Hunter Group ASA
First quarter 2022 results

27 May 2022

Highlights

Financial highlights

- Total revenues of USD 7.63m
  - Spot pool revenues of USD 1.33m
  - Time charter revenues of USD 6.44m
- Total operating expenses of USD 6.72m
  - Vessel opex incl. insurance of USD 2.51m
  - Voyage exp. and commissions of USD 0.48m
  - G&A expenses of 0.53m
    - USD 0.29m administrative expenses
    - USD 0.28m legal expenses
- EBITDA of USD 4.24m
- Net profit of USD -0.70m

- Average daily earnings of USD 21,565
  - Avg. daily spot earnings of USD 14,720[1]
  - Avg. daily time charter earnings of USD 23,850
- Opex incl. insurance of USD 6,975 per day per vessel

- 360 available earnings days and 360 opex days
  - 90 pool spot days
  - 270 time charter days

- Fourth quarter cash flow breakeven of approx. USD 23,500 per day

Key events in 1Q 2022

- Entered into three 12-month index-based linked charters for Hunter Idun, Hunter Frigg and Hunter Disen
  - All three charter rates will be calculated on the basis of the daily rate for TD3C (Saudi-China) plus varying premiums, and adjusted for the vessels' speed, consumption and fuel type
  - Hunter Idun commenced her charter on January 25th
  - Hunter Frigg commenced her charter March 28th
  - Hunter Disen commenced her charter on May 1st

Subsequent events

- The Annual General Meeting was held on 27 April 2022. All resolutions were passed in accordance with the proposals set out in the notice

- As of the date of this report, 68% of days in the second quarter of 2022 have been booked at an average est. dayrate of USD 17,500

1) Discharge to discharge basis

Management update

For the first quarter, the Company achieved average dayrates of approx. USD 21,560 per day through a combination of spot and time charters. Spot rates came in at USD 14,700 per day, while average time charter rates came in at USD 23,850 per day.

While rates are still weak, fundamentals and potential triggers continue to stack up on the positive side of the scale, which has led to increased bullishness amongst shipowners, charterers and analysts. Despite lackluster spot TCE quotes, the underlying freight market has in fact improved substantially with worldscale rates now at 40-45 and VLCC cargoes at its highest since April 2020. It is the increase in fuel prices (owners' cost) which has pushed spot TCE rates for benchmark vessels burning VLSFO back into negative territory. Benchmark rates are currently quoted at around minus $15,000. Scrubber fitted ECO design ships, however, are earning around $30,000 more as a result of lower fuel consumption and the ability to sail on the cheaper Heavy Fuel Oil.

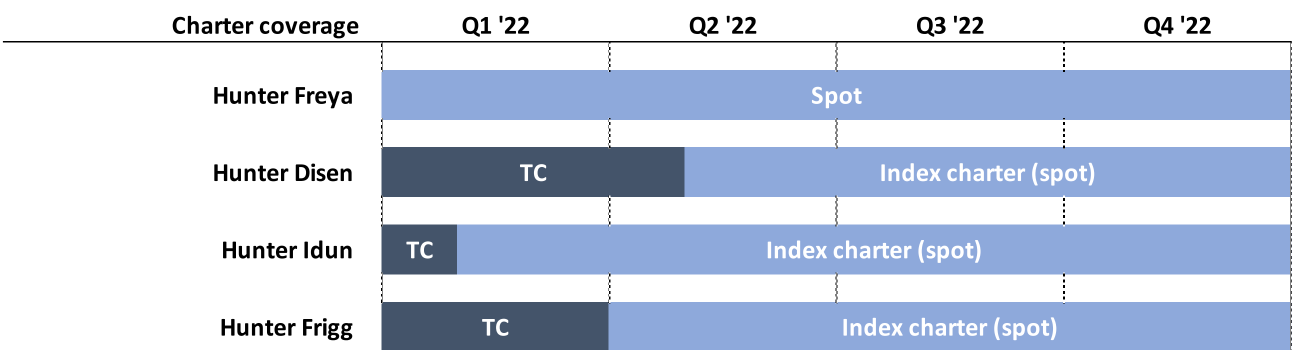
The widely shared optimism stems from a combination of improving oil market fundamentals which supports crude tanker fleet dynamics as well as structural changes to global energy flows following the outbreak of the Russia-Ukraine war. Oil demand and supply has continued their upward trajectory and are both expected to average around 101.5mbd during the remainder of 2022 and 2023. Production, in comparison, averaged approx. 95.5mbd during 2021. Practically the entire 6mbd increase is expected to be seaborne which should also be positive for the tanker market.

The fleet is the oldest it has been in more than 20 years and the orderbook is rapidly shrinking due to zero new orders in the past nine month. Scrap prices continues upwards and are currently around USD 750/ton, implying a historical high scrap value of around USD 30 million for a VLCC. The limited scrapping, despite the high steel price, is likely due to the allegedly 80-100 scrapping candidates involved in illicit trading with Iran and Venezuela. Should sanctions be lifted, these vessels will likely become obsolete. So far this year only one VLCC has been scrapped, but recycling has picked up for both Suezmaxes and Aframaxes, with 11 and 6 vessels scrapped respectively.

The Russia-Ukraine conflict have severely impacted global energy dynamics, and Russia-related oil flows are being rerouted as quickly as possible. This involves around 3mbd of crude that western countries need to source from other suppliers farther away, hence requiring a lot more tonnage. At the same time, Russian barrels are likely to be sent far east, at approx. triple the sailing distance compared to Europe. Furthermore, US production and exports have increased rapidly in recent months alleviating some of the oil price pressure, and it is likely that this trend will continue.

All in all, the combination of improving fundamentals and structural changes to global energy flows, which may be long lasting, has strengthened our conviction on a near term recovery in the tanker market. With a strong balance sheet and robust cash reserve in mind, we have entered into three index linked time charters, which takes our spot exposure to 100% going forward where we are fully compensated for the advantages of both ECO design and scubbers.

Current charter coverage



Charter coverage	Q1 '22	Q2 '22	Q3 '22	Q4 '22
% days covered	100%	68%	1%	0%
Avg dayrate covered ($k/d)	21,560	17,500	29,430	-

Fourth quarter market review

Benchmark VLCC rates averaged around $13,0001 per day for the first quarter of 2022, a decline from the approx. $17,000 per day during the previous quarter due to unexpected headwinds. Hopes for a winter rebound in oil production and tanker rates were subdued by the arrival of Omicron and new rounds of lockdowns in Asia, and China in particular. The oil price curve remained in backwardation throughout the quarter and continued to incentivize further storage draws. The front end of the price curve was pulled up quite dramatically by the Russian invasion of Ukraine in late February, which led to restricted energy flows and tighter supply dynamics. As Europe took steps to replace Russian barrels, market conditions quickly tightened for smaller crude tankers, particularly for Aframaxes, which are the work horses carrying Russian seaborne oil exports.

Global oil demand has recovered most of the lost ground from the pandemic, and seasonal patterns have re-emerged. Average quarterly demand declined from 100.5mbd during the fourth quarter of 2021 to 98.8mbd during the first quarter of this year, which is typical and reflects a slowdown following high imports in Q4 in preparation for the winter season. Compared with the first quarter of 2021, however, oil demand was up by 4.5mbd. Global oil supply was roughly in balance with demand during the quarter, at around 98.8mbd. As a consequence, around 1 million barrels per day were pulled from storage during the period. On a global basis, only about 45 million barrels are left from the 1,200 million barrels of oil that were stored during the peak of the pandemic. The US has responded to high oil prices by releasing 180 million barrels from their strategic petroleum reserves. Despite this, OECD storage levels were at 10% below the pre-pandemic level at the end of the first quarter, implying a forward coverage at only 57 days and a need for replenishment.

Crude tanker fleet supply dynamics continued to develop favorably during the quarter, and the orderbook now stands at a ~25 year low due to very limited ordering of new vessels the past year. Scrapping remains elusive for the larger tankers, despite elevated scrap steel prices, but picked up for the smaller segments. No VLCCs were scrapped during the quarter, but one suezmax and ten aframaxes for sent to the recycling yards.

Market outlook

The low-rate environment has continued into the second quarter, and while it is too early to conclude that the market has turned, bullish (both short and long term) triggers dominate the market outlook. Fundamentals continue to brighten with oil demand still on an upward trajectory, oil supply catching up to demand and global oil inventories in need of replenishment. A 25-year low orderbook for crude tankers, no new orders the past 9 months and a rapidly aging fleet which includes around 80-100 inefficient scrapping candidates bodes well for owners of modern tonnage.

In the meantime, the tragic Russian invasion of Ukraine has turned global energy security dynamics on its head, and western economies are scrambling to untangle themselves from Russian oil and gas dependence. Prior to the invasion, Russia exported around 4.5mbd, of which around 3mbd went to Europe and the US. Replacing these barrels obviously takes time but should eventually lead to significant increases in ton miles, as Europe will need to source barrels from exporters further away, such as the US, West Africa and OPEC. The US has already responded to the crisis by releasing oil from their strategic reserves and pushing companies to increase both production and exports. US crude oil production stood at approx. 20mbd in April this year, compared to 14.5mbd in April 2020 during the pandemic trough, and US exports are at an all-time high. Russian barrels will most likely be picked up by certain Asian countries, more than tripling the sailing distance and tonnage requirement. The urgent need for alternative barrels could further fast track sanctions negotiations with both Iran and Venezuela since there are limited short term alternatives for significantly boosting oil production. In the event of sanctions being lifted as many as 80-100 VLCCs involved in sanctioned trading could effectively become obsolete and end up being scrapped.

The combination of steadily improving fundamentals and structural changes to global energy dynamics has strengthened our conviction that a tanker market recovery is on the doorsteps.

Source: EIA, Fearnleys, Company

1) Approx. ten year old VLCC without scrubber

Condensed consolidated financial statements for 1Q 2022

Consolidated income statement

	Quarters			Year to date
(Unaudited figures in USD 1 000)	**1Q 2022**	**1Q 2021**	**Note**	**31.12.2021**
Revenues				
Pool revenues	1 325	3 132		7 438
Time charter revenues	6 438	9 283		29 722
Other income	0	73		704
Net gain on sale of assets	0	0	5	2 567
Total Revenues	**7 763**	**12 489**		**40 431**
Operating expenses				
Vessel operating expenses	2 511	2 603		9 776
Voyage expenses and commissions	482	335	1	1 916
Depreciation and amortisation expense	3 201	4 018	5	13 754
General and administrative expenses	527	429	4	1 815
Total operating expenses	**6 721**	**7 385**		**27 261**
Operating profit (loss)	**1 042**	**5 103**		**13 171**
Net financial income (loss)	**-1 744**	**-2 518**		**-9 394**
Profit (loss) before taxes	**-702**	**2 585**		**3 776**
Tax on ordinary result	0	0		0
Net profit (loss)	**-702**	**2 585**		**3 776**
Earning per share	0.00	0.00		0.01
Earnings per share diluted	0.00	0.00		0.01

	Quarters		
(Unaudited figures in USD 1 000)	**1Q 2022**	**1Q 2021**	**31.12.2021**
Net profit (loss)	-702	2 585	3 776
Other comprehensive income, items to be reclassified to profit & loss			
Translation differences	0	0	0
Comprehensive income for the period	**-702**	**2 585**	**3 776**
Total comprehensive income attributable to:			
Equity holders of the parent	**-702**	**2 585**	**3 776**
Total comprehensive income	**-702**	**2 585**	**3 776**

Consolidated balance sheet

Assets

(Unaudited figures in USD 1 000)	Note	31.03.2022	31.03.2021	31.12.2021
NON-CURRENT ASSETS				
VLCC vessels	5	329 301	423 257	332 521
Other tangible assets	5	288	192	318
Total tangible assets		**329 588**	**423 449**	**332 839**
TOTAL NON-CURRENT ASSETS		329 588	423 449	332 839
CURRENT ASSETS				
Trade and other receivables		5 309	7 208	5 513
Other short-term financial assets		0	40	0
Other short-term assets		5 184	1 864	3 878
Total current assets		**10 493**	**9 111**	**9 391**
Cash and cash equivalents		**29 154**	**28 271**	**29 639**
TOTAL CURRENT ASSETS		39 647	37 383	39 030
TOTAL ASSETS		**369 235**	**460 831**	**371 869**

Equity and Liabilities

EQUITY				
Share capital (575 362 013 shares)	2	82 625	82 625	82 625
Own shares	2	-1 660	-1 197	-1 660
Share premium	2	15 055	47 318	15 034
Other equity		79 819	79 330	80 522
TOTAL EQUITY		**175 839**	**208 076**	**176 521**
LIABILITIES				
Interest-bearing debt	5	177 407	237 367	180 514
Total non-current liabilities		**177 407**	**237 367**	**180 514**
Trade payables		822	810	195
Accrued public charges and indirect taxes		47	30	68
Current portion of interest-bearing debt		13 500	13 463	13 500
Other current liabilities		1 620	1 085	1 070
Total current liabilities		**15 989**	**15 388**	**14 833**
TOTAL LIABILITIES		193 396	252 754	195 346
TOTAL EQUITY AND LIABILITIES		**369 235**	**460 831**	**371 868**

Consolidated cash flow statement

	Quarters			Year to date
(Unaudited figures in USD 1 000)	**1Q 2022**	**1Q 2021**	**Note**	**2021**
Profit (loss) before tax	-702	2 585		3 776
Depreciation	3 201	4 018	5	13 754
Gain on sale of VLCC	0	0	5	-2 567
Financial income	-1	0		-4
Financial expenses	1 751	2 383		8 430
Change in working capital items	123	-3 547		-4 974
Net cash flow from operating activities	**4 372**	**5 439**		**18 415**
Investments in VLCC newbuilds and PP & E	0	-8	5	-8
Interest received	1	0		4
Sale of VLCC	0	0		83 575
Investments/sale of other financial investments	0	-40		0
Net cash flow to investment activities	**1**	**-48**		**83 571**
Interest paid	-1 751	-2 383		-6 441
Installment interest-bearing debt	-3 081	-3 705		-61 802
Installment leasing-debt (IFRS 16)	-26	-25		-94
Purchase of own shares	0	-153	2	-1 267
Dividend paid	0	-65 999	2	-97 887
Net cash flow from financing activities	**-4 858**	**-72 264**		**-167 491**
Total net changes in cash flow	**-485**	**-66 873**		**-65 505**
Currency effect on cash	0	0		0
Cash and cash equivalents beginning of period	29 639	95 145		95 146
Cash and cash equivalents end of period	**29 154**	**28 271**		**29 639**

Consolidated statement of changes in equity

(Unaudited figures in USD 1 000)	Note	Share Capital	Own Shares	Share premium	Currency translation	Retained earnings	Total equity
Equity as of 01.01.2021		**82 625**	**-1 121**	**113 364**	**-2 289**	**79 035**	**271 614**
Net profit 1Q 2021				0	0	2 585	2 585
Other comprehensive income				0	0	0	0
Total comprehensive income 1Q 2021				0	0	2 585	2 585
Dividend paid				-65 999	0	0	-65 999
Share based payment				29	0	0	29
Purchase of own shares			-76	-77	0	0	-153
Equity as of 31.03.2021		**82 625**	**-1 197**	**47 317**	**-2 289**	**81 620**	**208 076**
Net profit 2Q-4Q 2021						1 191	1 191
Other comprehensive income						0	0
Total comprehensive 2Q-4Q 2021				0	0	1 191	1 191
Dividend paid				-31 888	0	0	-31 888
Share based payment				256	0	0	256
Purchase of own shares			-463	-651	0	0	-1 114
Equity as of 31.12.2021		**82 625**	**-1 660**	**15 034**	**-2 289**	**82 811**	**176 521**
Net profit 1Q 2022				0	0	-702	-702
Other comprehensive income				0	0	0	0
Total comprehensive income 1Q 2022				0	0	-702	-702
Share based payment				21	0	0	21
Equity as of 31.03.2022		**82 625**	**-1 660**	**15 055**	**-2 289**	**82 109**	**175 840**

Notes to the Hunter Group condensed consolidated financial statements for 1Q 2022

1. Accounting principles

These condensed interim financial statements of Hunter Group were authorized for issue by the Board of Directors on 25 May 2022.

The interim condensed consolidated financial statements for the three months ending 31 March 2022 have been prepared in accordance with IAS 34 Interim Financial Reporting. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2021.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2021.

Vessels and equipment

The net cost of the VLCCs (less estimated residual value) is the basis for a straight-line depreciation over the estimated remaining economic useful lives (25 years). Other equipment (excluding vessel upgrades) are depreciated over its estimated remaining useful life (5 years). The estimated residual value for the VLCCs is calculated by multiplying the lightweight tonnage with the market price of scrap per ton. Residual values are reviewed annually.

Voyage expenses relates to fuel and other costs incurred before the vessel joins the Tankers International pool.

2. Equity transactions

On 5 February 2021, the Company purchased 517,000 own shares in the market at an average price of NOK 2.5106 per share and on 12 May 2021, the Company purchased 3,034,702 of its own shares at NOK 2.9998 per share.

The board of directors of Hunter Group ASA decided 12 July 2021 to distribute a dividend of NOK 0.50 per share (excluding treasury shares), based on authority granted by the general meeting held 3 June 2021. The distribution was conducted as a reduction of the Company's share premium.

3. Segment information

The management monitors the operating results in 1 segment which develops and operates the VLCCs.

4. Transactions with related parties

The following table provides the total amount of transactions with related parties controlled by the members of the executive management of Hunter Group for 2021. All related party transactions have been entered into on an arm's length basis.

Transactions with related parties	31.03.2022	31.12.2021
Purchased services in USD 1 000	20	76

The Group has used the services of the law firm Ro Sommernes DA for legal advice in 2022 and 2021; USD 20t in 1Q 2022 and USD 76t in 2021. The Company's chairman Henrik Christensen is a partner in Ro Sommernes DA.

The Company rents office space from Dronningen Eiendom AS. The rental agreement is for 36 months, and the contract was renewed for an additional 36 months as from 1 November 2021. One of the Company's shareholder is also a shareholder of Dronningen Eiendom AS.

In April 2021 Hunter Group entered into a sale & leaseback agreement for a handysize dry cargo vessel, which was sold to Apollo Asset Ltd. shortly thereafter with a gain of USD 0.1 million. Furthermore, Hunter Group has served as a manager for several other similar agreements where Apollo pays NOK 1,500 per hour and a fee of USD 5 thousand per transaction. Apollo Asset Ltd. Is 100% owned by Mr. Arne Fredly, board member and largest shareholder of Hunter Group ASA.

5. Property, plant & equipment

(Unaudited figures in USD 1 000)		**Other tan-**		
Per 31 December 2021	**IFRS 16 PP&E**	**gible assets**	**VLCC vessels**	**Total**
Cost at 1 January 2021	471	18	350 235	439 462
Additions	0	0	0	0
Sales	0	0	0	0
Cost at 31 March 2022	471	18	350 235	350 724
Accumulated depreciations at 31 March 2022	-187	-16	-20 932	-21 136
Book value at 31 March 2022	**284**	**2**	**329 303**	**329 588**
This quarter's depreciation	28	2	3 170	**3 201**

Hunter Atla was sold in 2Q 2021 for an en-bloc price of USD 84.5 million, with a gain of USD 2.6 million.

6. Subsequent events

The Annual General Meeting was held on 27 April 2022. All resolutions were passed in accordance with the proposals set out in the notice

As of the date of this report, 68% of days in the second quarter of 2022 have been booked at an average est. dayrate of USD 17,500

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