
Thor Shipinvest III K/S

Tuborg Parkvej 10, DK-2900 Hellerup

Annual Report for 1 January - 31 December 2017

CVR No 31 75 60 30

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
15/6 2018

Thor Stadil
Chairman



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Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Thor Shipinvest III K/S for the financial year 1 January - 31 December 2017.

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 2017 of the Company and of the results of the Company operations for 2017.

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.

Hellerup, 15 June 2018

Executive Board

Thomas Nørballe Mikkelsen

Board of Directors

Thor Stadil
Chairman

Erik Berg Andersen

Jørgen Rossen Nielsen

Independent Auditor's Report

To the Limited Partners of Thor Shipinvest III K/S

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the Basis for adverse opinion paragraph, the Financial Statements do not give a true and fair view of the financial position of the Company at 31 December 2017 and of the results of the Company's operations for the financial year 1 January - 31 December 2017 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Thor Shipinvest III K/S for the financial year 1 January - 31 December 2017, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("the Financial Statements").

Basis for Adverse Opinion

Going concern

The Company has a significant negative equity. Negotiations with the Company's investors are being conducted about contribution of capital, making financing available for the continued operations of the Company or, alternatively, its winding-up. It is uncertain whether the investors will contribute additional capital besides what they are already obliged to contribute under the partnership agreement. The Financial Statements are presented on the assumption of going concern, which we do not find appropriate on the above basis.

Impairment of vessel not recognized in 2016

In the Financial Statements for 2016, we modified our opinion because Management had not recognized an impairment, although an impairment test showed that the Company's vessel should be impaired. In the Financial Statements for 2017, Management has recognized an impairment on the basis of an updated impairment test. Consequently, the comparative figures for 2016 and the figures for 2017 are affected by the impairment not recognized in 2016.

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 adverse 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.

Independent Auditor's Report

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.

As the Basis for Adverse Opinion section shows, we express a modified opinion on the financial statements due to matters described above. We conclude, for the same reason, that Management's Review is not free from material misstatement in relation to the amounts and other elements affected by matters described above.

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

Independent Auditor's Report

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, 15 June 2018

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

Line Hedam
statsautoriseret revisor
mne27768

Bo Schou-Jacobsen
statsautoriseret revisor
mne28703

Company Information

The Company

Thor Shipinvest III K/S
Tuborg Parkvej 10
DK-2900 Hellerup

CVR No: 31 75 60 30

Financial period: 1 January - 31 December

Municipality of reg. office: Gentofte

Limited partner

Komplementaranpartsselskabet Thor Shipinvest III

Board of Directors

Thor Stadil, Chairman
Erik Berg Andersen
Jørgen Rossen Nielsen

Executive Board

Thomas Nørballe Mikkelsen

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
DK-2900 Hellerup

Management's Review

Key activities

The Company's main activity is shipping.

Development in the year

The income statement of the Company for 2017 shows a loss of USD 7,203,259, and at 31 December 2017 the balance sheet of the Company shows negative equity of USD 8,283,877.

The Company's result for the year are considered unsatisfactory.

Capital resources

For a description of the Company's capital structure and going concern, reference is made to note 1 to the Financial Statement.

Uncertainty relating to recognition and measurement

At 31 December 2017 Management recognized an impairment of the Company's vessel. Reference is made to note 4.

Subsequent events

No events materially affecting the assessment of the Annual Report have occurred after the balance sheet date.

Income Statement 1 January - 31 December

	Note	2017 USD	2016 USD
Gross profit/loss		65,598	-98,328
Depreciation, amortisation and impairment of property, plant and equipment	2	<u>-5,646,522</u>	<u>-1,089,389</u>
Profit/loss before financial income and expenses		-5,580,924	-1,187,717
Financial income		254	1
Financial expenses	3	<u>-1,622,589</u>	<u>-1,501,311</u>
Profit/loss before tax		-7,203,259	-2,689,027
Tax on profit/loss for the year		<u>0</u>	<u>0</u>
Net profit/loss for the year		<u>-7,203,259</u>	<u>-2,689,027</u>

Distribution of profit

Proposed distribution of profit

Retained earnings		<u>-7,203,259</u>	<u>-2,689,027</u>
		<u>-7,203,259</u>	<u>-2,689,027</u>

Balance Sheet 31 December

Assets

	Note	2017 USD	2016 USD
Vessels		12,952,037	18,598,558
Property, plant and equipment	4	12,952,037	18,598,558
Fixed assets		12,952,037	18,598,558
Inventories		198,878	249,397
Trade receivables		0	65,834
Receivables from group enterprises		0	33,964
Other receivables		0	9,400
Prepayments		5,625	20,577
Receivables		5,625	129,775
Cash at bank and in hand		103,430	1,610
Currents assets		307,933	380,782
Assets		13,259,970	18,979,340

Balance Sheet 31 December

Liabilities and equity

	Note	2017 USD	2016 USD
Share capital		3,827,375	3,827,375
Retained earnings		-12,111,252	-4,907,991
Equity		-8,283,877	-1,080,616
Lease obligations		10,175,842	11,118,825
Long-term debt	5	10,175,842	11,118,825
Lease obligations	5	3,204,561	963,048
Trade payables		549,713	612,794
Payables to group enterprises		7,430,353	7,261,808
Other payables		0	15,645
Deferred income		183,378	87,836
Short-term debt		11,368,005	8,941,131
Debt		21,543,847	20,059,956
Liabilities and equity		13,259,970	18,979,340
Capital resources	1		
Contingent assets, liabilities and other financial obligations	6		
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Statement of Changes in Equity

	<u>Share capital</u> USD	<u>Retained earnings</u> USD	<u>Total</u> USD
Equity at 1 January	3,827,375	-4,907,993	-1,080,618
Net profit/loss for the year	<u>0</u>	<u>-7,203,259</u>	<u>-7,203,259</u>
Equity at 31 December	<u>3,827,375</u>	<u>-12,111,252</u>	<u>-8,283,877</u>

Notes to the Financial Statements

1 Capital resources

The Company is financed by bottomry and group loans. In order for the Company to continue as a going concern, it must be possible to extend the existing loan agreements and to procure liquidity for continued operations. At this time, no agreements securing continued operations have been made. Consequently, the Company's ability to continue as a going concern, and thus its ability to meet its commitments as they fall due, is subject to uncertainty. Management expects financing to be procured to continue the planned activities.

	2017 USD	2016 USD
2 Depreciation, amortisation and impairment of property, plant and equipment		
Depreciation of property, plant and equipment	1,084,522	1,089,389
Impairment of property, plant and equipment	4,562,000	0
	5,646,522	1,089,389

3 Financial expenses

Financial expenses to group enterprises	304,255	469,364
Other financial expenses	977,307	1,031,934
Exchange loss	341,027	13
	1,622,589	1,501,311

4 Property, plant and equipment

	Vessels USD
Cost at 1 January	25,168,447
Cost at 31 December	25,168,447
Impairment losses and depreciation at 1 January	6,569,889
Impairment losses for the year	4,562,000
Depreciation for the year	1,084,521
Impairment losses and depreciation at 31 December	12,216,410
Carrying amount at 31 December	12,952,037

Notes to the Financial Statements

4 Property, plant and equipment (continued)

Vessels
USD

Including assets under finance leases amounting to

12,952,037

Management assesses annually, the carrying value of the vessels in order to determine whether there are any indications of impairment in excess of the amount provided for by normal depreciations.

If there is an indication that the carrying amount of an asset may exceed the expected future cash flows from the asset, an impairment test is conducted. If there is such an indication, the asset is written down to the lower recoverable amount. The recoverable amount of the asset is determined as the higher of the net selling price and the value-in-use. If a recoverable amount for the individual assets cannot be determined, the smallest group of assets for which it is possible to determine the recoverable amount (cash-generating unit/CGU) is analyzed for impairment. If the entity owns more than one vessel, the CGU is determined on a portfolio basis. The vessels operate within the same segment (multi-purpose/MPP). When determining the CGU, Management has considered the degree of interdependency between the vessels. If only one vessel in the entity, the vessel is one CGU.

The net selling price is determined based on independent broker valuations obtained by Management.

In consequence of the current unusual market and competitive environment, broker valuations are, in Management's opinion, subject to a high level of uncertainty.

Therefore, the calculation has been made of value-in-use stated as the present value of total expected cash flows in the remaining useful life of the vessels.

In the value-in-use calculation, Management's assessment of future freight and time charter rates are especially highly judgemental. As regards the earnings of the vessels, a rate based on average earnings in 2017 + 35% is applied for 2018; equal to approximately, the earnings realized up to date in 2018.

As of 2020 and for the remaining useful life of the vessels, an average of the historical earnings for the period 2008-2017 of the individual vessel types is used, which, in Management's opinion, constitutes a fair level of the long-term rate expectations for the MPP segment (normal rates). The historical average rates are close to the realized rates in 2018. As of 2020 and for the remaining useful life of the vessels, the expected rate earnings are added a percentage increase of 2.25% per year. Further, when calculating the present value of the expected cash flows, a discount rate of 8.4% has been applied. The operating costs of the vessels have been calculated on the basis of historical costs with an expected percentage increase of 2% per year.

Recoverable amount is the higher of the net selling price of the vessels estimated by independent brokers and the value in use of future cash flows (value in use).

The impairment test for 2017 has resulted in an impairment based on the value-in-use calculation.

Notes to the Financial Statements

4 Property, plant and equipment (continued)

Due to the major uncertainty relating to the market and, in particular, market expectations, the calculation is highly sensitive to even minor changes in the assumptions applied. However, as regards long-term earnings, it is Management's assessment that the developments in both net earnings, operating costs and residual value applied for calculation purposes are probable. Should it turn out that the market does not recover, it will be necessary to further impair the vessel values in the long term. Management is, however, convinced that the market will recover within a few years. Due to the matters described above, the value of vessels is subject to considerable uncertainty. A sale within a short time frame must be expected to result in an accounting loss.

5 Long-term debt

Payments due within 1 year are recognised in short-term debt. Other debt is recognised in long-term debt.

The debt falls due for payment as specified below:

	<u>2017</u> USD	<u>2016</u> USD
Lease obligations		
After 5 years	0	7,266,615
Between 1 and 5 years	10,175,842	3,852,210
Long-term part	<u>10,175,842</u>	<u>11,118,825</u>
Within 1 year	3,204,561	963,048
	<u>13,380,403</u>	<u>12,081,873</u>

6 Contingent assets, liabilities and other financial obligations

As security for leasing debt vessel with a carrying amount USD 12,952,037 at 31 December 2017 has been mortgaged. There are no other security and contingent liabilities at 31 December 2017.

Notes to the Financial Statements

7 Group relations

The Company is included in the Group Annual Report of the Parent Company:

<u>Name</u>	<u>Place of registered office</u>
Thornico A/S	Odense, Denmark

Notes to the Financial Statements

8 Accounting Policies

The Annual Report of Thor Shipinvest III K/S for 2017 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B.

The accounting policies applied remain unchanged from last year.

Financial Statements for 2017 are presented in USD with exchange rate USD 620.77 31 December 2017 (31 December 2016 - USD 705.28)

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 and impairment losses.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Company, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company, and 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.

Certain financial assets and liabilities are measured at amortised cost, which involves the recognition of a constant effective interest rate over the maturity period. Amortised cost is calculated as original cost less any repayments and with addition/deduction of the cumulative amortisation of any difference between cost and the nominal amount. In this way, capital losses and gains are allocated over the maturity period.

Recognition and measurement take into account predictable losses and risks occurring before the presentation of the Annual Report which confirm or invalidate affairs and conditions existing at the balance sheet date.

Leases

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership (finance leases) are recognised in the balance sheet at the lower of the fair value of the leased asset and the net present value of the lease payments computed by applying the interest rate implicit in the lease or an alternative borrowing rate as the discount rate. Assets acquired under finance leases are depreciated and written down for impairment under the same policy as determined for the other fixed assets of the Company.

Notes to the Financial Statements

8 Accounting Policies (continued)

The remaining lease obligation is capitalised and recognised in the balance sheet under debt, and the interest element on the lease payments is charged over the lease term to the income statement.

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.

Income Statement

Revenue

Revenue from sales (chartering income) is recognised in the income statement when the charter is finalised based on the following criteria:

- finalization of the charter before year end
- the charter income has been determined and payment has been received or may with reasonable certainty be expected to be received.

Revenue is recognised exclusive of VAT.

Chartering in progress is recognised at the rate of completion of the charter, which means that revenue equals the charter income from the travelling activity for the year. This method is applied when total revenues and expenses in respect of the charter at the balance sheet date can be measured reliably, and it is probable that the economic benefits, including payments, will flow to the Company.

Vessel operating costs

Vessel operating costs comprise the raw materials and consumables consumed to achieve revenue for the year.

Notes to the Financial Statements

8 Accounting Policies (continued)

Other external expenses

Other external expenses comprise indirect production costs and expenses for premises, sales and distribution as well as office expenses, etc.

Gross profit/loss

With reference to section 32 of the Danish Financial Statements Act, revenue has not been disclosed in the Annual Report.

Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise amortisation, 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.

Tax on profit/loss for the year

The Company is not an independent tax subject, consequently no tax has been included in the annual report.

Balance Sheet

Property, plant and equipment

Vessels held under finance leases are recognised in the balance sheet in the same way as owned assets and are measured at cost less accumulated depreciation and any impairment losse

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:

Ships	25 years
Docking	2,5 years

Depreciation period and residual value are reassessed annually.

Notes to the Financial Statements

8 Accounting Policies (continued)

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 amortisation and depreciation.

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

Bunker

Inventories 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 rent, insurance premiums, subscriptions, interest etc.

Financial debts

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

Deferred income

Deferred income comprises payments received in respect of income in subsequent years.