



# AVANCE GAS HOLDING LTD

UNAUDITED CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS

For the three months and year ended December 31, 2016

AVANCE GAS HOLDING LTD

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AVANCE GAS HOLDING LTD  
CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT  
(UNAUDITED)

	For the three months ended		For the year ended	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
	(in thousands except earnings per share)			
<b>Operating revenue</b>	\$ 27,797	\$ 84,123	\$ 143,915	\$ 310,873
Voyage expenses	(15,664)	(13,030)	(51,176)	(46,218)
Operating expenses	(9,900)	(9,579)	(39,785)	(29,139)
Administrative and general expenses	(1,082)	(2,118)	(6,472)	(7,843)
<b>Operating profit before depreciation expense</b>	<b>1,151</b>	<b>59,396</b>	<b>46,482</b>	<b>227,673</b>
Depreciation and amortization expenses	(10,030)	(9,732)	(41,597)	(31,483)
Impairment of goodwill (note 5)	—	—	(1,886)	—
Impairment of vessels (note 5)	—	—	(51,426)	—
<b>Operating (loss) profit</b>	<b>(8,879)</b>	<b>49,664</b>	<b>(48,427)</b>	<b>196,190</b>
<b>Non-operating (expenses) income:</b>				
Finance expense	(5,085)	(4,430)	(19,633)	(12,932)
Finance income	68	100	71	131
Foreign currency exchange loss	(3)	(193)	(51)	(220)
<b>(Loss) profit before income tax expense</b>	<b>(13,899)</b>	<b>45,141</b>	<b>(68,040)</b>	<b>183,169</b>
Income tax expense	(117)	(1)	(117)	(8)
<b>Net (loss) profit</b>	<b>\$ (14,016)</b>	<b>\$ 45,140</b>	<b>\$ (68,157)</b>	<b>\$ 183,161</b>
<b>(Loss) earnings per share:</b>				
Basic	\$ (0.26)	\$ 1.31	\$ (1.74)	\$ 5.33
Diluted	\$ (0.26)	\$ 1.31	\$ (1.74)	\$ 5.31

See accompanying notes that are an integral part of these condensed consolidated interim financial statements.

AVANCE GAS HOLDING LTD  
CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME (LOSS)  
(UNAUDITED)

	For the three months ended		For the year ended	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
	(in thousands)			
Net (loss) profit	\$ (14,016)	\$ 45,140	\$ (68,157)	\$ 183,161
<b>Other comprehensive income (loss):</b>				
<i>Items that may be reclassified subsequently to profit and loss:</i>				
Fair value adjustment of interest rate swaps	15,592	2,595	(1,358)	(7,573)
Exchange differences arising on translation of foreign operations	<u>(17)</u>	<u>128</u>	<u>118</u>	<u>139</u>
Other comprehensive income (loss)	<u>15,575</u>	<u>2,723</u>	<u>(1,240)</u>	<u>(7,434)</u>
<b>Total comprehensive income (loss)</b>	<b><u>\$ 1,559</u></b>	<b><u>\$ 47,863</u></b>	<b><u>\$ (69,397)</u></b>	<b><u>\$ 175,727</u></b>

See accompanying notes that are an integral part of these condensed consolidated interim financial statements.

AVANCE GAS HOLDING LTD  
CONDENSED CONSOLIDATED INTERIM BALANCE SHEET  
(UNAUDITED)

	As of	
	December 31, 2016	December 31, 2015
	(in thousands)	
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 149,062	\$ 70,033
Receivables	13,705	71,238
Related party receivables	36	27
Inventory	4,940	4,895
Prepaid expenses	724	2,635
Other current assets	3,193	1,962
<b>Total current assets</b>	<b>171,660</b>	<b>150,790</b>
Property, plant and equipment (Note 5)	860,785	965,742
Goodwill and intangible assets (Note 5)	263	2,262
<b>Total non-current assets</b>	<b>861,048</b>	<b>968,004</b>
<b>Total assets</b>	<b>\$ 1,032,708</b>	<b>\$ 1,118,794</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Current portion of long-term debt (Note 6)	\$ 20,598	\$ 42,931
Revolving credit facility (Note 6)	—	50,000
Accounts payable	2,676	1,003
Related party payable balances	64	58
Accrued voyage expenses	4,862	6,723
Accrued expenses	204	886
Current portion of derivative financial instruments	2,271	—
Other current liabilities	1,213	1,243
<b>Total current liabilities</b>	<b>31,888</b>	<b>102,844</b>
Long-term debt (Note 6)	387,201	508,432
Long-term revolving credit facilities (Note 6)	150,000	—
Long-term derivative financial instruments	6,660	7,573
<b>Total non-current liabilities</b>	<b>543,861</b>	<b>516,005</b>
<b>Shareholders' equity</b>		
Share capital	64,528	35,278
Paid-in capital	379,851	350,359
Contributed capital	94,886	94,531
Retained (loss) earnings	(61,566)	39,277
Treasury shares	(11,867)	(11,867)
Accumulated other comprehensive loss (Note 9)	(8,873)	(7,633)
<b>Total shareholders' equity</b>	<b>456,959</b>	<b>499,945</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,032,708</b>	<b>\$ 1,118,794</b>

See accompanying notes that are an integral part of these condensed consolidated interim financial statements.

AVANCE GAS HOLDING LTD  
CONDENSED CONSOLIDATED INTERIM STATEMENT OF SHAREHOLDERS' EQUITY  
(UNAUDITED)

	Share capital	Paid-in capital	Contributed capital	Retained (loss) earnings	Accumulated other comprehensive loss	Treasury shares	Total
	(in thousands)						
<b>Balance December 31, 2014</b>	\$ 35,278	\$ 350,359	\$ 94,673	\$ 28,392	\$ (199)	\$ —	\$ 508,503
<b>Comprehensive income (loss):</b>							
Net profit	—	—	—	183,161	—	—	183,161
<i>Other comprehensive income (loss):</i>							
Fair value adjustments of interest rate swaps	—	—	—	—	(7,573)	—	(7,573)
Translation adjustments, net	—	—	—	—	139	—	139
Total other comprehensive loss	—	—	—	—	(7,434)	—	(7,434)
<b>Total comprehensive income (loss)</b>	—	—	—	183,161	(7,434)	—	175,727
<b>Transactions with shareholders:</b>							
Dividends	—	—	—	(172,276)	—	—	(172,276)
Compensation expense for share options	—	—	334	—	—	—	334
Exercise of share options	—	—	(476)	—	—	890	414
Purchase of treasury shares	—	—	—	—	—	(12,757)	(12,757)
<b>Total transactions with shareholders</b>	—	—	(142)	(172,276)	—	(11,867)	(184,285)
<b>Balance December 31, 2015</b>	\$ 35,278	\$ 350,359	\$ 94,531	\$ 39,277	\$ (7,633)	\$ (11,867)	\$ 499,945
<b>Comprehensive loss (income):</b>							
Net loss	—	—	—	(68,157)	—	—	(68,157)
<i>Other comprehensive loss:</i>							
Fair value adjustment of interest rate swaps	—	—	—	—	(1,358)	—	(1,358)
Translation adjustments, net	—	—	—	—	118	—	118
Total other comprehensive loss	—	—	—	—	(1,240)	—	(1,240)
<b>Total comprehensive loss</b>	—	—	—	(68,157)	(1,240)	—	(69,397)
<b>Transactions with shareholders:</b>							
Issuance of common shares	29,250	29,492	—	—	—	—	58,742
Dividends	—	—	—	(32,686)	—	—	(32,686)
Compensation expense for share options	—	—	355	—	—	—	355
<b>Total transactions with shareholders</b>	29,250	29,492	355	(32,686)	—	—	26,411
<b>Balance, December 31, 2016</b>	\$ <u>64,528</u>	\$ <u>379,851</u>	\$ <u>94,886</u>	\$ <u>(61,566)</u>	\$ <u>(8,873)</u>	\$ <u>(11,867)</u>	\$ <u>456,959</u>

See accompanying notes that are an integral part of these condensed consolidated interim financial statements.

AVANCE GAS HOLDING LTD  
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOW (UNAUDITED)

	For the year ended	
	December 31, 2016	December 31, 2015
	(in thousands)	
<b>Cash flows from operating activities (Note 3)</b>	\$ 104,052	\$ 180,217
Debt issuance costs	(915)	(2,400)
Interest paid	(18,189)	(10,650)
<b>Net cash flows from operating activities</b>	<b>84,948</b>	<b>167,167</b>
<b>Cash flows from (used in) investing activities:</b>		
Capital expenditures (Note 5)	(1,229)	(491,520)
Net proceeds from sale of assets (Note 5)	13,341	—
<b>Net cash flows from (used in) investing activities</b>	<b>12,112</b>	<b>(491,520)</b>
<b>Cash flows (used in) from financing activities:</b>		
Proceeds from issuance of long-term debt (Note 6)	—	400,000
Issuance of shares	58,742	—
Dividends (Note 4)	(32,686)	(172,276)
Repayment of long-term debt (Note 6)	(44,048)	(33,110)
Repayment of revolving credit facility	(25,000)	—
Drawdown of revolving credit facility	25,000	50,000
Purchase of own shares	—	(12,757)
Exercise of share options	—	476
<b>Net cash flows (used in) from financing activities</b>	<b>(17,992)</b>	<b>232,333</b>
Effect of exchange rate changes on cash	(39)	(226)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>79,029</b>	<b>(92,246)</b>
Cash and cash equivalents at beginning of period	70,033	162,279
<b>Cash and cash equivalents at end of period</b>	<b>\$ 149,062</b>	<b>\$ 70,033</b>

See accompanying notes that are an integral part of these condensed consolidated interim financial statements

**AVANCE GAS HOLDING LTD**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM STATEMENTS (UNAUDITED)**

**1. Basis of Preparation**

The condensed consolidated interim financial statements of Avance Gas Holding Ltd (the “Company” or “Avance Gas”), a Bermuda-registered company and its subsidiaries (collectively, the “Group”), have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as adopted by the European Union and in accordance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting. The condensed consolidated interim financial statements should be reviewed in conjunction with the consolidated financial statements for the year ended December 31, 2015, to fully understand the current financial position of the Group. The condensed consolidated interim financial statements of Avance Gas Holding Ltd have been prepared on a going-concern basis.

**2. Significant Accounting Policies**

The accounting policies applied are consistent with those described in Note 2 of the annual consolidated financial statements for the year ended December 31, 2015.

***New or Amendments to Standards***

The following new or amendments to standards and interpretations have been issued and become effective during the current period. These include:

- Amendments to IAS 16 and IAS 38 – Clarification of acceptable methods of depreciation and amortisation, for periods beginning on or after January 1, 2016
- Amendments to IAS 1 – Presentation of financial statements for the disclosure initiative, for periods beginning on or after January 1, 2016
- Amendments to IFRS 10 and IAS 28 – to clarify consolidation exceptions for investment companies, for periods beginning on or after January 1, 2016
- IFRS 14 – Regulatory deferral accounts, for periods beginning on or after January 1, 2016
- IFRS 11 – Joint Arrangements, for periods beginning on or after January 1, 2016

The above pronouncements did not have a material impact on the financial statements of the Group, beyond disclosures.

The following new or amendments to standards and interpretations have been issued and become effective in years beginning on or after January 1, 2017, assuming European Union adoption. The Group is evaluating the impact of these changes on its financial statements:

- IAS 7 – Additional disclosures, for periods beginning on or after January 1, 2017
- Amendments to IAS 12 – Recognition of deferred tax assets for
- Amendments to IAS 7 – Disclosures initiative for periods beginning on or after January 1, 2017
- IFRS 15 – Revenue from contracts with customers, for periods beginning on or after January 1, 2018
- IFRS 9 – Financial instruments, for periods beginning on or after January 1, 2018
- IFRS 16 – Leases, for periods beginning on or after January 1, 2019



AVANCE GAS HOLDING LTD  
NOTES TO THE CONDENSED CONSOLIDATED INTERIM STATEMENTS (UNAUDITED)

3. Reconciliation of net profit to cash generated from operations

	For the year ended	
	December 31, 2016	December 31, 2015
	(in thousands)	
<b>Net (loss) profit</b>	\$ (68,157)	\$ 183,161
Adjustments to reconcile net profit to net cash from operating activities:		
Depreciation and amortization of property, plant and equipment and intangibles	41,597	31,483
Impairment of goodwill	1,886	—
Impairment of vessels	51,426	—
Net finance expense	19,562	12,932
Compensation expense	355	334
Other	118	725
<b>Changes in assets and liabilities:</b>		
Decrease (increase) in receivables	57,533	(49,729)
Decrease (increase) in prepaid expenses, inventory, related party receivables and other current assets	626	(3,279)
Increase in accounts payable	1,673	676
(Decrease) increase in accrued voyage expenses, other current liabilities and related party balances	(2,567)	3,914
<b>Cash flows from operating activities</b>	<b>\$ 104,052</b>	<b>\$ 180,217</b>

4. Shareholder's equity

The Company's authorised share capital consists of 200.0 million common shares at par value of \$1 per share as of December 31, 2016 and 2015. Of the authorized share capital, 64.5 million shares were issued and outstanding as of December 31, 2016 and 35.7 million shares as of December 31, 2015. The Company held 871,639 treasury shares as of December 31, 2016.

In October 2016, the Company completed a private placement at NOK 17 per share through issuance of 26.8 million shares at par value \$1 and total gross proceeds of \$55.3 million. In November, the Company completed a subsequent offering at NOK 17 per share through issuance of 2.5 million shares at par value \$1 and total gross proceeds of \$4.9 million.

The Board of Avance Gas declared a quarterly dividend of \$0.30 per share on April 27, 2016, equalling \$10.3 million. The dividend was paid on May 11, 2016, to shareholders of record as of May 3, 2016.

The Board of Avance Gas declared a quarterly dividend of \$0.65 per share on February 9, 2016, equalling \$22.4 million. The dividend was paid on February 19, 2016, to shareholders of record as of February 12, 2016.

The Group has a share option plan covering 1.0 million shares. Employees were granted 175,000 share options in 2013, 118,200 share options in 2015 and 486,000 share options in 2016, each with a vesting period of four years. The Group held 871,639 treasury shares and there were 706,800 share options outstanding under the Group's share option plan as of December 31, 2016.

**AVANCE GAS HOLDING LTD**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM STATEMENTS (UNAUDITED)**

**5. Property, plant and equipment and newbuilding deposits**

During the year ended December 31, 2016 and 2015, the Group invested \$1.2 million and \$491.5 million, respectively, on property, plant and equipment. Cash payments were made on delivery instalments for newbuildings and ship improvements.

During the three months ended December, 2016 and 2015, the Group invested \$0.2 million and \$57.7 million, respectively, on property, plant and equipment. Cash payments were made on delivery instalments for newbuildings and ship improvements.

As of September 30, 2016 an impairment charge of \$45.3 million has been recognized which represents a write down of VLGC vessels to their recoverable amount. The recoverable amount was based on the higher of fair value less cost of disposal and value-in-use calculation with each vessel as a separate cash generating unit. The fair value less cost of sales is based on independent third party valuation reports. In addition, the Company recognized an impairment charge of \$1.9 million regarding goodwill.

As of December 31, 2016 indicators of impairment and indicators of reversal of previous recognized impairment were assessed. Based on this assessment it was concluded that no significant indicators for the three month period ended December 31, 2016 were present.

In the second quarter, impairment indicators were identified and tested for the LNG carrier *Gaea*, due to changes in the market conditions for commercial LPG projects. Testing indicated that the carrying amount exceeded recoverable amount. Based on this the Company recorded a vessel impairment loss of \$6.1 million in the second quarter, which reflected the estimated fair value of the asset, less cost of disposal. In September 2016, the Company announced that agreement has been reached for the sale of the LNG carrier *Gaea*. The sale was completed and the ship was delivered in December 2016. The sale proceeds corresponded to the book value and generated \$13.3 million in net cash proceeds.

**6. Long-term debt and revolving credit facility**

Long-term debt consisted of debt collateralised by the Group's 14 VLGCs as of December 31, 2016 and 2015.

Long-term debt repayments were \$44.0 million for the year ended December 31, 2016 compared with long-term debt repayments of \$33.1 million for the year ended December 31, 2015. Repayment of the revolving credit facility of \$25.0 million made in the first quarter was redrawn in the third quarter. As of December 31, 2016, the Company has no undrawn credit lines.

In March 2016, the Company agreed with its banking group to make certain amendments to its credit facilities. Within the existing credit limits, term loans were converted to revolving credit facilities, increasing the revolving capacity from \$50.0 million to \$150.0 million. Further, the minimum cash covenant requirement was reduced from 7.5% to 5.0% of interest-bearing debt, while maintaining a nominal threshold of \$35.0 million. Following the finalization of the amendment agreements related to the Group's debt facilities during the quarter, all outstanding loans under the revolving credit facilities are considered non-current liabilities.

In October 2016, Avance Gas reached an agreement with its banking group to further amend the terms of its credit facilities. As part of the Company's efforts to preserve its liquidity position in challenging market conditions, the scheduled loan repayment will be reduced by 50% from and including the first quarter of 2017 until the end of the second quarter of 2019, resulting in \$55.0 million in deferred loan repayments. For the same period, the book equity covenant will be adjusted from a minimum \$250 million to \$200 million and the equity ratio covenant from 30% to 25%. The minimum value to loan covenant will be reduced from 130% to 110% from the quarter ending December 31, 2016 until, but not including, the quarter ending June 30, 2019, and gradually increase until returning to its original level in the first quarter of 2020.

**AVANCE GAS HOLDING LTD**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM STATEMENTS (UNAUDITED)**

The agreement with the banks was subject to the Company raising minimum \$55.0 million in new equity, which was completed in November 2016. As part of the agreement, the credit margin will be temporarily increased with 25 basis points for both credit facilities for the amendment period.

	As of December 31, 2016	As of December 31, 2015
Long-term debt	\$ 391,237	\$ 513,319
Long-term revolving credit facility	150,000	—
Long-term debt issuance cost	(4,036)	(4,887)
<b>Long-term debt</b>	<b>537,201</b>	<b>508,432</b>
Current portion of long-term debt	22,024	43,991
Current portion of revolving credit facility	—	50,000
Current portion of debt issuance cost	(1,426)	(1,060)
<b>Current portion of long-term debt</b>	<b>20,598</b>	<b>92,931</b>
<b>Total net debt</b>	<b>557,799</b>	<b>601,363</b>

**7. Fair value disclosures**

*Fair value of financial instruments*

The following estimated fair value amounts of financial instruments have been determined by the Group, using appropriate market information and valuation methodologies. Considerable judgement is required to develop these estimates of fair value, thus the estimates provided herein are not necessarily indicative of the amounts that could be realised in a current market exchange.

	As of December 31, 2016		As of December 31, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
	(in thousands)			
<b>Financial assets:</b>				
Cash and cash equivalents	\$ 149,062	\$ 149,062	\$ 70,033	\$ 70,033
Receivables	13,705	13,705	71,238	71,238
Related party receivable balances	36	36	27	27
<b>Financial liabilities:</b>				
Accounts payable	2,676	2,676	1,003	1,003
Related party payable balances	64	64	58	58
Accrued expenses and accrued voyage expenses	5,066	5,066	7,609	7,609
Revolving credit facility	150,000	150,000	50,000	50,000
Long-term debt including current maturities	413,261	413,261	557,310	557,310
<b>Derivative financial instruments (fair value):</b>				
Interest rate swap liabilities (including current maturities)	8,931	8,931	7,573	7,573

**AVANCE GAS HOLDING LTD**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM STATEMENTS (UNAUDITED)**

The carrying amount of cash and cash equivalents, receivables, accounts payable and accrued expenses is a reasonable estimate of their fair value, due to the short maturity thereof. The estimated value of the Group's revolving credit facility and long-term debt equals its carrying value as of December 31, 2016 and 2015 as it is floating rate debt and the margin is at current market rates.

Long-term debt in the table above excludes debt issuance costs of \$5.5 million and \$5.9 million as of December 31, 2016 and 2015, respectively.

The Group has interest rate swap agreements, with an average LIBOR rate of 2.74%, for approximately 50% of the debt, commencing in the second quarter of 2017 and maturing in 2025. Fair value of interest rate swaps is based on market value of the interest rate swaps. The market value is based on mark-to-market reports as of period-end from the financial institutions issuing the swaps, based on the amount that the Group would receive or pay to terminate the contracts. Fair value adjustment of the interest rate swaps as of December 31, 2016 was recognized in the consolidated interim statement of other comprehensive income (loss).

The Group has no financial assets that would otherwise have been past due or impaired and renegotiated.

***Fair value estimation***

The financial instruments analyses are carried at fair value. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

Fair value equals carrying value for cash and cash equivalents (Level 1) and fair value of interest swaps is according to mark-to-market reports from the financial institutions issuing the swaps (Level 2).

There have not been any changes in valuation techniques for the period.

**8. Related party transactions**

The Group continues to transact with related parties as in prior periods.

AVANCE GAS HOLDING LTD  
NOTES TO THE CONDENSED CONSOLIDATED INTERIM STATEMENTS (UNAUDITED)

**9. Accumulated other comprehensive loss**

Accumulated other comprehensive loss represents the gain or loss arising from the change in fair value of interest rate swaps and translation adjustments. Accumulated other comprehensive loss is broken down between the two categories as follows:

	Foreign Currency Reserve	Fair Value Reserve	Accumulated other comprehensive loss
<b>Balance January 1, 2015</b>	\$ (199)	\$ —	\$ (199)
Fair value adjustment of interest rate swaps	—	(7,573)	(7,573)
Translation adjustments, net	139	—	139
<b>Balance December 31, 2015</b>	<u>(60)</u>	<u>(7,573)</u>	<u>(7,633)</u>
Fair value adjustment of interest rate swaps	—	(1,358)	(1,358)
Translation adjustments, net	118	—	118
<b>Balance December 31, 2016</b>	<u>\$ 58</u>	<u>\$ (8,931)</u>	<u>\$ (8,873)</u>

**10. Seasonality**

The export volumes coming out of the Middle East and US Gulf, which are primary regions for seaborne LPG exports, have traditionally been lower during the late fourth and the first quarters than at other times of the year. This is mainly because of lower trading activity in combination with somewhat higher local demand in exporting regions.

**11. Subsequent Events**

There were no significant subsequent events after December 31, 2016.