EMF Tanker Market Outlook 2020

EMF Tanker Outlook

Market dynamics - Through, Recovery, Peak, Downturn

Through Low market 2009 – q4 2018	▪ Imbalance supply/demand ▪ Low liquidity ▪ Negative cash flow ▪ Even a dead cat bounces 2015-2016 ▪ Scrapping
Recovery EMF Entry Point 2018-2019	▪ Supply/demand returning to balance ▪ Doubt turns to optimism ▪ Increase in liquidity S&P ▪ Rates above cash B/E ▪ Less Scrapping ▪ Asset values priced 50-20% below 15 yr average
End of recovery Boom Q4 2019 – Q2 2020	▪ Spot rates surges and balances out on high levels ▪ TC rates moving towards 15yr average ▪ Ships Fixed on 3 yr T/C 3-4* above OPEX ▪ Still compellingly low orderbook ▪ Vessel values move towards 15yr average

Market dynamics - The good the bad and the ugly

Peak Market

2021-2024

- Rates consistently 2-10 times above Opex
- Traditional Banks takes shipping back to their debt portfolios
- High leverage
- IPO's
- Euphoria / irrational behavior
- Excessive newbuilding programs

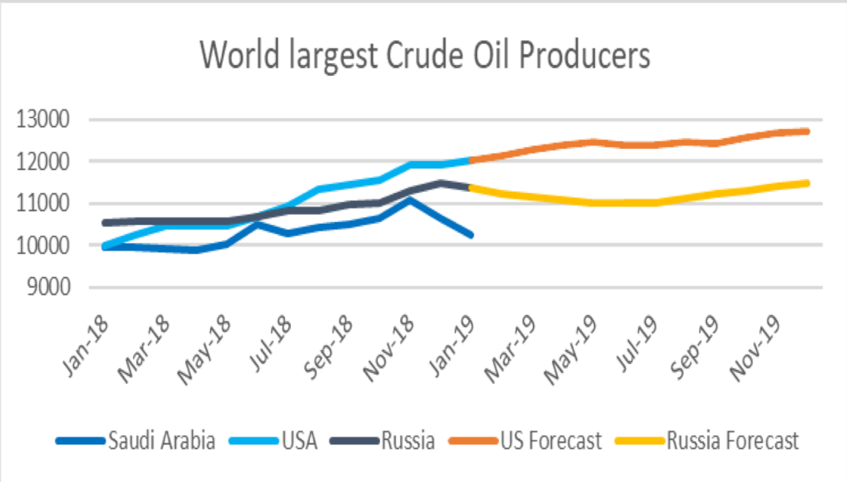
Downturn

2024-2026

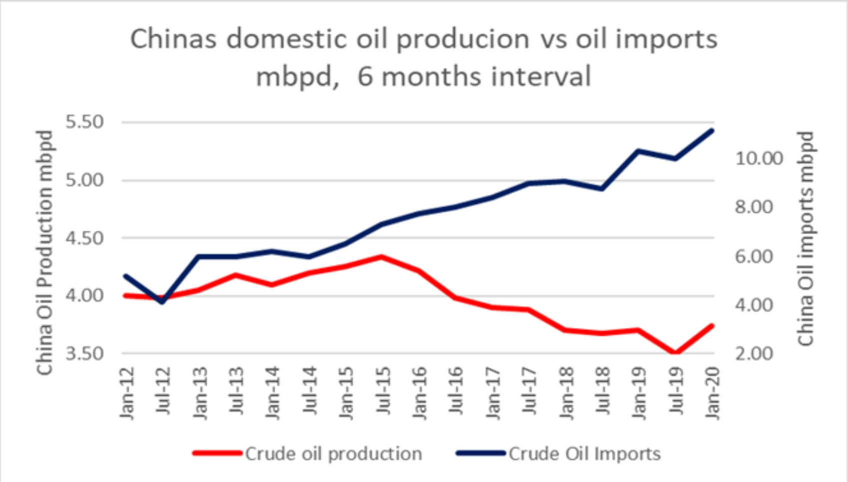
- Supply outperforms demand
- Economic shock / slower global economy / world trade
- Newbuilding delivered at sea
- Low S&P activity
- Rates and vessel Values decline
- Negative Sentiment

Increased imports in China and OPEC production cuts give opportunities

US claims the throne as No.1 oil producer



China depending on US oil?

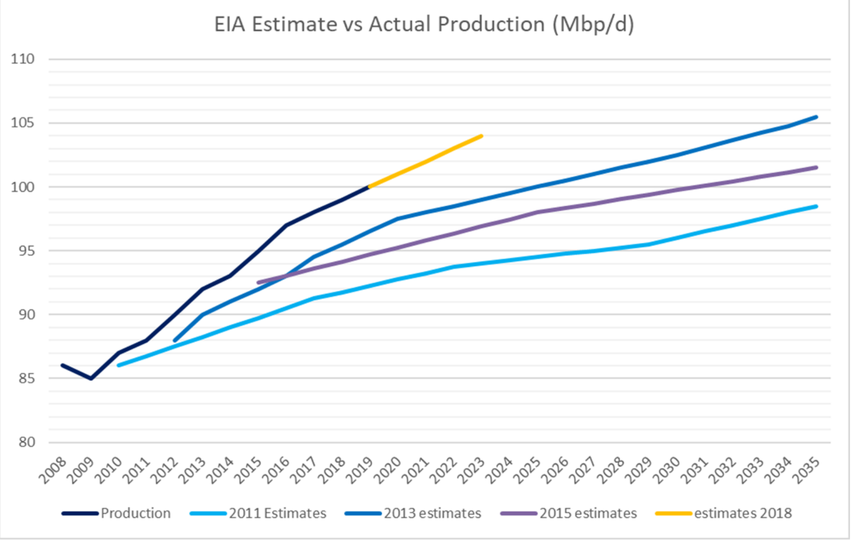


- OPEC (including Russia), with Saudi Arabia as the spearhead, made a production cut of 500kb/d at the OPEC meeting 7. dec. 2019
- Expected supply growth of approximately 2.6 mp/d from non-OPEC countries in 2020 (Norway, USA, Brasil, Africa)
- China are experiencing a decline in domestic oil production. At the same time their imports have and are continuing to increase(10% increase in 2019) significantly resulting in China to look for oil supply from overseas.
- 33% of Chinas domestic Oil production comes from two relatively old oil fields from the 60's, vulnerable for well pressure drops. Such incident will increase seaborne import levels.
- US sanctions isolating Iran and Venezuela from the open oil market. Tankers trading Iranian and Venezuelan oil risk being banned from the open tanker market, putting pressure on the trading fleet.

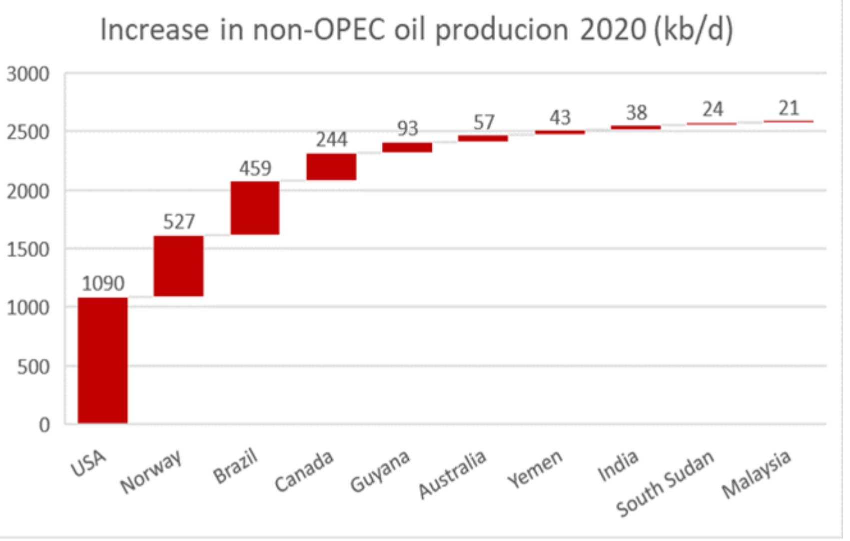
Sources: IEA, Argus

Oil Demand Outgrowing Estimates

Oil Demand vs Estimates



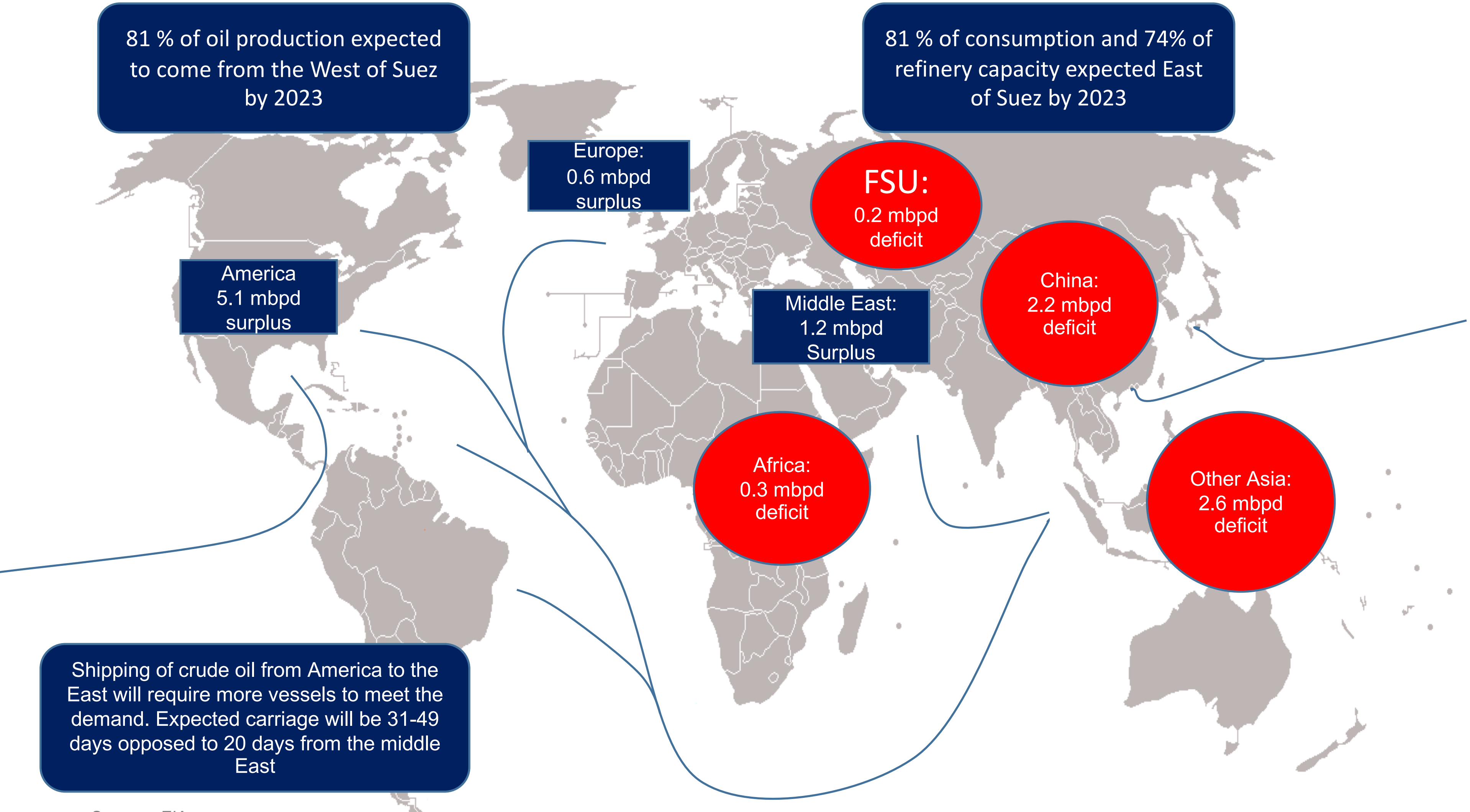
Oil Reserves



- Peak oil expected in timeframe 2027-2037
- Developing countries oil demand growing faster then expected
- China, India and Indonesia the big drivers in the consuming end
- North and South America in pole position as the main drivers on the supply side
- US crude exports are becoming more diverse, supporting ton-mile demand at a time where Middle East volumes are declining
- US crude production expected to grow 9.01% in 2020, and another 3% in 2021 according to EIA
- US crude seaborne exports to rise 25% in 2020
- American refineries adjusted to process heavy crude, light crude to be shipped east for refinement further supporting ton-mile demand
- OPEC (Saudi) are being forced to make further cuts in their oil production to keep the oil price on sufficient levels. However, Russia is becoming more reluctant to agree upon production cuts in order to protect their own market share.

Sources : IEA, Pira Energy Group

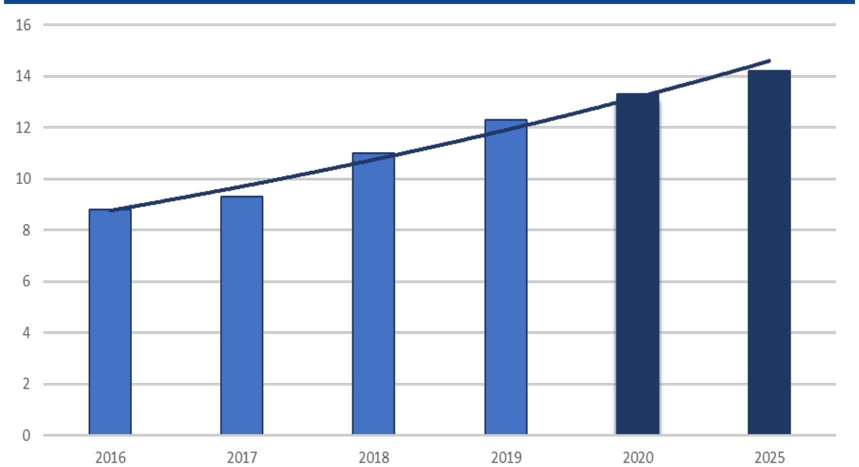
Expected shift in Oil production vs consumption by area in 2023



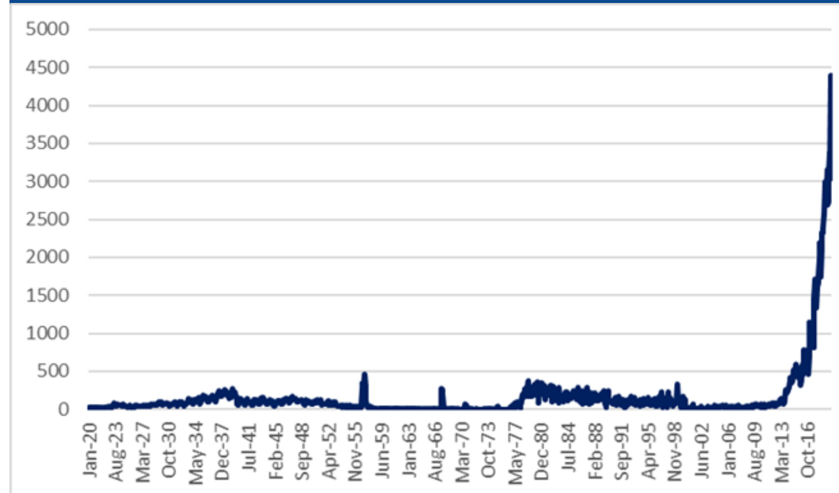
Sources: EIA

Long-Term Aframax Demand Drivers – US Exports

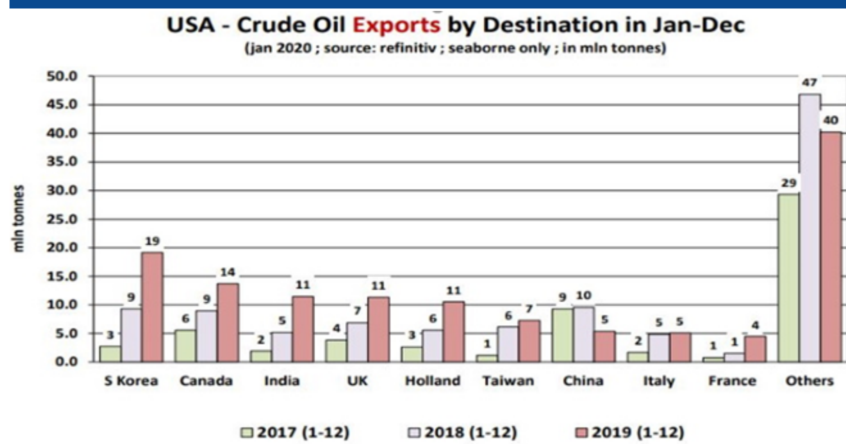
US Crude Production Forecast



US Crude Exports(1920-2019 in '000 barrels p/d)



US Crude Exports Destinations (2017)



- ❑ Aframax demand growth expected at 3,3% underpinned by further expansion in transatlantic crude trade and US imports of sour crude supporting growth in US imports
- ❑ Further growth has been supported in 2019 by OPEC cuts and a narrower WTI-Dubai spread
- ❑ Shuttle traffic of oil trade in and out of America supports Aframax due to its versatile design compelling to port size and restrictions in the Americas
- ❑ Lowest tanker orderbook since 1997 supporting a fundamentally strong market in years to come

Sources: EIA, PIRA Energy Group & Management analysis (May 2018)

EMF Tanker Market Outlook

Oil & Tanker Markets Dynamics

IMO2020

Aframax Financial Analysis

IMO2020 Overview

- **New environmental restrictions from 1 January 2020**
  - The IMO 2020 Sulphur cap has the primary goal of reducing Sulphur oxide emissions
  - Vessels operating outside designated emission control areas from 1 January 2020 will have to reduce their Sulphur content in fuel oil from 3.50% to below 0.50% mass by mass.
  - In order to fulfill the requirements for the regulation, shipowners can choose between sailing on low Sulphur fuel (compliant fuel) or installing exhaust gas cleaning systems, commonly known as ''scrubbers''.
- **Potential Impacts**
  - Approximately 80% of the total fleet will sail on the compliant fuel, who is expected to sell at a premium over the heavy fuel oil used by the majority of the vessels today.
  - This is causing ''slow steaming'', as the compliant fuel will add more costs for shipowners, causing the owners to slow down the speed of the vessels to reduce operating expenses.
  - The regulation could also increase the recycling activity for the scrapping candidates failing to meet the new requirements
  - Refineries to run on full throttle to cover the demand for the compliant fuel, while at the same time meeting the demand for non-marine fuels.
  - Scrubber retrofitting expected to absorb a significant percentage of fleet growth in 2020.
- **Scrubbers vs compliance fuel**
  - Installing scrubbers is an expensive affair, estimated to cost between 2-4 million dollars.
  - The lifetime of the scrubber systems are estimated to be between 5-8 years.
  - Additional fees from Ports, on the back of waste disposal from the sludge caused by the scrubbers.
  - Some countries such as China, Singapore, India and UAE have banned open loop scrubber systems (others expected to follow).
  - As the majority of the fleet will sail on the compliant fuel, the fuel cost increase is likely to be bumped onto the charterer.

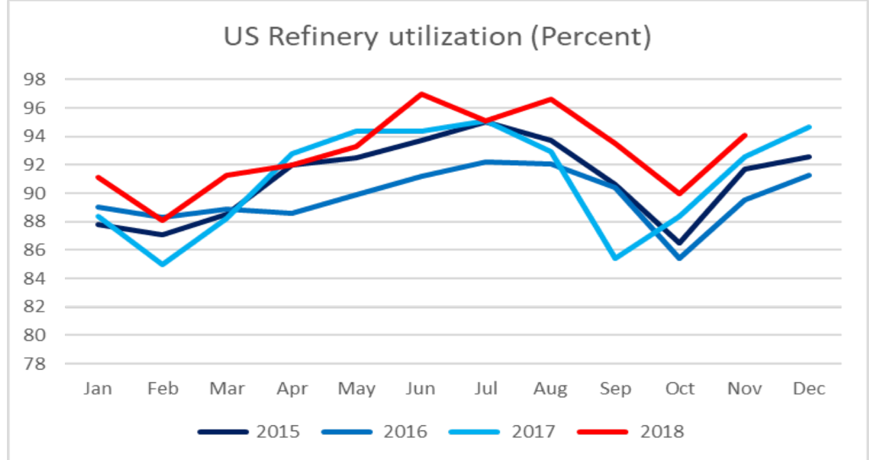
Source: Atlas Maritime & EMF (March 2019)

IMO2030 Expectations

CO2 emissons regulations on the horizon

- After the IMO2020 regulations on Sulphur was implemented, IMO and the industry are now looking ahead to deal with CO2 emissions.
- By 2030 the CO2 Emissions shall be reduced with 40% compared to 2008 levels and 70% by 2050.
- A new generation of vessels being developed resulting in ship owners becoming reluctant to order conventional vessels with new regulations in the horizon.
- This behavior are keeping the orderbook on record low levels despite high earnings in the market.
- As a result, older tonnage have become more attractive in the market seen by the fact that 5yr old Aframax have increased by 5% in value over the last 3 months while 10yr old have increased by 19% for the same period!
- Open loop Scrubbers banned in Singapore and several large ports in China. An IMO meeting in 2021 will decide if open loop will be banned globally.
- Refineries likely to adapt to the new environment after 1-2 years, thereby reducing the window to gain advantage from Scrubbers

US refineries expected to go full throttle in 2019



- Refineries are expected to operated on full throttle in order to meet the demand of compliance fuel for 2020
- We experienced the highest increase in activity for the refineries in 40 years during late 2019.

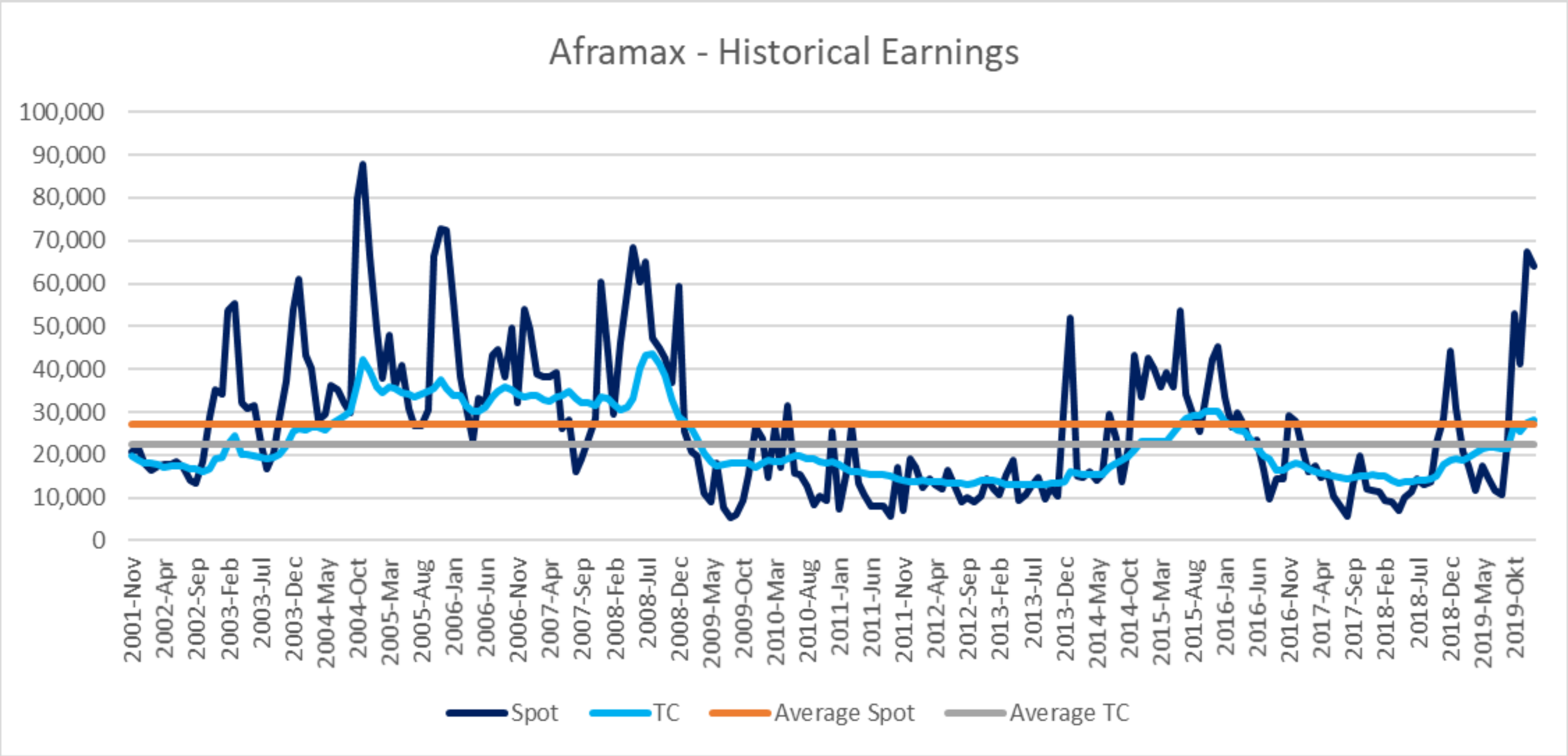
Sources: Atlas Maritime, EMF & EIA (March 2019)

EMF Tanker Market Outlook

- Oil & Tanker Markets Dynamics
- IMO2020
- **Aframax Financial Analysis**

Aframax – Historical Earnings

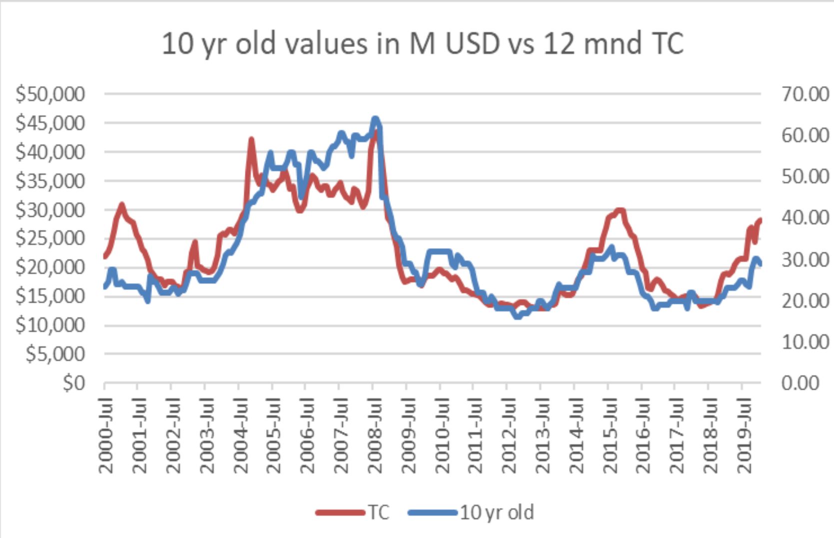
Freight market has a great potential to rally once supply side considerations fade away!

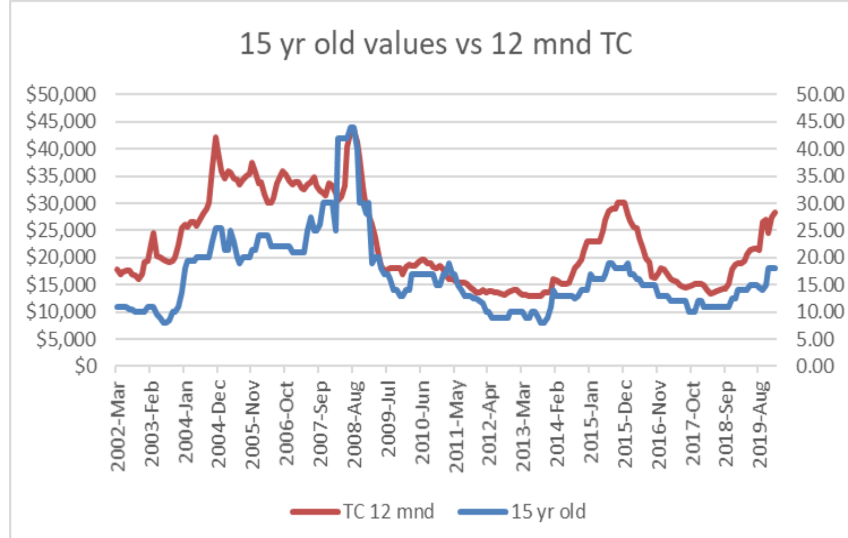


Source: Clarkson Research Services Ltd. (as of Feb. 2019)

Vessel values corelated with 12-month contracts

Highly correlation between 10yr Afra and 1yr TC	Lower correlation due to single hull restrictions?



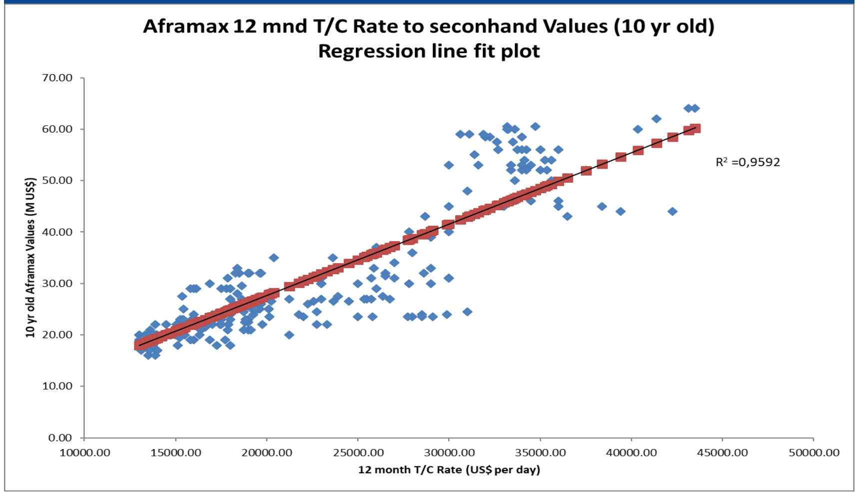


- 12-month TC drives ship values
- 15 yr old prices influenced by single hull vessels
- Appreciation in ship values on the horizon

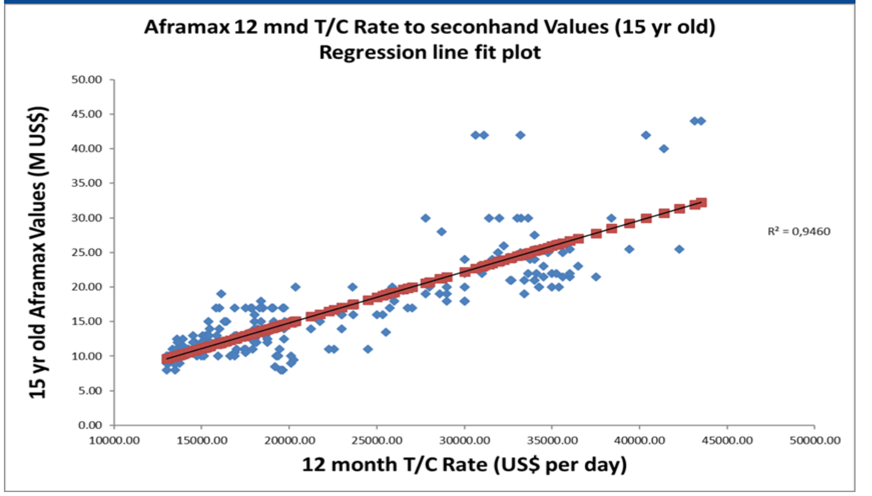
Sources: EMF

A deeper look into the relation between values and 12-month T/C

Correlation 10yr Aframax – 1 yr TC



Correlation 15yr Aframax – 1 yr TC

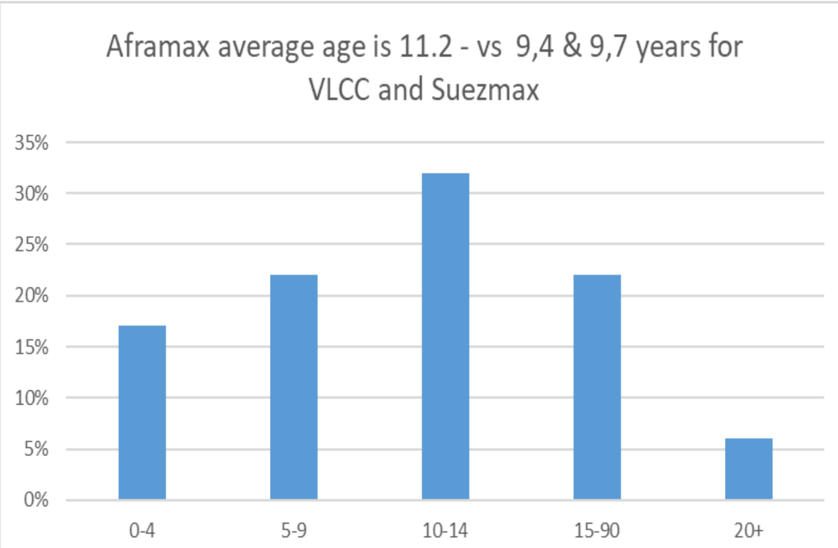


- Vessel values in the lower reign -> provide attractive entry point. (High level of correlation)
- 10yr old trading at USD 29.5 M, approximately 4-6 M below values a $28.500 Time charter
- 15yr old trading at USD 16.0 M, approximately 2-4 million below values a $27.500 Time charter
- Time charter would suggest a clear shift in the behavior of market participants around 12 month TC at = $33.000
- IMO2020 and Iran sanctions resulting in an even bigger boom for the tanker market.

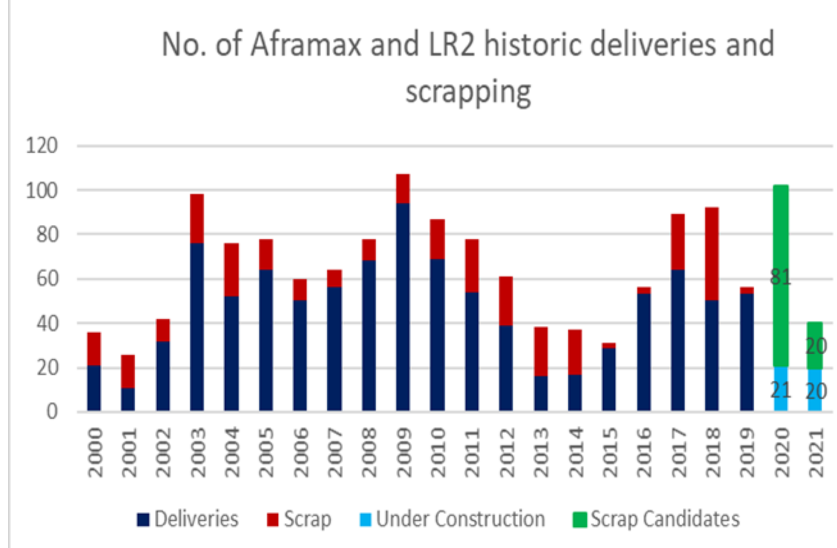
Sources: EMF

Aframax – Strong Fundamentals

Aframax Age Profile (6% older than 20 yrs)



Favorable Delivery/scrap relation!



- **Average delivery of 4.2% of fleet p.a excluding scrapping and demand growth – <u>Expected scrapping in 2020 will compensate all deliveries!</u>**
- **Tanker orderbook at its lowest level since 1997.**
- **The Aframax fleet considered an aging fleet, as 81 vessels are scrapping candidates and 21 newbuilding's are expected to enter the market.**
- **The expected demand growth is about 3% p.a for the period 2019-2022**
- **Scrapping activity was record high in 2017 and 2018 showed even higher scrapping levels!**
- **U.S. crude export «boom» primarily benefitting Afras due to parcel size/port restrictions**

Source: Arctic Research, Clarkson and Management Analysis (Feb 2019)

Risk Factors

Any shipping project carries with it certain elements of risk. If you do not understand the underlying risk of this project, we strongly recommend you not to invest in this project. Below is a list of the most important risk elements tied to this project, which we recommend anyone who evaluates a possible investment in this project to read carefully. The order in which the individual risks are presented below is not intended to provide an indication of the likelihood of their occurrence nor of the severity or significance of individual risks. In addition to the following risks, other risks of which the Company is currently unaware, or which it does not currently consider to be material, may materialize and have adverse effects on the Company's business, prospects, financial condition or results of operations. If any of these risks materializes, the price of the Shares may decline, and investors could lose all or part of their invested capital. We refer to the Investment Memorandum for a full explanation of the risks associated with this project.

CURRENCY RISK – The company's income and OPEX will be in another currency than DKR or NOK as the vessel will trade outside of Denmark / Norway. When the vessel is under charter, a potential discrepancy between the currency denomination for income and OPEX could therefore affect the company's earnings, and hence its book value and value adjusted equity in DKR / NOK. Investors can reduce this risk by using different foreign exchange instruments.

INTEREST RATE RISK – Any changes in the underlying interest rate would affect the returns on the project directly. Indirectly, the interest rate levels can also affect the value of the vessel at point of sale. It has not been decided if the company will fix the interest rate on the company's loan obligations when applicable. The issue will be addressed by the board.

MARKET RISK AND RESIDUAL VALUE – The company operates in a competitive environment together with a number of other players. The demand for, and the pricing of the company's services and assets before and after delivery are outside of the company's control. On the supply side there are uncertainties tied to ordering of new vessels and scope of future scrapping. The actual earnings estimated in the presentation might be lower than in our estimates. Also, the residual value of the vessel might be lower than in our estimates.

ECONOMIC LIFE, TECHNICAL RISK AND REDELIVERY – The possibility for rational operation greatly influences the vessel's economic life, which depends on the running maintenance of the vessel. Technical risk will always be present, especially in this project as the vessel is not on a bareboat but will be chartered in the spot/timecharter market.

SECONDARY MARKET – There is no secondary market for the shares of EMF products. Shares can be transferred in private transactions subject to the shareholders agreement.

TAX RISK – Changes in laws and regulations in regards to taxation and other charges can lead to different conditions for investors, including reduced profitability in the project.

FINANCIAL RISK – Fluctuations in the interest rate may impact the returns of the investments. The bank will impose covenants on the company, and may impose certain penalties if these are not met, such as an extraordinary repayment of the loan if the company is in breach.

POLLUTION – As vessels, either through bunkers or cargo, carry pollutants, there will always be certain risks involved in the ownership of commercial shipping vessels.

LEGISLATIVE CHANGES – Over the past 20 years, the shipping industry has faced various legislative changes affecting the industry. There is a possibility that new legislative changes will be proposed and ratified which could affect amongst other issues the economic lives of any vessels and their earnings potential.

EXECUTION RISK – There is always a possibility that the described transaction might not conclude due to various execution risks related to, but not limited to, documentation, inspection of the vessel and/or class records and due diligence. Thus there might be some external and third party costs that are not refundable.

POLITICAL RISK – The vessel will operate world-wide, and may be exposed to political risk, risk of piracy, corruption etc.

AIFM RISK – The Alternative Investment Fund Managers Directive is recent, and there are still some unresolved/unclear issues. It is not yet implemented in Denmark or Norway. We have deemed the Company to fall outside of the scope of the AIFMD due to its industrial purpose, i.e. because the Company shall generate returns through its vessel's operations in the freight market and not necessarily by divesting the vessel. This interpretation has been viewed and agreed by the Danish FSA.