

# 2020 BULKERS

## 2020 BULKERS LTD

### STATUS REPORT

**January 11, 2019**, Hamilton, Bermuda.

2020 Bulkiers Ltd (N-OTC: 2020) (“2020 Bulkiers” or the “Company”), today announced its unaudited financial and operating results for 2018.

#### **2018 Financial Highlights**

- The Company reported an operating loss of USD 685 thousand for 2018.

#### **Key information as of January 11, 2018**

- Number of outstanding shares: 14,070,906.
- Yard installments paid to date: USD 67.6 million.
- Remaining Yard installments: USD 305.9 million.

#### **Key events during 2018**

- On January 26, 2018, the Company declared the option for construction of four Newcastlemax dry bulk vessels at New Times Shipyard in China, taking the total newbuilding program to eight vessels.
- During 2018, the Company has raised new equity through private placements with total proceeds of USD 54.2 million
- On April 25, 2018, the Company exercised its option with New Times Shipyard to have all its eight newbuildings delivered with scrubbers.
- In July 2018, the Company entered into a three-year, index linked, time charter with a multinational conglomerate. The index linked charter reflects a significant premium to the Baltic 5TC index and also includes a profit sharing mechanism for fuel cost savings generated by the scrubber.
- Magnus Halvorsen assumed the role as Executive Chairman on September 1, 2018.
- Olav Eikrem was appointed as Chief Technical Officer of 2020 Bulkiers Management AS as of September 1, 2018

- At the Company's Annual General meeting held on November 13, 2018, Jeremy Kramer was appointed to the Board of Directors. Mr. Kramer replaced Mr. John DellaNoce who did not stand for re-election.

### **Recent Events**

- Magnus Halvorsen was appointed Chief Executive Officer of 2020 Bulkers Management AS as of January 1, 2019. On January 10, 2019 Mr Halvorsen resigned as a Director of the Company.
- Vidar Hasund was appointed Chief Financial Officer of 2020 Bulkers Management AS on January 1, 2019
- On January 11, 2019, the Company signed a term-sheet for long term bank financing in the amount of USD 240 million for the post-delivery financing of its newbuilding program.
- On January 10, 2019, Magnus Halvorsen resigned as a Director of the Company and Mrs Kate Blankenship and Ms. Georgina Sousa were appointed as Directors of the Company.
- On January 10, 2019 the Board resolved that the company shall list on a recognized stock exchange

**2020 Bulkers Ltd****Unaudited Consolidated Statements of Operations for the year ended December 31, 2018 and the period from September 26, 2017 (date of incorporation) to December 31, 2017***(in thousands of \$, except per share data)*

	2018	2017
<b>Operating expenses</b>		
Administrative expenses	(649.7)	(106.3)
<b>Total operating expenses</b>	<b>(649.7)</b>	<b>(106.3)</b>
<b>Net operating loss</b>	<b>(649.7)</b>	<b>(106.3)</b>
<b>Other income (expenses)</b>		
Other financial items	(31.7)	1.8
<b>Net other (expenses) income</b>	<b>(31.7)</b>	<b>1.8</b>
<b>Net (loss) income before income taxes</b>	<b>(681.4)</b>	<b>(104.6)</b>
Income tax expense (credit)	3.4	—
<b>Net loss</b>	<b>(684.8)</b>	<b>(104.6)</b>

**Consolidated Statements of Other Comprehensive Loss for the year ended December 31, 2018 and the period from September 26, 2017 (date of incorporation) to December 31, 2017***(in thousands of \$, except per share data)*

	2018	2017
<b>Comprehensive income (loss), net</b>		
Net (loss) income	(684.8)	(104.6)
<b>Other comprehensive income</b>	<b>—</b>	<b>—</b>
<b>Comprehensive income (loss), net</b>	<b>(684.8)</b>	<b>(104.6)</b>

**2020 Bulkers Ltd****Unaudited Consolidated Balance Sheets as of December 31, 2018 and 2017***(in thousands of \$)*

	2018	2017
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	282.9	6,148.0
Other receivables	186.4	10.1
<b>Total current assets</b>	<b>469.3</b>	<b>6,158.1</b>
Newbuildings	68,318.8	8,849.4
<b>Total assets</b>	<b>68,788.1</b>	<b>15,007.5</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Trade accounts payables	69.3	58.6
Accrued expenses	313.6	—
Other current liabilities	21.0	50.0
<b>Total current liabilities</b>	<b>403.9</b>	<b>108.6</b>
<b>Total liabilities</b>	<b>403.9</b>	<b>108.6</b>
<b>Commitments and contingencies</b>		
<b>Equity</b>		
Share capital (14,070,906 shares. 2017: 6,151,000 shares. All shares are issued and outstanding at par value \$1.00)	14,070.9	6,151.0
Additional paid in capital	55,102.6	8,852.5
Accumulated other comprehensive income	—	—
Retained deficit	(789.3)	(104.6)
<b>Total equity</b>	<b>68,384.2</b>	<b>14,898.9</b>
<b>Total liabilities and equity</b>	<b>68,788.1</b>	<b>15,007.5</b>

**2020 Bulkers Ltd****Unaudited Consolidated Statements of Cash Flows for the year ended December 31, 2018 and the period from September 26, 2017 (date of incorporation) to December 31, 2017***(in thousands of \$)*

	2018	2017
<b>Net loss</b>	<b>(684.8)</b>	<b>(104.6)</b>
Adjustments to reconcile net loss to net cash used in operating activities:		
<i>Changes in operating assets and liabilities:</i>		
Other receivables	(176.3)	(10.1)
Trade accounts payables	10.7	—
Accrued expenses	283.7	—
Other current liabilities	(29.0)	108.6
<b>Net cash used in operating activities</b>	<b>(595.7)</b>	<b>(6.1)</b>
<b>Investing activities</b>		
Additions to newbuildings	(59,469.4)	(8,849.4)
<b>Net cash used in by investing activities</b>	<b>(59,469.4)</b>	<b>(8,849.4)</b>
<b>Financing activities</b>		
Net proceeds from share issuance	54,200	15,003.5
<b>Net cash provided by (financing activities)</b>	<b>54,200</b>	<b>15,003.5</b>
<b>Net change in cash and cash equivalents</b>	<b>(5,865.1)</b>	<b>6,148.0</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>6,148.0</b>	<b>—</b>
<b>Cash and cash equivalents at end of year</b>	<b>282.9</b>	<b>6,148.0</b>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid, net of capitalized interest	—	—
Income taxes paid	—	—

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**2020 Bulkera Ltd****Unaudited Consolidated Statements of Changes in Equity for the year ended December 31, 2018 and the period from September 26, 2017 (date of incorporation) to December 31, 2017***(in thousands of \$, except number of shares)*

	2018	2017
<b>Number of shares outstanding</b>		
Balance at beginning of year/period	6,151,000	—
Shares issued	7,919,906	6,151,000
Balance at end of year/period	<u>14,070,906</u>	<u>6,151,000</u>
<b>Share capital</b>		
Balance at beginning of year/period	6,151.0	
Shares issued	7,919.9	6,151.0
Balance at end of year/period	<u>14,070.9</u>	<u>6,151.0</u>
<b>Additional paid in capital</b>		
Balance at beginning of year/period	8,852.5	—
Shares issued	46,250.1	8,852.5
Balance at end of year/period	<u>55,102.6</u>	<u>8,852.5</u>
<b>Other comprehensive income</b>		
Balance at beginning of year/period	—	—
Other comprehensive income, net	—	—
Balance at end of year/period	<u>—</u>	<u>—</u>
<b>Retained deficit</b>		
Balance at beginning of year/period	(104.6)	—
Net loss	(684.8)	—
Balance at end of year/period	<u>(789.3)</u>	<u>(104.6)</u>
<b>Total equity</b>	<u>68,384.2</u>	<u>14,898.9</u>

## **About 2020 Bulkers Limited**

2020 Bulkers Limited is a limited liability company incorporated in Bermuda on 26 September 2017. The Company's shares are traded on the Norwegian OTC list under the ticker "2020".

2020 Bulkers is an international owner and operator of large drybulk vessels. The Company currently has eight Newcastlemax drybulk vessels (the "Vessels") under construction at New Times Shipyard in China (the "Yard"). The Vessels are expected to be delivered from the Yard between September 2019 and May 2020.

## **Board discussion and analysis**

The Board is pleased with the timing of the ordering of its eight Vessels. The historic low entry cost combined with a low administration cost and attractive debt financing gives a strong foundation for paying dividends to shareholders when the vessels start operating in the second half of this year.

On January 11, 2019, the Company signed a term-sheet for USD 240 million of bank financing for its newbuilding program. The facility carries an interest of Libor+250 bps, has an 18-year repayment profile for the principle amount and a balloon repayment after five years. Longer term, the Company may consider other capital structures, including an all-equity financing structure, thereby giving additional flexibility with respect to dividend distributions. The Board has also resolved that the Company should list on a recognized stock exchange during 2019 and have started the preparation for this.

In July 2018, the Company entered into a three-year charter party with a multinational conglomerate. The charter is based on a premium to the Baltic 5TC Index. The terms illustrate the additional value of the cargo carrying capacity, as well as the favorable fuel economics of a modern Newcastlemax, versus a standard Capesize vessel. In addition, the charter includes a profit sharing mechanism for the economic benefit derived from the Vessel being scrubber-fitted and able to operate on heavy fuel oil after the IMO low sulphur regulations take effect on 1 January 2020.

The objective for 2020 Bulkers is to maximize shareholder returns from its eight Newcastlemax vessels. The Group will continue to charter the vessels to strong counterparties with a target to optimize the trading results from their operation without building a large overhead structure. The Company will target to return the maximum capital to the shareholders in the form of a high dividend yield payout. The Company will have an opportunistic approach to growth and M&A, however it intends to be disciplined in its investment strategy and has no current plans to continue to build the fleet as vessel prices and risk increases through the up-cycle.

## **Newbuilding program**

The Company has during 2018 exercised its option to have all the Vessels delivered with open loop scrubbers from Alfa Laval.

Steel cutting for the first ship in the series took place in July 2018, and the estimated delivery schedule for the Vessels are in line with the contractual delivery dates.

## **Newbuilding financing**

The Company has so far paid in a total of USD 67.6 million in Yard installments. The Yard payments are secured by refund guarantees from leading Chinese finance institutions.

## **Fleet overview**

<b>Name</b>	<b>DWT</b>	<b>Delivery</b>
TBN Bulk Sandefjord	208 000	September 2019
TBN Bulk Santiago	208 000	October 2019
TBN Bulk Seoul	208 000	December 2019
TBN Bulk Shanghai	208 000	January 2020
TBN Bulk Shenzhen	208 000	February 2020
TBN Bulk Sydney	208 000	March 2020
TBN Bulk Sao Paulo	208 000	April 2020
TBN Bulk Santos	208 000	May 2020

## **Commercial strategy**

The counterparty in the initial timecharter has expressed interest to expand this deal to multiple vessels. In addition the Company has had several enquiries from high quality charterers interested in securing the Company's newbuildings on long-term time charters post-delivery. The proposed structures include fixed rate charters, index linked charters, as well as contracts of affreightment.

The favorable fuel consumption characteristics of the Vessels, as well as the fact that all the newbuildings will be delivered with scrubbers seems to be a significant driver behind the charterers' interest. The newbuildings are expected to consume 33 tons of heavy fuel oil (HFO) per day, at a sailing speed of 12.5 knots average for ballast and laden legs, including the use of auxiliary engines. The Baltic Index currently describes a Baltic Capesize Index vessel as burning 43 tons of HFO per day at 12 knots laden / 13 knots ballast.

## **Corporate structure**

2020 Bulkers has been set up with a low-cost structure in order to maximize shareholder values. The Company has built a lean and efficient organization to manage its activities.

On January 1, 2019 Mr. Halvorsen was appointed as CEO of 2020 Bulkers Management AS with the responsibility for the day to day management and operations. In addition to his role in the Company, Mr Halvorsen will remain an affiliate of Magni Partners. Halvorsen has a very strong financial background from the maritime industries, including his past position as Head of Capital Markets for the world's largest ship brokerage firm, Clarksons Platou.

Also on January 1, 2019 Mr. Vidar Hasund was appointed as CFO of 2020 Bulkers Management AS.

On September 1, 2018, Olav Eikrem assumed the position as Chief Technical Officer. Mr. Eikrem brings with him 30 years of experience from the shipping industry, including having served as Technical Director in the Fredriksen group since 2003, as well as having worked for Thome, JO Tankers and Odfjell earlier in his career. His vast experience in selecting and overseeing third party managers brings valuable additional experience to the Company.

The Company has engaged Seaquest Marine to assist with technical negotiations with the Yard, plan approval and building supervision of the Vessels. Seaquest has a long track record in supervising newbuilding projects, having worked on more than 300 newbuilding projects over the last ten years. Seaquest's experience, combined with the addition of Mr. Eikrem as Chief Technical Officer, makes the Board confident that the Company's newbuilding program will be supervised and managed to a high standard. Mr. Eikrem is currently also running a process of evaluating and selecting third party technical managers for the fleet.

## **Newbuilding and secondhand prices**

Newbuilding prices have shown a positive development since 2020 Bulkers placed its initial orders. Based on recently obtained broker valuations, the value of the Company's newbuildings are approximately 20 per cent higher than the price at which 2020 Bulkers ordered its Vessels. Relevant shipyards currently do not have meaningful new capacity for the construction of Newcastlemax vessels available until 2021.

## **Market commentary**

The drybulk market is continuing its gradual recovery from multi year lows. The Baltic 5TC index averaged USD 16,500 per day in 2018, compared to USD 15,100 per day in 2018.

During 2018, Chinese import of iron ore, the most important commodity for Newcastlemax vessels, is believed to have experienced a slight drop. However; on a global scale, iron ore trade seems to have been unchanged as several countries have imported higher volumes as compared with the same period last year. It is the Company's view that the contraction in Chinese imports was largely due to inventory drawdowns, as well as increased use of scrap

steel in steel production. Use of scrap steel in Basic Oxygen Furnaces, representing 90% of Chinese steel production is believed to have reached around 25% towards the end of 2018. According to analysts the maximum amount of scrap steel that can be used in Basic Oxygen Furnaces is around 25%, hence the increased use of scrap steel is not expected to have a similar negative effect on imports going forward.

With regards to the underlying demand for iron ore, Chinese steel production grew 8,7% year over year for the ten-month period ending 31 October 2018. China's significant infrastructure spending programs, such as the One Belt One Road, initiative is expected to drive steel demand in the years to come.

Both in the short and medium term, the Company expects to see a favorable development in ton-mile demand as China will likely be a major buyer of new high-grade iron ore production coming online in Brazil.

### **Drybulk fleet development**

The global drybulk fleet stands at 841.2 mill dwt as of 10. January 2019.

The current orderbook for drybulk vessels currently stands at 10.5% of the existing fleet, down from 10.8% in January 2018. Around 47% of the orderbook consists of more than 3 years ago. A great portion of these are Tier 2 ships, whereof the company does not expect all ships to be delivered.

A total of 30.9 mill dwt was ordered during 2018, compared to 41.0 mill dwt in 2017.

A total of USD 4.0 mill dwt was scrapped in 2018, compared to 14.7 mill dwt in 2017.

16.7% of the existing drybulk fleet is currently comprised of more than 15 year old vessels, that are generally less fuel efficient. Accelerated scrapping can be expected again post 2020, as the new IMO low-sulphur regulations take effect, requiring ships that are not scrubber-fitted or running on LNG to burn more expensive low-sulphur fuel.

### **Outlook**

2020 Bulkera was established in September 2017 as an asset play, taking advantage of the historically low newbuilding prices, as well as the attractive yard terms available at the time.

The Board wants to thank our CEO Magnus Halvorsen for the excellent job he has done so far in establishing the Company and negotiating favorable contracts and commercial agreements. Halvorsen who also is a significant shareholder has very much been a hands on Director and CEO with strong focus on building a professional and efficient operational structure in order to keep cost low and thereby maximize the return to shareholders.

Since the newbuilding orders were placed, similar Newcastlemax vessels have been fixed on index linked time charters at premiums of more than 30% to the Baltic 5TC Index. 2020 Bulkera should expect to earn a further premium versus a Baltic Index type Capesize as the scrubbers

will enable the Vessels to run on HFO post the IMO low sulphur regulations being implemented in 2020.

During 2019 and 2020 the company expects that the existing drybulk fleet will experience some down time related to the instalment of scrubbers, ballast water treatment systems and/or tank cleanings in order to comply with the 2020 IMO low sulphur regulations. Taking these factors into account, the company expects that the effective net fleet growth for the Capesize and larger drybulk vessels could end up in the area of 1% per annum on average for 2019 and 2020. As the historical growth in ton mile trade for iron ore has been around 4,5% per annum over the last 20 years, the supply / demand situation looks interesting.

The earnings achieved by comparable vessels, combined with 2020 Bulkercs' historically low entry point creates a very strong foundation for a Company with an attractive dividend yield. Based on a 30 % premium to 20-year average Capesize rates and a 50% share of the expected savings generated from the scrubbers (based on the prevailing spread between HFO and LSFO for 2020), the Company could generate free cash flow, after debt repayments, of approximately USD 75 million. The relationship between risk and reward and the outlook for an attractive long-term cash yield on the investment has led the Board to exercise all six options and to plan for delivery of the eight Vessels. The recruitment of the very well respected Chief Technical Officer, Olav Eikrem, who has substantial experience from newbuilding projects, as well as inhouse and third-party management, further strengthens the Company's operational focus.

Although the strategy of the Company has evolved into becoming long term owners and operators of the Vessels, the Board currently does not currently have a strategy of continuing to invest through the up-cycle. 2020 Bulkercs intends to keep a strict discipline when it comes to new investments. The focus will be on maximizing the return of equity to the existing shareholders, not necessarily to build a large shipping company. The Company has in total USD 305.9 million left to be paid in newbuilding installments. With long term bank financing now in place for USD 240 million of these installments at delivery, the Company is aiming to secure the remaining equity required to fully finance the current newbuilding program in the relatively near future.

In summary, the Board of 2020 Bulkercs is of the belief that the success of a public dry shipping company is primarily driven by five factors:

1. Buying or ordering the right modern assets at the right time in the cycle
2. A solid, transparent and cost-efficient operation
3. A good financial structure with a relative low cash break even rate
4. Liquidity in the trading of the shares
5. Strict investment discipline

With the plan to have 2020 Bulkercs listed on a recognized stock exchange during 2019, the Company should be well positioned to meet these criteria.

The Board is pleased with the Company's positioning and the prospects of generating a solid return to its shareholders.

## DISCLAIMER:

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