meet the criteria to be measured at amortized cost or fair value through other comprehensive income. The loans are therefore subsequently measured at fair value through profit and loss. Net gain and losses, including any interest income, are recognised in profit and loss. Transaction costs are recognised in profit and loss when incurred.

Note 2.8 Taxes

The vessel owning companies are subject to taxation under the Norwegian tonnage tax regime. Under the tonnage tax regime, profit from operations are exempt from taxes. Taxable profit is calculated on the basis of financial income after deduction of a portion of financial expenses. The portion is calculated as financial assets in percent of total assets. Tonnage tax is payable based on the net tonnage of vessels. Tonnage tax is presented as an operating expense.

The parent company and Songa Sibum AS are subject to ordinary Norwegian taxation.

Income tax expense comprises taxes payable and deferred tax and is recognised in profit and loss. Tax payable is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Note 2.9 Interest-bearing debt

Interest-bearing debt is initially recognized at its fair value less transaction costs. After initial recognition, interest-bearing debt is measured at amortized cost using the effective interest method. First year installment on long term debt are presented as current liabilities.

Note 2.10 Accounts payable

Accounts payable are measured at fair value upon initial recognition. Subsequently, accounts payable are measured at amortized cost.

Note 2.11 Equity

Ordinary shares are classified as equity.

Share issuance costs related to a share issuance transaction are recognized directly in equity. If share issuance costs, for tax purposes, can be deducted from other taxable income in the same period as they are incurred, the costs are recognized net after tax.

Note 2.12 Dividends

Dividend payments are recognised as a liability in the Groups financial statements from the date when the dividend is approved by the general meeting.

Note 2.13 Classification of items in the statement of financial position

Current assets and short-term liabilities include items due less than one year from the reporting date, as well as items due more one year from the reporting date, that are related to the reporting cycle.

Liabilities with maturity less than one year from the reporting date are presented as current liabilities. All other debt is presented as long-term debt. First year installment on long term debt are presented as current liabilities.

Note 3 Transition to IFRS

At the date of transition to IFRS, 1.1.2018, there were no adjustments to equity.

Reconciliation of equity reported in accordance with NGAAP to equity in accordance with IFRS:

in $ thousands	31.12.2018	30.09.2018
Equity according to NGAAP	**74 367**	**76 844**
Fair value of long-term loans	5 007	4 007
Equity according to IFRS	**79 375**	**80 851**

Reconciliation of profit reported in accordance with NGAAP to total comprehensive income in accordance with IFRS:

in $ thousands	2018	Q3 2018	YTD Q3 2018
Profit according to NGAAP	**115**	**1 739**	**2 462**
Exchange differences	-535	-102	-419
Fair value of long-term loans	5 007	-817	4 007
Total comprehensive income according to IFRS	**4 588**	**819**	**6 050**

In the consolidated statement of cash flows are interest received and interest paid presented separately in net cash flow from operating activities. This is the only adjustment to the statement of cash flows that where presented in accordance with NGAAP.

Note 4 Segment information

The Group operates within one single segment, which is the shipping container segment.

Note 5 Vessels and docking

in $ thousands	YTD 2019
Opening balance vessel and docking 1.1.2019	**114 613**
Additions in the period	633
Exchange differences	-903
Depreciation in the period	-4 985
Closing balance vessel and docking	**109 357**

On 22 October 2018 the Group entered into purchase agreements for scrubber installations on all 15 vessels in the fleet. On 17 January 2019 the Group the scrubber contract for installation of the Songa Antofagasta was cancelled due to a potential sale of the vessel. The scrubber installations are due to take place within the course for 2019 and first half year of 2020. Prepayments are classified as project under construction as non-current assets.

Note 6 Financial instruments

The Group acquired three mortgage loans with face value at 54.75 MUSD from Commerzbank Aktiengesellshcaft April 30, 2018. Face value at September 30, 2019 is MUSD 54.1. The long-term loans are measured at fair value over profit and loss. The following table shows a reconciliation from the opening balance to the closing balance for these loans measured at fair value in level 3:

in $ thousands	YTD Q3 2019	2018
Opening balance 1.1.	37 200	0
Purchases	0	31 500
Fair value adjustment	-5 400	5 700
Closing balance 30.09/31.12	31 800	37 200

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 values of long-term loans in level 3 are based on the average of valuations from two independent shipbrokers for three vessels pledged as security for the loans. The fair value of the pledged vessels are considered to be the best estimate of the fair value of the loans. Broker's estimates assume the vessels are without charter contracts, immediately available for sale in the market and that a willing seller and a willing buyer exists. The value is calculated by discounting future cash flows to present value at the reporting date. Due to reduced liquidity in the market for vessels, there is an increased uncertainty about the estimated ship values in today's market.

Note 7 Subsequent events

There are no events after the interim period that have not been reflected in the financial statements for the interim period.

Note 8 Alternative performance measures

In order to measure financial performance and position, the Group makes use of the Alternative Performance Measures (APMs) described below. The APMs are non-IFRS measures which provide supplemental information to the IFRS financial measures.

EBITDA

Earnings before interest, tax, depreciation and amortization (EBITDA) is derived directly from the statement of profit and loss by adding back to profit/(loss) depreciation and amortization.

EBITDA (in thousands of USD)	YTD 2019	Q3 2019	Q2 2019	YTD 2018	Q3 2018
Operating profit	-2 041	-1 650	-930	4 334	2 428
Depreciation and amortization	4 985	1 870	1 457	3 993	1 386
EBITDA	**2 944**	**220**	**527**	**8 327**	**3 814**

Time charter equivalents earnings

Adjusted Time charter earnings represents time charter revenue and pool revenue, and other operating income (-expenses) for the consolidated vessels during the reporting period. Pool revenue for the Songa City AS controlled vessels is added. The company uses time charter equivalent earnings as an indication of the profitability of charters. Time charter equivalent earnings is used as the numerator when calculating TCE per day.

TCE earnings (in thousands of USD)	YTD 2019	Q3 2019	Q2 2019	YTD 2018	Q3 2018
Adjusted time charter revenue					
Time charter revenue	24 242	7 360	7 929	24 092	9 478
Adjustment for time charter revenue Songa City controlled vessels	7 011	2 446	2 083	4 572	2 797
Time charter equivalents earnings	**31 253**	**9 806**	**10 012**	**28 664**	**12 275**

Time Charter Equivalent per day (TCE)

Time charter equivalent (TCE) per day is calculated by dividing net time charter revenue, adjusted for the Songa City AS controlled vessels, by the number of trading days for the consolidated vessels during the reporting period. Trading days are operating days (ownership days during the reporting period) minus days without revenue, including commercial, uninsured technical and dry dock related off-hire days. TCE is a common shipping industry measure of performance on a per day basis. The company uses TCE per day as it enables comparison of financial performance between periods regardless of changes in the mix of charter types.

TCE (in thousands of USD)	YTD 2019	Q3 2019	Q2 2019	YTD 2018	Q3 2018
Adjusted time charter revenue					
Operating days	4 095	1 380	1 365	3 234	1 264
Days without revenue, including commercial, uninsured technical and dry dock related off-hire days	332	170	49	66	12
Trading days	3 763	1 210	1 317	3 168	1 252
Adjusted TCE per day	**8.31**	**8.10**	**7.61**	**9.05**	**9.80**

Operating expenses per day (OPEX)

Operating expenses per day represents operating expenses incl. technical management fees divided by the number of ownership days. OPEX incl. technical management fees for the Songa City AS controlled vessels are added. The company uses OPEX per day as it enables comparison of financial performance between periods.

OPEX per day (in thousands of USD)	YTD 2019	Q3 2019	Q2 2019	YTD 2018	Q3 2018
Adjusted OPEX					
Operating expenses	18 360	6 127	6 486	13 567	4 689
Technical management fee (admin.cost)	1 389	434	526	1 056	366
Adjustment for operating expenses incl.technical management fee Songa City controlled vessels	5 154	1 818	1 643	2 532	1 626
OPEX total	24 903	8 379	8 655	17 155	6 681
Operating days	4 095	1 380	1 365	3 234	1 264
OPEX per day	**6.08**	**6.07**	**6.34**	**5.30**	**5.29**