Kronborg Shipping K/S

Rungsted Strandvej 113, DK-2960 Rungsted Kyst

Annual Report for 1 January - 31 December 2016

CVR No 29 77 17 66

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 16/5 2017

Marc Hjorth Brüel
Chairman

Contents

Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Kronborg Shipping K/S for the financial year 1 January - 31 December 2016.

The Annual Report is prepared in accordance with the Danish Financial Statements Act.

In our opinion the Financial Statements give a true and fair view of the financial position at 31 December 2016 of the Company and of the results of the Company operations for 2016.

In our opinion, Management's Review includes a true and fair account of the matters addressed in the Review.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Rungsted Kyst, 28 April 2017

Executive Board

Marc Hjorth Brüel

Board of Directors

Lars Nyberg Chairman	Johnny Schmølker	Frans Bredmose Langkjær

Independent Auditor’s Report

To the general and limited partners of Kronborg Shipping K/S

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2016 and of the results of the Company’s operations for the financial year 1 January - 31 December 2016 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Kronborg Shipping K/S for the financial year 1 January - 31 December 2016, which comprise income statement, balance sheet and notes, including a summary of significant accounting policies (”the Financial Statements”).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the ”Auditor’s responsibilities for the audit of the Financial Statements” section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on Management’s Review

Management is responsible for Management’s Review.

Our opinion on the Financial Statements does not cover Management’s Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management’s Review and, in doing so, consider whether Management’s Review is materially inconsistent with the Financial Statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management’s Review provides the information required under the Danish Financials Statements Act.

Based on the work we have performed, in our view, Management’s Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management’s Review.

Independent Auditor's Report

Management's responsibilities for the Financial Statements
Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the Financial Statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the Financial Statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the

Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Hellerup, 28 April 2017
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Flemming Eghoff
State Authorised Public Accountant

Mark Philip Beer
State Authorised Public Accountant

Company Information

The Company	Kronborg Shipping K/S Rungsted Strandvej 113 DK-2960 Rungsted Kyst CVR No: 29 77 17 66 Financial period: 1 January - 31 December Municipality of reg. office: Hørsholm
Board of Directors	Lars Nyberg, Chairman Johnny Schmølker Frans Bredmose Langkjær
Executive Board	Marc Hjorth Brüel
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Strandvejen 44 DK-2900 Hellerup

Management's Review

Business Review

Kronborg Shipping K/S owns and operate the vessel M/T Kronborg, IMO number 9316593, which is a double hull IMO III classified oil- and chemical tanker of 40,208 tonne dead weight. M/T Kronborg is delivered from the Korean shipyard SLS Shipbuilding Co. Ltd. in July 2007, and having conducted its first special survey during 2012 on the repair shipyard Fayard, Denmark. M/T Kronborg has been in the company's ownership since delivery.

The company have entered agreements on commercial and operational management of its vessel with Dannebrog Rederi A/S, Denmark, being part of Weco Shipping A/S, Denmark, while crewing and technical management is contracted with Oceangold Tankers Inc., Marshall Islands having operation out of Greece.

The technical quality and operation of the vessel is satisfactorily. During 2016, M/T Kronborg had a total of 2.4 days of unplanned technical off-hire, which is within the management expectations and due to repair of an auxiliary engine in April.

During 2016, the freight market for oil products tankers in the segments of Handysize and Medium Range size, developed in an unfavourable direction due to an increased imbalance between supply and demand drivers. Especially from spring and going into autumn, the freight market was affected by large build-up of oil products inventories. This resulting in a decrease in transportation demand when inventory driven demand normalised. Meanwhile, the supply of available tonnage continued expanding during the year, however, at a decelerating pace compared to previous years.

Throughout the year, the vessel was employed in the Stena Weco Pool obtaining operational results during H1 2016 satisfactory to the management, while the operational results during H2 2016 did not meet the expectations in the same way. Collectively, FY2016 delivered an operational result that did not entirely meet expectations at the commencement of year 2016, as well as being slightly below the financial budget.

M/T Kronborg maintains a sufficient and satisfactorily number of commercially important Oil Major's Approvals, and not being excluded by any cargo owners and traders.

Management's Review

Financial Review

Earnings before interest, tax, deprecations and other non-cash items (EBITDA) is delivering a profit of USD 2,849,728, which is slightly below the forecast at the beginning of the year. The result is composed of a net freight income below budget, meanwhile, vessel operating expenses (OPEX) accounted for slightly less compared to expectations.

Kronborg Shipping K/S and its commercial and technical managers maintain a rigid cost expenditure control, while ensuring good operational planning and maintenance of the vessel.

The financing items of the accounts show USD -553,141 of interest payable, which is in accordance with expectations, while marking an improvement compared to the previous year. The improvement is due to scheduled instalments on term loan, while an increase in the interbank cost of funding have a reverse effect. The terms of the bank facilities have been unchanged throughout the year. Foreign exchange and currency related items is accounting for a marginal positive effect of USD 6,076.

Due to events occurring during 2017, extra ordinary high uncertainty related to the continuation of the business of the company, elaborated further on below, the management have decided for an impairment charge of USD -7,049,992 to the book value of the vessel as per 31 December 2016, bringing the book value to USD 16,000,000. This value is supported by an independent appraiser, and reflects what a willing buyer and a willing seller is perceived willing to transact on as per end of 2016.

Annual net profit (before the extra ordinary impairment charge) marks a gain of USD 1,032,547, which is below budget, and an unsatisfactorily development in profit compared to previous 12 month of USD 1,986,573, although the management did expect a decline in the annual net profit for 2016.

The annual net profit stands at a loss of USD -6,017,445.

The management is to a lesser extent satisfied with the generated revenue and profit, however, acknowledge the impact from the development in the given business environment within the product tanker segment, declining through 2016 and stabilising at a relatively low level going into 2017. Yet, the management is somewhat encouraged by its view on the freight market and revenue potential in the coming years, due to a very limited entrance of new tonnage in the segment size, combined with an increase in transportation demand and anticipated favourably development in the geographically trading patterns.

On the 31 December 2016 the called in and retained equity amounted to USD 4,754,115, equivalent to a solvency ratio of 26%, and approx. 53% inclusive of subscribed uncalled equity. The liquidity position and cash equivalent holdings is deemed strong, and is composed of cash equivalents of USD 2,024,995 and the mentioned subscribed uncalled equity capital of DKK 35 million (approx. USD 5 million).

Management's Review

Own Equity Shares

At 31 December 2016 the company owns 51 of its own shares, corresponding to 0,64% of the share capital.

Outlook & Events post Year End

From 31 December 2016 until today no material events has occurred, which would lead the management to a different opinion and view expressed in the report.

On average, the management expect a minor decline in obtainable freight rates during 2017, compared with the result of 2016, due to the effects of a continuous relatively large inventory of oil products, however, the demand for cargo transportation is expected to improve especially from the fall of 2017 and into 2018. Meanwhile, very little new tonnage is forecasted entering the market within the smaller tonnage segment sizes of oil products.

M/T Kronborg is scheduled for dry docking during June 2017, where the second special survey (10 year classification renewal) will take place, and which current cash reserves will cover.

The company's bank financing agreements for the term loan and revolving credit facility will have ordinary expiry on 31 July 2017. Commencement of dialogue for a new financing agreement has occurred, for the purpose of refinancing the existing facilities in due course. The management is of the opinion, that it is reasonable to assume a refinancing arrangement at satisfactorily terms and conditions, however, the management will highlight the extra ordinary uncertainty related to the fact that no agreement is in place at this point in time, and no agreement is expected until the vessel has passed dry dock and special survey. Reference is being made to potential consequences elaborated in note 4.

The management is of the opinion, that the value of the vessel is in the region of USD 16-20 million, based on a discounted cash flow model taking in the freight market outlook guided by the commercial manager, and other assumptions related to operating expenses, useful economical lifetime and weighted average cost of capital. The management believe that there is a value creation for shareholders in pursuing continuation of operation, compared to a scenario of discontinuation of operation and sale of assets in the current prevailing market.

In 2017, it is the expectations of the management that a positive net result from operation will be accumulated, and it is assumed that current capital structure and cash reserves is adequate to support the business operation and going concern, inclusive of the scheduled dry docking and financial commitments, for the coming year.

Income Statement 1 January - 31 December

	Note	2016	2015
		USD	USD
Revenue		**5.153.620**	**6.508.887**
Expenses for tankers		-2.248.839	-2.616.447
Other external expenses		-49.381	-48.628
Gross profit/loss		**2.855.400**	**3.843.812**
Staff expenses	1	-5.672	-5.857
Depreciation and impairment of property, plant and equipment		-8.320.108	-1.270.116
Profit/loss before financial income and expenses		**-5.470.380**	**2.567.839**
Financial income		6.076	0
Financial expenses		-553.141	-581.266
Net profit/loss for the year		**-6.017.445**	**1.986.573**

Distribution of profit

Proposed distribution of profit

Retained earnings	-6.017.445	1.986.573
	-6.017.445	**1.986.573**

Balance Sheet 31 December

Assets

	Note	2016	2015
		USD	USD
Vessels		16.000.000	24.149.996
Docking		56.707	226.819
Property, plant and equipment	2	**16.056.707**	**24.376.815**
Fixed assets		**16.056.707**	**24.376.815**
Bunkers		**124.338**	**148.547**
Other receivables		41.022	6.111
Receivables		**41.022**	**6.111**
Cash at bank and in hand		**2.024.955**	**2.805.238**
Currents assets		**2.190.315**	**2.959.896**
Assets		**18.247.022**	**27.336.711**

Balance Sheet 31 December

Liabilities and equity

	Note	2016 USD	2015 USD
Share capital		708.938	1.244.509
Retained earnings		4.045.177	10.061.827
Equity	3	**4.754.115**	**11.306.336**
Credit institutions		0	13.288.186
Other payables		17.868	18.301
Long-term debt	4	**17.868**	**13.306.487**
Credit institutions	4	13.288.186	2.476.365
Other payables	4	186.853	247.523
Short-term debt		**13.475.039**	**2.723.888**
Debt		**13.492.907**	**16.030.375**
Liabilities and equity		**18.247.022**	**27.336.711**
Contingent assets, liabilities and other financial obligations	5		

Notes to the Financial Statements

		2016	2015
		USD	USD
1	**Staff expenses**		
	Wages and salaries	5.672	5.857
		5.672	**5.857**
	Remuneration to the Executive Board	**5.672**	**5.857**
	Average number of employees	**0**	**0**

2 Property, plant and equipment

	Vessels	Docking	Total
	USD	USD	USD
Cost at 1 January	46.904.965	1.512.570	48.417.535
Cost at 31 December	46.904.965	1.512.570	48.417.535
Impairment losses and depreciation at 1 January	22.754.969	1.285.751	24.040.720
Impairment losses for the year	7.049.992	0	7.049.992
Depreciation for the year	1.100.004	170.112	1.270.116
Impairment losses and depreciation at 31 December	30.904.965	1.455.863	32.360.828
Carrying amount at 31 December	**16.000.000**	**56.707**	**16.056.707**

In order to assess the need for any write downs, management have calculated the vessels capital value. The calculation is based on specific estimates and management's expectations for the forward-looking market. If the capital value is below the book value, an impairment loss is made. The main uncertainty regarding the calculation, relates to the vessels future earnings, and to illustrate the sensitivity, it can be stated, that a deviation of USD 1,000 per day, will affect the capital value with USD 2.7 mio.

The calculation have given rise to a impairment loss of USD 7.0 mio. in 2016.

Notes to the Financial Statements

3 Equity

	Share capital	Retained earnings	Total
	USD	USD	USD
Equity at 1 January	1.244.509	10.061.827	11.306.336
Exchange adjustments	-795	795	0
Cash capital reduction	-534.776	0	-534.776
Net profit/loss for the year	0	-6.017.445	-6.017.445
Equity at 31 December	**708.938**	**4.045.177**	**4.754.115**

Shareholders total committed capital totals DKK 40,000k of which DKK 35,000 (approx. USD 5,000k) is not yet called.

At 31 December 2016 the company owns 51 of its own shares, corresponding to 0,64% of the share capital.

The share capital is broken down as follow:

	Number	Nominal value
		DKK
Ordinary shares	1.000	5.000.000
Preference shares	7.000	35.000.000
		40.000.000

Notes to the Financial Statements

4 Long-term debt

	2016	2015
	USD	USD
Credit institutions		
Between 1 and 5 years	0	13.288.186
Long-term part	0	13.288.186
Within 1 year	13.288.186	2.476.365
	13.288.186	**15.764.551**
Other payables		
Between 1 and 5 years	17.868	18.301
Long-term part	17.868	18.301
Other short-term payables	186.853	247.523
	204.721	**265.824**

Bank credit facilities expires ordinary on the 31 July 2017. The debt balance is assumed refinanced in due course and dialogue has commenced. In the event that no refinancing has occurred or waivers not been obtained, the consequences could ultimately require sale of the vessel at prevailing market value and/or partially or full drawdown on the uncalled equity capital of DKK 35 million.

Other long-term payables consist of loan for Kronborg Management ApS. The loan carry's an interest of 7% per year and non-terminable by Kronborg Management.

5 Contingent assets, liabilities and other financial obligations

Charges and security

The following assets have been placed as security with mortgage credit institutes:

Cash at bank in hand	2.024.955	2.805.238
First priority on vessel according to mortgage deed on current loan, DKK 320.740.000	45.476.974	46.960.469
Insurance amounts and earnings from vessel		
Obligations from the shareholder to pay any uncalled ammounts according to the subscription agreement		

Notes, Accounting Policies

Basis of Preparation

The Annual Report of Kronborg Shipping K/S for 2016 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B as well as selected rules applying to reporting class C.

The accounting policies applied remain unchanged from last year.

Financial Statements for 2016 are presented in USD. Applied USD exchange rate on the 31 December 2016 : 705,28 (2015 : 683,00)

Recognition and measurement

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

Assets are recognised in the balance sheet when the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Translation policies

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Exchange differences arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement. Where foreign exchange transactions are considered hedging of future cash flows, the value adjustments are recognised directly in equity.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the rates at the time when the receivable or the debt arose are recognised in financial income and expenses in the income statement.

Fixed assets acquired in foreign currencies are measured at the transaction date rates.

Notes, Accounting Policies

Income Statement

Revenue

Revenue from the sale of goods is recognised when the risks and rewards relating to the goods sold have been transferred to the purchaser, the revenue can be measured reliably and it is probable that the economic benefits relating to the sale will flow to the Company.

Expenses for tankers

Expenses for tankers comprise the raw materials and consumables consumed to achieve revenue for the enterprice.

Other external expenses

Other external expenses comprise expenses for administration etc.

Staff expenses

Staff expenses comprise wages and salaries as well as payroll expenses.

Depreciation and impairment losses

Depreciation and impairment losses comprise depreciation and impairment of property, plant and equipment.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year.

Notes, Accounting Policies

Balance Sheet

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment losses.

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use.

Depreciation based on cost reduced by any residual value is calculated on a straight-line basis over the expected useful lives of the assets, which are:

Vessels	25 years
Docking	5 years

Depreciation period and residual value are reassessed annually.

Impairment of fixed assets

The carrying amounts of property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by depreciation.

If so, the asset is written down to its lower recoverable amount.

Bunkers

Bunkers are measured at the lower of cost under the FIFO method and net realisable value.

Receivables

Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts.

Prepayments

Prepayments comprise prepaid expenses concerning future financial years.

Notes, Accounting Policies

Financial debts

Loans, such as loans from credit institutions, are recognised initially at the proceeds received net of transaction expenses incurred. Subsequently, the loans are measured at amortised cost; the difference between the proceeds and the nominal value is recognised as an interest expense in the income statement over the loan period.

Other debts are measured at amortised cost, substantially corresponding to nominal value.