Investor Presentation

IMO 2020 Lunch Seminar

June 2018

Agenda

1. **IMO 2020**
2. Investment case
3. Conclusion

IMO 2020 – What is it?

Shipping's "Paris Agreement" / "MiFID 400"

Comments

- On October 27, 2016, IMO decided to move forward with the implementation of IMO 2020 (MARPOL Annex VI) from January 2020 as scheduled.
- **Basically IMO 2020 has set a global limit for Sulphur in fuel oil used on board ships of 0,5% mm (mass by mass) from 1 January 2020.**
- Average fuel used today has 2.45% sulfur (2015)
- Shipping is responsible for 4-9% of sulfur emissions, which can be linked to pulmonary diseases.
- Worldwide mortality cases attributable to ship pollution is estimated to 60,000/yr (Corbett et al. 2007)

IMO 2020 – Alternatives

Install a scrubber

- Can continue to run on 3,5%S HFO bunker fuel
  - Possible to retrofit
  - Price/Availability (lead time for delivery)
  - Uncertainty about quality

Run on compliant fuels (MGO or LSFO)

- 0,5% sulfur fuels on open seas and 0,1% in Emission Control Areas (ECA)

Invest in Dual Fuel Engines (LNG or liquid fuels)

- Expensive and LNG bunker is not commonly available
  - LNG makes up around 2.5% of marine fuel consumption, and is not meaningful in a 2020 perspective.

Scrap the "thirsty old ladies"/ find alternative use

Comments

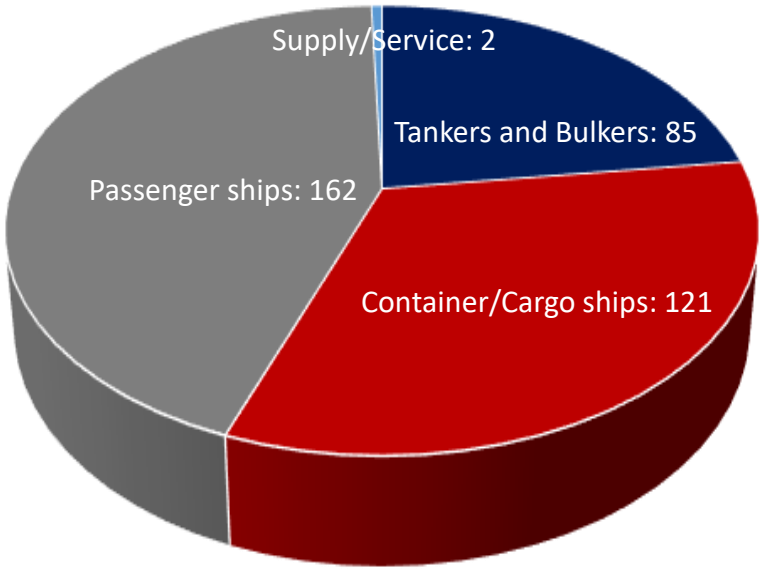
3 (4) types of Scrubber solutions

- Open Loop – in the ocean
- Closed Loop – stored on board
- Hybrid – Can do both
- "Scrubber ready"

Sulphate is a naturally occurring constituent of seawater. The large amount of sulphate in seawater is derived from volcanic activities and degassing at the seafloor. Further, sulphates reach the oceans via river flows, but the concentration in open seawater remains constant at around 2.65 g/l [8] or about 20kg of Sulphur per ton of seawater. Studies [1] and in field testing [4] confirm that the sulphate increase from exhaust gas scrubbing will be insignificant when compared with the quantity already in the oceans.

An analogy that has been used is ***if all the Sulphur in the world's oceans were to be removed, it would form a layer around the earth about 1.7M thick. All the Sulphur in all the known oil reserves would add only another 10 micron to this layer. (10 microns = 0,01 millimeters)*** – EGCSA

IMO 2020 – Vessels on the water with scrubber installed



What about LNG:

LNG propulsion (existing/on order):

- Tankers/Bulkers: 24/43
- Container: 12/28
- Passenger: 41/42
- Supply: 44/19

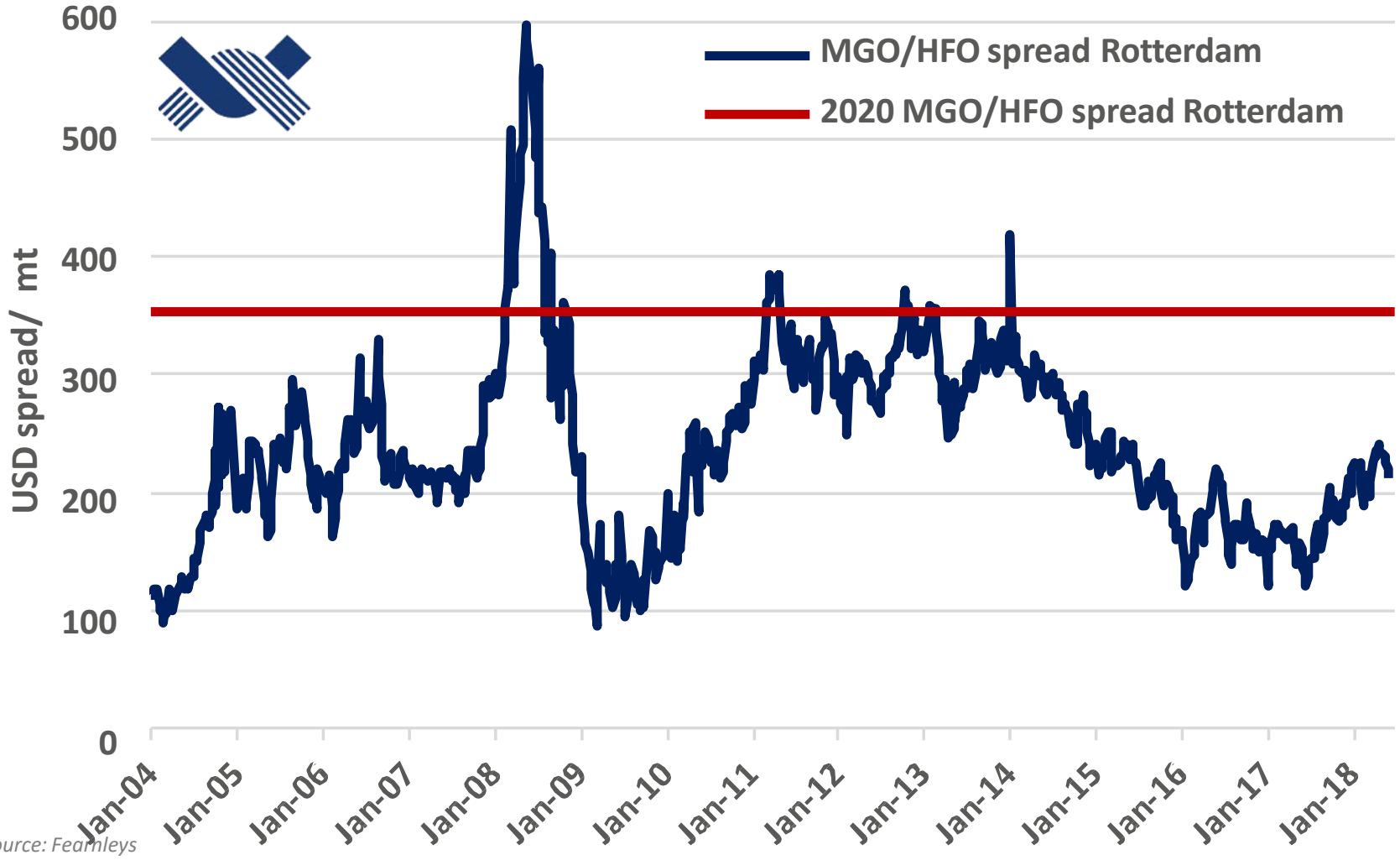
In total 253 vessels out of 70,000 or 0,4%

Source: LNG World Shipping

As of June ’18: 370 ships of a fleet of 70,000 merchant ships (or 0,5%)

Source: Fearnleys

IMO 2020 – What about the fuel spread?



Source: Fearnleys

IMO 2020 – Where are we?

Shipowners
- Have done little to prepare
- Relies on the refinery industry
- Do not see it as their responsibility
- Believe they can pass the cost on to the end users

Refineries
- Unprepared
- Long lead time (3-5 yrs.)
- Huge investments $B- not supported by fwd. curve
- Uncertainty regarding available crude qualities
  - Lack of standardization could lead to "contamination" during blending

Scrubbers
- Short payback for the larger vessels (0,6 yrs)
- Positive reputational effect (green)
  - Charterers now securing vessels on long TC's
    - (Maran Tankers recently fixed 5 yrs at 35K/d with Exxon)

Comments

Oil companies and Traders have recently been in the market to secure long term TC's or ordered newbuildings with Scrubbers
- BP
- Exxon
- Koch
- Total
- Shell
- Vitol
- Trafigura
- S-oil

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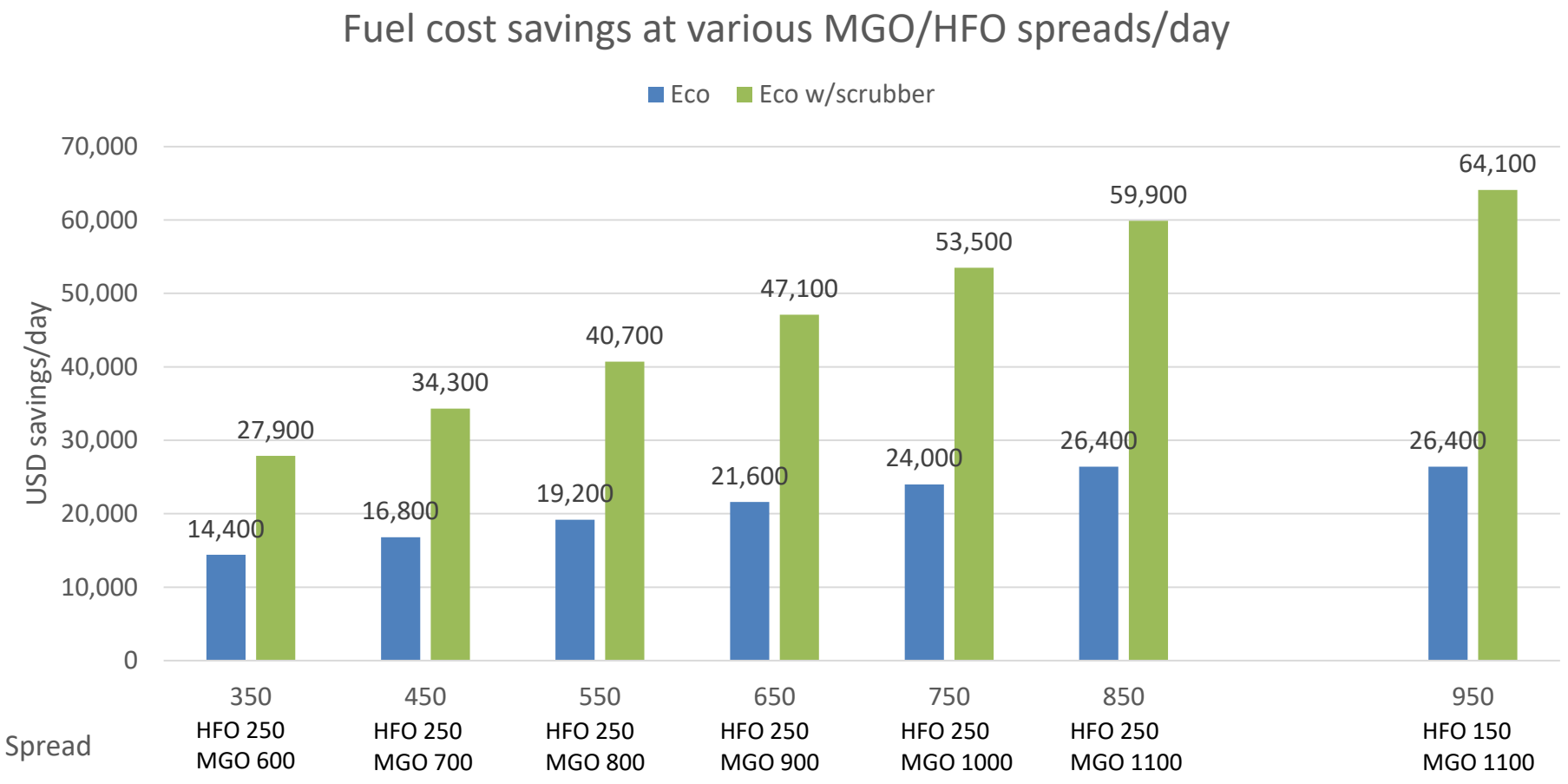
Investment Case

Thesis:

- Demand for MGO will go up
- Demand for HFO should consequently go down, i.e.
  - Higher MGO prices
  - Lower HFO prices

- Options:
  - Go long MGO and short HFO
    - Not very liquid, difficult to do
  - Get direct exposure and buy eco scrubber fitted VLCC's

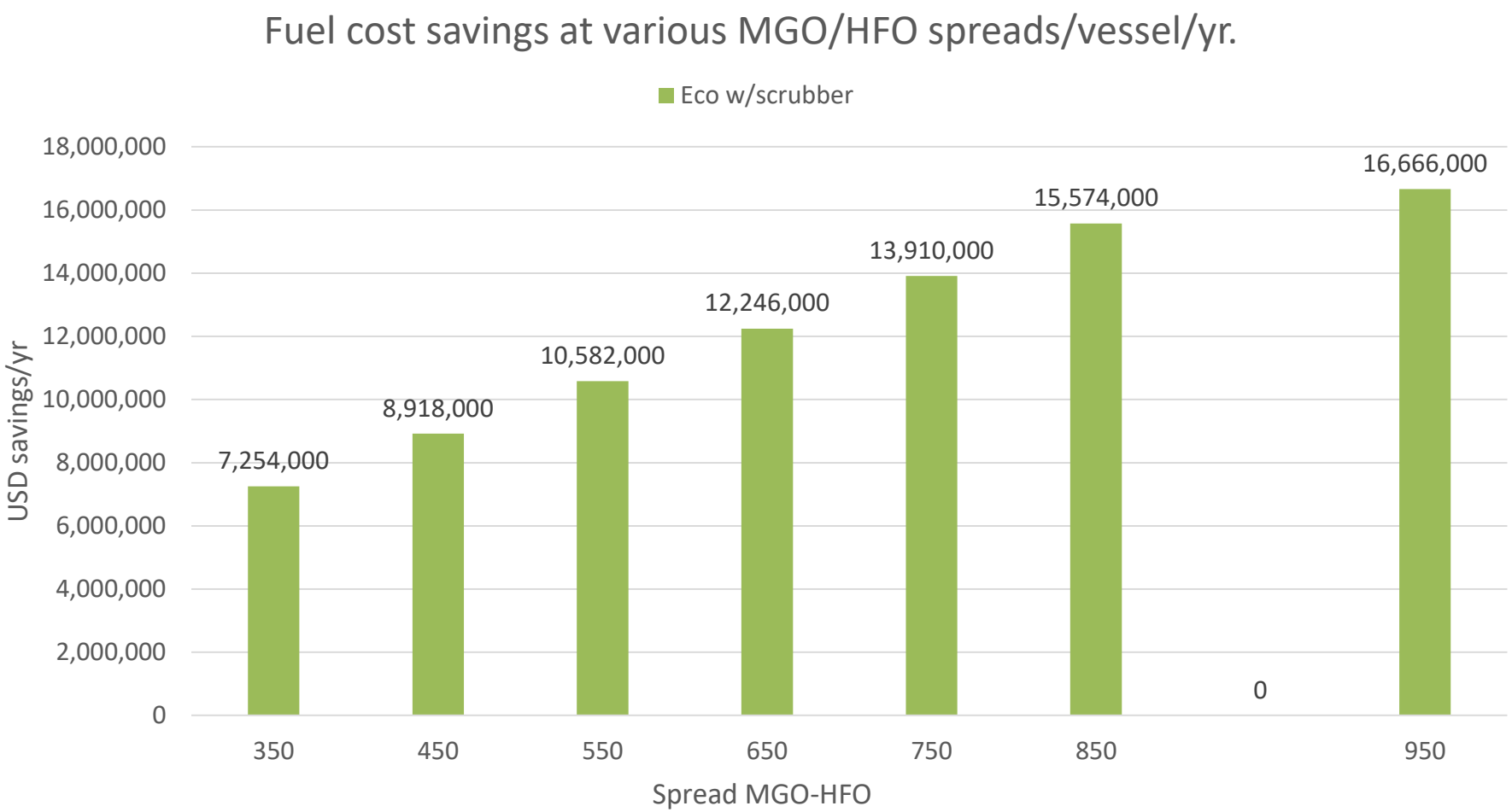
Investment Case – VLCC's/day



Assumptions:

	Laden	Ballast	50/50	Oper. Days
Eco	48	32	40	260
ECO w/scrubber	50	34	42	260
Avg. VLCC Non Eco (WS)	75	53	64	260

Investment Case – VLCC's/yr



Assumptions:

260 Trading days 13 kts.	Laden	Ballast	50/50
ECO w/scrubber (HFO)	50	34	42
Avg. VLCC Non Eco (MGO)	75	53	64

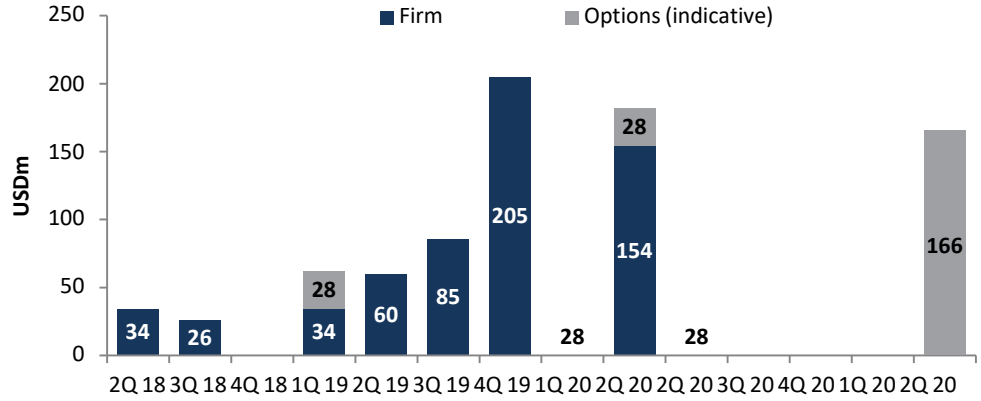
Investment Case – Hunter Group ASA

Attractive price and delivery times

Delivery schedule

Ship	Yard Price (USDm)	Delivery	Status	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2
No. 1	82.5	Oct/Nov'19	On order													
No. 2	82.5	Oct/Nov'19	On order													
No. 3	82.5	Dec'19	On order													
No. 4	82.8	Dec'19	On order													
No. 5	82.8	Q2'20	On order													
No. 6	82.8	Q2'20	On order													
No. 7	82.8	Q2'20	On order													
No. 8	89.3	H1'21	Option													
No. 9	89.3	H1'21	Option													
No. 10	89.3	H1'21	Option													

Capex program



Source: Company Filings, Clarkson Research Services Limited, Pareto Securities AS

Comments

- Norwegian company with no "hidden fees"
- Focused on generating shareholder value
- Incentivized through shares, not high salaries
- Pure play: Uniform fleet consisting of 7x firm VLCC newbuilding contracts with options for 3x additional VLCC newbuilds all built at DSME in Korea at ~USD 82.7m
- All vessels will be equipped with Wartsila scrubbers at an additional cost of ~USD 2.7m
- Vessels on firm order are expected to be delivered between Q3 2019 and Q2 2020, in time for the new IMO II regime where ship-owners either must equip vessels with scrubbers or use marine gas oil (MGO)
- All option vessels to be delivered in H1 2021

Investment case: Lowest yard price since 2004

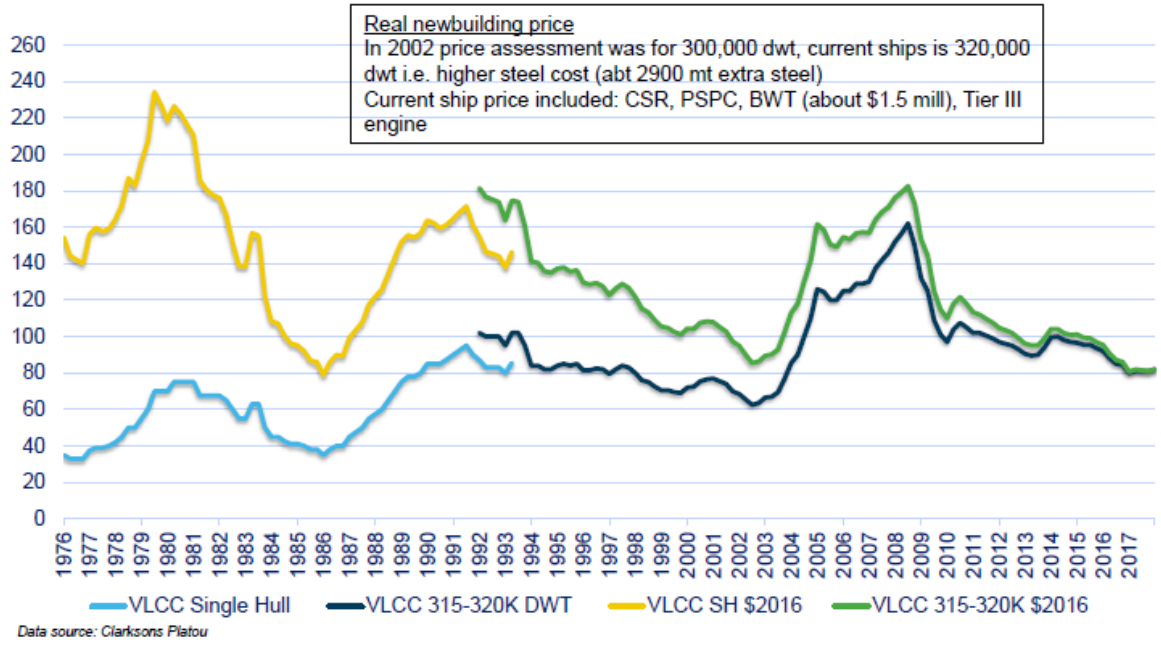
Historical VLCC NB prices

Newbuilding contracts already 8% "in the money"

Clarksons Platou

Real newbuilding price for VLCC

Historical newbuilding prices adjusted for US CPI



Data source: Clarksons Platou

January 2018 | Newbuilding market update | for internal use | www.clarksons.com

Source: Clarkson Research Services Limited, Shipping Intelligence Network

Investment Case – The V's

Main particulars	
Builder	DSME
LOA	336.0m
LBP	330.0m
Builder	60.0m
D	29.5m
Td	20.5m
Ts	21.6m
DWT at Td	279,850
DWT at TS	299,550
Service speed	14.8knots
Cruising range	~31,700Nmiles
Energy saving device	DSMEduct
Class	LR, +100A1, Double Hull Oil Tanker, CSR, ESP, ShipRight (ACS(B, C), CM), *IWS, LI, DSPM4, +LMC, IGS, UMS, NAV1, with the descriptive notes COW(LR), ShipRight (BWMP(T), VECS, SCM, IHM)
Flag	Marshall Islands
Crew	30 persons + 6 Suezcrew

Tank capacity	
Cargo tanks incl. slop tanks	~340,000m3
Water ballast tanks	~92,000m3
Heavy fuel oil tanks	~6,500m3
Diesel oil tanks	~700m3
Fresh water tanks	~600m3

Main engine	
Type	B&W 7G80ME-C9.5 x1 set (Derated)
MCR	24,510kW x 66.4rpm
NCR	17,160kW x 59.0rpm
DFOC	~62.9MT/day

IMO Nox tier III application	
Main engine	LPSCR
Diesel G.E	SCR

Hull structure	
Steel material	Normal strength steel and higher strength steel portion of ~62%
Design fatigue life	25 years for longitudinal stiffener's connections to transverse webs/bulkheads in cargo area

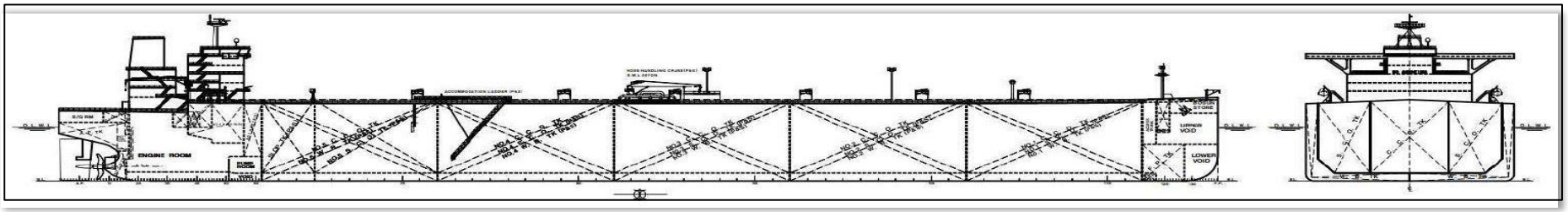
Painting	
W.B. tanks	2 x Epoxy anti corrosive, 320mic. (IMO PSPC-WBT)
Cargo Tanks	2x Epoxy anti corrosive, 320 mic. (deckhead & tank bottom as per IMO PSPC-COT)
Underwater	Tin free self-polishing anti-fouling paint (Lifetime 60 months)

Cargo and ballast system	
Cargo pump	3 x 5,500m3/h x 150mTH
Cargo stripping pump	1 x 400m3/h x 150mTH
Cargo stripping eductor	2 x 750m3/h
Inert gas system	1 x Flue gassystem
Tank cleaning heater	None
Water ballast pump	2 x 3,000m3/h x 40mTH (1 x Elec. Motor driven, 1 x Steam turbine driven)
Tank cleaning heater	2 x 3,000 m3/h, Electrolysis

Deck machinery	
Steering	1 x El.-hyd., 2 ram-4 cyl.type
Deck machinery	El.-hyd. high pressure type
Provision crane	2 x El.-hyd., luffing jib type, 10.0 tons(SWL) for port side 3.0 tons (SWL) for stbd. side

Steam generation	
Aux. boiler	2 x 45,000kg/h x 20bar g.
Donkey boiler	1 x 3,000 kg/h x 6bar g.
Exh. gas economizer	1 x 1,400 kg/h x 6bar g.

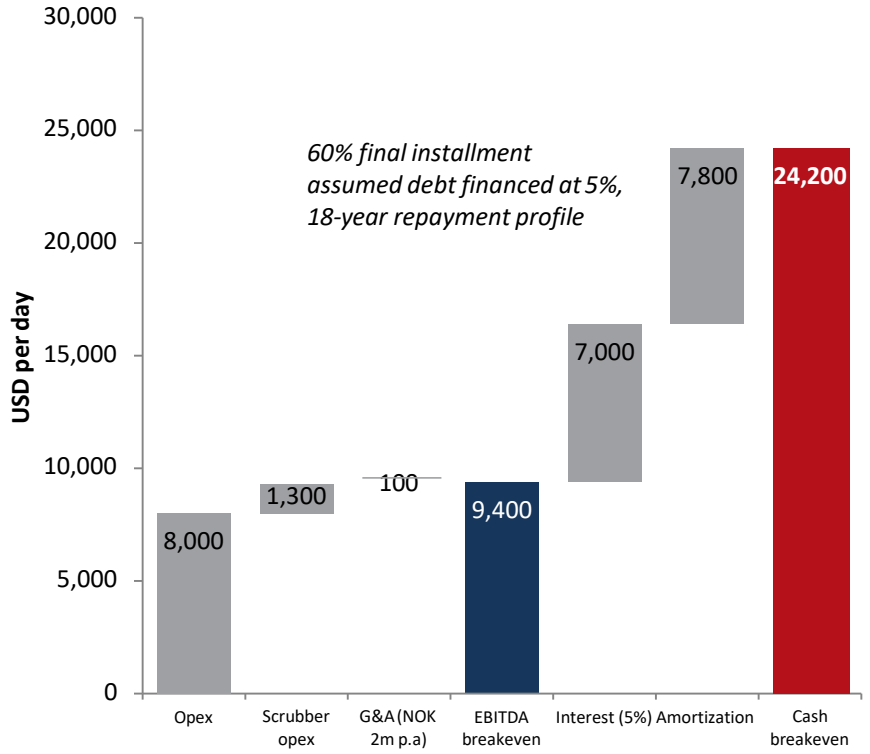
Electric power generation	
Diesel generator	3 x 1,460kW, AC 450V, 60Hz
Em'cy generator	1 x 350kW, AC 450V, 60Hz



Source: DSME

Breakeven vs. historical VLCC rates

Breakeven assumption



Comment

If owners get full benefit from scrubber at current prices, historical rates have always been above cash b/e

Source: Clarkson Research Services Limited

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Conclusion - “The Perfect Storm”

- Fleet is old (75 vessels turn 20 years in 2019 and 2020)
- Orderbook is relatively thin, but growing
- NB prices are on the rise
- Steel prices are now around USD 430/t, i.e. scrap value is around USD 16.5 million
- Rates are significantly below CBE which is good for scrapping
- Costs of installing scrubbers are going up and taking longer than before
- Owners have not made money for quite some time, which means maintenance may have been suffering and banks may not be as willing to fund 5th SS, which may be costly with BWTS and perhaps a scrubber
- Oil stock piles are below average
- Oil prices are going up, which should lead to increased US production
- OPEC may be opening up production again

Source: Company Filings

Thank you…

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