



Songa Container AS

Financial Report Q3 2020

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SONGA CONTAINER

Third Quarter 2020 Highlights, Events, Results and Fleet

THIRD QUARTER 2020 HIGHLIGHTS

Songa Container AS (the Issuer and its subsidiaries, hereinafter the “Company”) posted a net loss per YTD end Q3 2020 of \$15.1 million. The Interim Financial Statements are presented in accordance with IFRS as of September 30, 2020.

Please find highlights¹ as follows:

- The Company delivered a positive EBITDA of \$1.8 million in Q3 2020, compared to \$1.9 million in Q2 2020.
- Total time charter equivalent earnings² were \$9.6 million in Q3 2020, compared to \$8.6 million in Q2 2020.
- Total Operating days³ were 1 380 in Q3 2020. Total Trading days⁴ was 1 323 days, implying a utilization of 95.9%. The utilization in Q2 2020 was 80.1%.
- Adjusted Time Charter Equivalent (TCE⁵) in Q3 2020 was \$7 271 per day, compared to \$7 837 per day in Q2 2020.
- Adjusted Operating expenses (OPEX⁶) in Q3 2020 were \$ 6 507 per day, compared to \$5 560 per day in Q2 2020.

THIRD QUARTER 2020 EVENTS

- On September 2, 2020, the Company announced the appointment of James Buck as the Chief Executive Officer as of September 1, 2020.
- The Company completed one scrubber installation during the quarter, and indefinitely postponed all remaining scrubber installations.
- The Company utilized one of the two possible options to PIK the interest coupon payable in September 2020, and as a result USD 2 million of additional equity was raised.

SUBSEQUENT EVENTS

No subsequent events to report.

¹ Refer to note 7 for Alternative performance measures

² **Time charter equivalent earnings** is time charter revenue and pool revenue 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 Time Charter Equivalent (TCE)** represents time charter revenue and pool revenue, adjusted for scrubber revenues and adjusted for the Songa City AS controlled vessels, divided by the number of Trading days for the consolidated vessels during the reporting period.

⁶ **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 2020 RESULTS

in \$ thousands			
Financial performance	YTD Q3 2020	Q3 2020	Q2 2020
Time charter revenue	23 362	8 902	8 254
Operating expenses, incl. G&A and depr.	26 499	9 484	8 397
Operating profit (-loss)	-3 137	-582	-143
EBITDA	3 174	1 793	1 921
Net financial profit (-loss)	-11 942	-1 797	-4 029
Profit (-loss) for the period	-15 080	-2 272	-4 254
Financial position	30.09.2020	31.12.2019	
Total assets	200 535	204 123	
Cash and cash equivalents	7 401	28 250	
Total equity	63 297	66 384	
Cash flow statement	YTD Q3 2020	Q3 2020	YTD Q2 2020
Net cash flow from operating activities	1 594	2 101	-507
Net cash flow used for investing activities	-29 703	-5 784	-23 919
Net cash flow from financing activities	7 261	2 001	5 260
Net change in cash and cash equivalents	-20 849	-1 682	-19 166

Financial performance

The Company posted an operating loss of \$0.5 million in Q3 2020, an increase of \$0.4 million compared to the last quarter.

EBITDA in Q3 2020 was \$1.8 million, compared to \$1.9 million in Q2 2020.

Time charter revenues increased from \$8.3 million in Q2 2020 to \$8.9 million in Q3 2020 and is mainly due to more revenue days as a result of the CAPEX Program coming to an end. The Company reports a scrubber revenue of \$1.2 million in Q3 2020 compared to \$1.0 million in Q2 2020. The scrubber revenue is included in time charter revenue.

Operating expenses for Q3 2020 was \$9.5 million compared to \$8.4 million for Q2 2020. The increase is mainly due to adjusted insurance claims, change of technical management on five vessels, non-recurring items and an increase in depreciations..

Net financial loss was \$1.8 million in Q3 2020 compared to \$ 4.0 in Q2 20, and the positive change is due to the fair value of the loans being at the same level as per Q2 20.

Financial position

The Company's total assets was \$200.5 million at 30 September 2020, down from \$204.1 million at 31 December 2019.

Non-current assets decreased from \$165.3 million at 31 December 2019 to \$156.6 million at 30 September 2020. The change is mainly due to the development in the CAPEX program, refer to note 4, and due to that the loans acquired are reclassified from non-current assets to current assets because of the maturity date being within one year from the reporting date, refer to note 5.

Total equity was \$63.3 million at 30 September 2020, down from \$66.4 million at 31 December 2019, with non-controlling interest of \$1.7 million at 30 September 2020. The change in equity is mainly due to the net loss for the year and the capital increase of in total \$12.0 million.

The interest-bearing bond loan has increased from \$130 million to \$132 million due to the utilization of one PIK option for the interest coupon payable in September 2020.

Cash flow

The Group generated a positive cash flow from operating activities of \$2.1 million in Q3 2020.

Net cash flow from investment activities were negative with \$5.8 million in Q3 2020 and is mainly due to the CAPEX program.

Net cash flow from financing activities were positive with \$2.0 million in Q3 2020 and is due to the capital increase of \$2.0 million in September 2020 as a result of the utilization of one PIK option.

Net change in cash and cash equivalents in Q3 20 was negative with \$1.7 million.

Cash and cash equivalents at the end of Q3 2020 were \$7.4 million.

THE FLEET

By the end of Q3 2020, the Company owned a fleet of 15 container vessels of which 12 have been fitted with scrubbers.

Vessel Name	TEU	DWT	Built	Yard	Gear	Scrubber fitted
Anne Sibum	1 036	13 172	2007	SSW Schicau Seebeck, Germany	Gearless	X
Grete Sibum	1 036	13 172	2008	SSW Schicau Seebeck, Germany	Gearless	X
Stefan Sibum	1 036	13 172	2008	SSW Schicau Seebeck, Germany	Gearless	X
FS Ipanema	1 794	25 860	2009	Taizhou Kouan, China	Gearless	X
Songa Bonn	1 992	28 630	2009	Hyundai Mipo, South Korea	Gearless	X
Songa Nuernberg	1 992	28 630	2010	Hyundai Mipo, South Korea	Gearless	X
Songa Iridium	2 015	27 209	2008	Zhejiang Shipyard, China	Gearless	Postponed
City of Beijing	2 559	34 333	2009	Xiamen Shipbuilding, China	Gearless	X
City of Hongkong	2 559	34 295	2009	Xiamen Shipbuilding, China	Gearless	X
City of Shanghai	2 559	34 269	2009	Xiamen Shipbuilding, China	Gearless	X
Songa Antofagasta	2 851	35 534	2008	Zhejiang Yangfan, China	Gearless	N/A
Stralsund	3 421	46 130	2014	Rongcheng Shenfei, China	Gearless	X
Songa Haydn	3 534	41 824	2010	Shanghai & Chengxi, China	Gearless	X
Songa Calabria	4 256	50 353	2010	Jiangsu New Yanzijiang, China	Gearless	X
Songa Toscana	4 957	62 272	2013	Jiangsu New Yanzijiang, China	Gearless	Postponed

SCRUBBER CONTRACTS AND CAPEX PROGRAM

The CAPEX program has now been completed. Within the last quarter the 12th vessel of our 15-vessel fleet completed her scrubber retrofit in the Mediterranean, namely Songa Calabria. One vessel remains unfitted with a scrubber, Songa Toscana, but given the prevailing market conditions the decision has been made to indefinitely postpone her scrubber installation. A standard special survey/Drydocking will be carried out instead during Q1 2021. Any future decision to retrofit Songa Toscana will be taken at a later date if and when the market conditions and dynamics along with fuel spread expectations deem this advantageous.

The scrubber unit and any other equipment for the Songa Toscana will thus be held as inventory by the Company. This remains the case for the Songa Iridium scrubber unit after her retrofit was also indefinitely postponed in the previous quarter. The scrubber tower/unit of Songa Iridium remains for sale.

Fuel spreads between Compliant and Non-compliant fuel (3.5% vs 0.5% sulphur fuel) remain historically low and only marginal improvements to this situation will be seen in the near term as the World and its consumer and transportation habits continue to grapple with the ongoing COVID-19 pandemic. As a result, the profitability of the scrubber investments are expected to be low in the short term. However, the scrubbers have had the effect of improving the vessel attractiveness and flexibility in the market, noting in particular our high utilization rates and the ability of the scrubbers installed on Songa vessels being capable of 'scrubbing' down to 0.1% Ultra Low Sulphur fuel equivalent providing an extra dimension of adaptability for Charterers.

The Company maintains the expectation that a more normalised fuel market will develop in the post-COVID environment. As a consequence, it is expected that the profitability on the Company's scrubbers investments will improve in the future.

MARKET

Market, Outlook, Strategy and Forward-Looking Statements

CONTAINER MARKET IN Q3 2020

What a difference a quarter makes – at the end of Q2 market commentators were unanimous in predicting that the COVID-19 pandemic would mean a negative box-trade impact of close to 8% for the full year of 2020 and yet those same commentators along with the rest of the container market community have been astounded by the rebound in its fortunes since. At the end of Q3 20 Braemar ACM predicted that this box-trade deficit would likely have halved to -4% for the full year and still further now record market volumes, particularly on the Trans-Pacific corridors, are leading many of those same commentators to believe that the final full year result will highlight a negligible fall in box demand.

This outcome, in what has been an unprecedented year, can be traced back to capacity management by the Liner operators earlier in 2020, even when demand was improving through this last quarter. This capacity management partnered with subsequent record volumes and container shortages through Q3 inevitably led to record-breaking freight rates. This has translated into a greatly improved vessel utilisation, rate and period environment for the container vessels themselves, primarily in the upper echelons of the market, which is now filtering down to the mid and feeder sizes.

The improved market conditions have only been experienced by a fraction of the container fleet at the end of the Q3. – about 7-8% of the fleet have re-fixed into this more buoyant market scenario – and it will thus require a more sustained market improvement for the impact to be more widely spread. However, with trade statistics indicating strong demand, along with equipment imbalances and congestion at a number of major ports creating supply chain bottlenecks, we remain cautiously optimistic that the market will have continued success into 2021.

The improved charter market has led to increased activity in the S&P-market during the last quarter. A total of 46 sales were concluded, the highest in any quarter for the last 2 years. Value appreciation of secondhand vessels has continued after quarter end. With little, if any, newbuilding ordering activity the orderbook now resides around a historical low ~8%. This figure reinforces the mid to longer term fundamentals of the market from a supply perspective and points towards a further strengthening of vessel values if demand holds up.

Songa Container with a number of vessels due for renewal in the coming months, remains well positioned through its' direct market and Pool exposure to take advantage of the revival in the container charter market.

INDICATIVE MARKET TIME CHARTER RATES
AS PER END OF THE THIRD QUARTER

Size	Gear	Beam	Jul 2020	Aug 2020	Sep 2020
700 TEU	N	All	4,500	4,800	5,000
1,100 TEU	Y	All	5,700	5,850	6,100
1,700 – 1,800 TEU	Y	All	6,500	7,100	8,500
2,400 – 2,600 TEU	Y	All	7,500	8,300	9,500
2,700 – 2,800 TEU	N	All	7,500	9,200	10,000
3,300 – 3,600 TEU	N	All	8,000	9,800	12,800
4,000 – 4,500 TEU	N	< 32.2 m	8,500	13,000	14,500
5,000 – 5,300 TEU	N	< 32.2 m	8,000	13,500	15,000
4,500 – 5,400 TEU	N	> 32.3 m	13,000	17,500	19,500
5,500 – 6,000 TEU	N	All	11,000	16,000	18,000
6,300 – 7,000 TEU	N	All	13,500	18,000	21,000
8,000 – 9,000 TEU	N	< 48 m	16,000	23,000	24,500

Source: Maersk Broker October 2020 report

AS PER NOVEMBER 2020

Size	Gear	Beam	Aug 2020	Sep 2020	Oct 2020
700 TEU	N	All	4,800	5,000	5,500
1,100 TEU	Y	All	5,850	6,100	6,500
1,700 – 1,800 TEU	Y	All	7,100	8,500	9,000
2,400 – 2,600 TEU	Y	All	8,300	9,500	11,000
2,700 – 2,800 TEU	N	All	9,200	10,000	12,500
3,300 – 3,600 TEU	N	All	9,800	12,800	15,000
4,000 – 4,500 TEU	N	< 32.2 m	13,000	14,500	17,500
5,000 – 5,300 TEU	N	< 32.2 m	13,500	15,000	16,500
4,500 – 5,400 TEU	N	> 32.3 m	17,500	19,500	21,000
5,500 – 6,000 TEU	N	All	16,000	18,000	21,500
6,300 – 7,000 TEU	N	All	18,000	21,000	24,500
8,000 – 9,000 TEU	N	< 48 m	23,000	24,500	30,000

Source: Maersk Broker November 2020 report

OUTLOOK AND STRATEGY

Songa Container is a company established to invest in container vessels, with the strategy to own and operate small to midsize container vessels. The Company's chartering strategy is to have a large majority of the vessels employed in revenue sharing pools and a selected few number of vessels on direct TC contracts with varying durations, depending on the prevailing market at any given time. An increased number of vessels employed in revenue sharing pools mitigates risk to idle time and mobilization costs. At the end of Q3 2020, the Company had two vessels employed on bilateral contracts with liner operators whereas the remaining vessels are employed in revenue sharing pools.

The Board of Songa Container has no plans to increase the fleet size further from its current level.

With the CAPEX Program now completed the fleet of Songa Container is well positioned to take part in the market recovery.

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 or 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 has conducted a CAPEX program as described in the Bond Presentation/ Bond Term Sheet and this has been subject to risk. It could be that the CAPEX program is still subject to risk going forward by way of technical malfunctions or outstanding claims.
- 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, 25 November 2020


The Board of Directors of Songa Container AS



Arne Blystad
Chairman



Magnus Leonard Roth
Director



Jon Christian Syvertsen
Director



Fredrik Platou
Director



Alexander Leonard Roth
Director

FINANCIAL INFORMATION

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in \$ thousands	Q3 2020	YTD Q3 2020	Q3 2019	YTD Q3 2019
Time charter revenue	8 902	23 362	7 360	24 242
Total operating income	8 902	23 362	7 360	24 242
Ship operating expenses	6 146	17 142	6 127	18 360
General and administrative expenses, incl. payroll	963	3 046	1 012	2 938
Depreciation	2 375	6 311	1 870	4 985
Total operating expenses	9 484	26 499	9 010	26 283
Operating profit (-loss)	-582	-3 137	-1 650	-2 041
Interest income	41	205	166	660
Interest expenses	-2 100	-6 817	-2 783	-8 469
Net income (-loss) on loan measured at fair value	454	-2 055	-26	-3 234
Impairment loss other short-term receivables	0	-2 804	0	0
Other financial income (-expenses)	-192	-471	-53	-524
Net financial profit (-loss)	-1 797	-11 942	-2 696	-11 567
Profit (-loss) before taxes	-2 379	-15 080	-4 346	-13 609
Taxes	-107		0	0
Profit (-loss) for the period	-2 272	-15 080	-4 346	-13 609
Other comprehensive income				
Items that are or may be reclassified to profit and loss				
Exchange differences	-5	-7	-962	-1 087
Other comprehensive profit (-loss) for the period	-5	-7	-962	-1 087
Total comprehensive profit (-loss) for the period	-2 278	-15 086	-5 308	-14 695
Profit (-loss) is attributable to				
Equity holders of the parent company	-2 267	-15 083	-4 132	-13 369
Non-controlling interests	-6	4	-214	-239
Total comprehensive profit (-loss) is attributable to				
Equity holders of the parent company	-2 205	-15 026	-5 048	-14 408
Non-controlling interests	-72	-61	-260	-287

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

in \$ thousands	Note	30 September 2020	31 December 2019
		(Unaudited)	(Audited)
Vessels	4	156 608	117 668
Docking	4	0	3 685
Constructions in progress	4	0	12 121
Long-term loans	5	0	31 800
Total non-current assets		156 608	165 274
Inventories		1 049	1 474
Trade receivables		600	1 994
Other receivables, incl. loans	5	34 876	7 131
Cash and cash equivalents		7 401	28 250
Total current assets		43 927	38 849
TOTAL ASSETS		200 535	204 123
Share capital		8 925	7 725
Share premium		80 325	69 525
Reserves		-3 386	-440
Uncovered losses		-24 237	-12 157
Non-controlling interests		1 671	1 731
Total equity		63 297	66 384
Bond loan		130 509	128 750
Total non-current liabilities		130 509	128 750
Trade payables		3 321	3 236
Tax payable		307	327
Other liabilities		3 101	5 425
Total current liabilities		6 729	8 988
Total liabilities		137 238	137 739
TOTAL EQUITY AND LIABILITIES		200 535	204 123

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

in \$ thousands	30 September 2020	30 June 2019
	(Unaudited)	(Unaudited)
Profit before taxes	-15 080	-13 609
Income taxes paid	-20	-71
Change in fair value of loans	3 003	4 723
Interest income and fees loans	-948	-1 489
Impairment loss short-term loan	2 804	0
Depreciation	6 311	4 985
Net interest expenses	6 612	7 809
Net change in inventories, trade receivables/payables	1 904	-851
Net change in other current items	-2 992	-1 353
Net cash flow from operating activities	1 594	144
Investment in vessels and constructions in progress	-29 445	-7 785
Repayments of long-term loan at fair value	0	379
Interest received loans	870	1 787
Payment short-term loan	-1 128	0
Net cash flow used in investment activities	-29 703	-5 619
Interest paid	-4 809	-8 568
Interest received, not incl. interest loan	70	657
Proceeds from issues of shares	12 000	4 000
Net cash flow from financing activities	7 261	-3 911
Net change in cash and cash equivalents	-20 849	-9 386
Cash and bank deposits at beginning of period	28 250	54 376
Cash and bank deposits at end of period	7 401	44 991

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)							
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	-13 609
Other comprehensive income			-1 039			-48	-1 087
Equity 30 September 2019	7 725	69 525	-1 514	285	-9 011	1 670	68 679
Equity 1 January 2020							
Equity 1 January 2020	7 725	69 525	-870	430	-12 157	1 731	66 384
Share issuance	1 200	10 800					12 000
Profit for the period				-3 003	-12 080	4	-15 080
Other comprehensive income			58			-64	-7
Equity 30 September 2020	8 925	80 325	-812	-2 573	-24 237	1 671	63 297

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 VII's 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 6 June 2019 the Company's bonds 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 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

The accounting policies and valuation methods are the same for the interim accounts as the annual accounts for 2019.

Note 3 Segment information

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

Note 4 Vessels

in \$ thousands	Q3 2020	2019
Opening balance vessels and docking 01.01	121 353	114 613
Additions in the period	41 566	13 662
Exchange differences	0	-363
Depreciation in the period	-6 311	-6 559
Closing balance vessels and docking 30.09 / 31.12	156 608	121 353

Vessels, scrubbers and docking are presented on the line "Vessels" in the balance sheet as of September 30, 2020. Vessels and scrubbers are depreciated straight-line over the remaining useful lifetime of the vessels, and the docking is depreciated over the remaining period until next docking.

The scrubber installations for twelve vessels have been finalized per 30 September 2020. The scrubber installation on two vessels are postponed indefinitely, and the remaining commitments of USD 1.9 million for the indefinitely postponed scrubbers are not yet accounted for.

Note 5 Financial instruments

The Group acquired three mortgage loans with face value at \$54.75 million from Commerzbank Aktiengesellschaft April 30, 2018. Face value at September 30, 2020 is \$54.1 million. The long-term loans are measured at fair value over profit and loss. The maturity date is June 30, 2021 and the loans are classified as short-term receivables. The loans were classified as long-term loans per December 31, 2019. 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	Q3 2020	2019
Opening balance 01.01	31 800	37 200
Purchases	0	0
Fair value adjustment	-2 925	-5 400
Closing balance 30.09 / 31.12	28 875	31 800

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 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 6 Subsequent events

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

Note 7 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 Q3 2020	Q3 2020	Q2 2020	YTD Q3 2019	Q3 2019
Operating profit	-3 137	-582	-143	-2 041	-1650
Depreciation and amortization	6 311	2 375	2 064	4 985	1 870
EBITDA	3 174	1 793	1 921	2 944	220

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, adjusted for scrubber revenue. 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 Q3 2020	Q3 2020	Q2 2020	YTD Q3 2019	Q3 2019
Adjusted time charter revenue					
Time charter revenue	23 362	8 902	8 254	24 242	7 360
Adjusted for scrubber revenue	-2 935	-1 167	-1 046	0	0
Time charter revenue excl. scrubber revenue	20 427	7 735	7 208	24 242	7 360
Adjustment for time charter revenue Songa City controlled vessels	5 069	1 885	1 356	7 011	2 446
Time charter equivalents earnings	25 496	9 620	8 564	31 253	9 806

Time Charter Equivalent per day (TCE)

Time charter equivalent (TCE) per day is calculated by dividing net time charter revenue, adjusted for scrubber revenue and 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 per day	YTD Q3 2020	Q3 2020	Q2 2020	YTD Q3 2019	Q3 2019
Adjusted time charter revenue					
Operating days	4 110	1 380	1 365	4 095	1 380
Days without revenue, incl. commercial, uninsured technical and dry dock related off-hire days	739	57	272	332	170
Trading days	3 371	1 323	1 093	3 763	1 210
Adjusted TCE per day – in USD	7 563	7 271	7 837	8 307	8 104

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	YTD Q3 2020	Q3 2020	Q2 2020	YTD Q3 2019	Q3 2019
Adjusted OPEX (in thousands of USD)					
Operating expenses	17 142	6 146	5 296	18 360	6 127
Technical management fee (admin.cost)	1 452	512	499	1 389	434
Adjustment for operating expenses incl. technical management fee Songa City controlled vessels	6 162	2 321	1 794	5 154	1 818
OPEX total	24 756	8 979	7 589	24 903	8 379
Operating days	4 110	1 380	1 365	4 095	1 380
OPEX per day – in USD	6 023	6 507	5 560	6 081	6 072