SPANACO SHIPPING SERVICES LTD

Consolidated Report and Financial Statements

30 September 2016

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Lambros Hajigeorghi
Christina Sarris

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MANAGEMENT REPORT

The Board of Directors presents its annual report and audited consolidated financial statements of Spanaco Shipping Services Ltd and its subsidiaries (the Group) for the year ended 30 September 2016.

PRINCIPAL ACTIVITIES

The principal activities of the Group are:
- Ship operating and shipbroking services.
- The ownership and operation of dry bulk vessels.

REVIEW OF OPERATIONS

The Group's revenue for the year ended 30 September 2016 at Euro 20 million (2015: Euro 22 million) has decreased by 9.09% in comparison to 2015.

The Group reported an operating loss of Euro 3.6 million compared to operating profit of Euro 0.67 million for the prior year. The results were adversely affected by the recognition of Euro 4 million impairment on the carrying value of the Groups Vessels m/v Spanaco Loyalty and m/v Spanaco Reliability.

On 24 June 2016 the Group acquired its third dry bulk vessel m/v Spanaco Simplicity, which after completing upgrading, repairs and change of flag registration became fully operational on 29 June 2016.

DIVIDENDS

The Board of Directors does not recommend the payment of a dividend.

SHARE CAPITAL

There were no changes in the share capital during the year.

DIRECTORS

The members of the Board of Directors as at 30 September 2016 and at the date of this report are presented on page 1. All of them were members of the Board of Directors throughout the year ended 30 September 2016.

In accordance with the Articles of Association all directors who are presently members of the Board will continue in office.

OUTLOOK

The Group expects the European market for short sea shipping to remain challenging in the next 12 months, caused largely by the uncertain economic development in Europe. The Board does not expect the European short sea market to change significantly in the immediate future, however several key indicators for positive growth in the European short sea market and freight rates are in place. Maritime transport represents the most environmentally sound and efficient method of transport, with lower cost and pollution per tonnage-mile than any other form of transportation. At the same time, the average age of the short sea fleet is over 27 years, with little influx of new vessels in the market and with current orderbooks for new vessels being under 1% of existing tonnage in the sector. The Board considers that the Group is well placed to take advantage of an increase in the general level of activity in Europe, which will generate positive development in demand for the Group's services.

INDEPENDENT AUDITORS

All of the current directors have taken all of the steps that they ought to have taken to make themselves aware of any information needed by the Group's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

The Independent Auditors, Deloitte Limited, have expressed their willingness to continue in office and a resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

By order of the Board of Directors,

Lambros Hajigeorghi
Director

Nicosia, Cyprus, 16/01/2017

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Independent auditor's report

To the Members of Spanaco Shipping Services Ltd

Report on the consolidated financial statements

We have audited the consolidated financial statements of Spanaco Shipping Services Ltd (the "Company") and its subsidiaries (together with the Company, the "Group"), which are presented in pages 5 to 27 which comprise the consolidated statement of financial position as at 30 September 2016, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Deloitte.

Independent auditor's report (continued)

To the Members of Spanaco Shipping Services Ltd

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 30 September 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Emphasis of matter

We draw attention to note 2 to the financial statements which indicates that the Group incurred a loss of €4.392.400 during the year ended 30 September 2016, and, as at that date its current liabilities exceeded its current assets by €13.696.042. These conditions, along with other matters as set forth in note 2 indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Report on other legal requirements

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of these books.
- The consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the management report, whose preparation is the responsibility of the Board of Directors, has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap 113, and the information given is consistent with the consolidated financial statements.
- In our opinion, and in the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified material misstatements in the management report.

Other matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Christakis Ioannou
Certified Public Accountant and Registered Auditor
for and on behalf of
Deloitte Limited
Certified Public Accountants and Registered Auditors

Nicosia, 16 January 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME
For the year ended 30 September 2016

	Note	2016 Euro	2015 Euro
Revenue	3	20,322,532	22,361,103
Direct expenditure	4	(16,460,987)	(18,443,890)
Gross profit		3,861,545	3,917,213
Other operating income		138,065	22,234
Employee benefit costs	7	(408,627)	(316,524)
Depreciation and amortisation expense	6, 10	(781,943)	(701,883)
Impairment expense	6, 10	(4,056,985)	-
Vessel operating expenses	5	(1,883,503)	(1,522,604)
Other operating expenses		(492,194)	(726,088)
Operating (loss) / profit	6	(3,623,642)	672,348
Finance income	8	78	74
Finance costs	8	(706,286)	(736,574)
Loss before tax		(4,329,850)	(64,152)
Income tax expense	9	(62,550)	(33,543)
Loss for the year		(4,392,400)	(97,695)
Other comprehensive income		-	-
Total comprehensive income for the year		(4,392,400)	(97,695)

All of the loss and comprehensive income for the year is attributable to equity holders of the Company.

The notes on pages 9 to 27 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 September 2016

	Note	30 September 2016 Euro	Euro	30 September 2015 Euro	Euro
ASSETS					
Non-current assets					
Tangible and intangible assets	10	10,088,916		11,216,404	
			10,088,916		11,216,404
Current assets					
Inventories	12	144,524		103,577	
Trade and other receivables	13	835,099		816,292	
Refundable taxes	20	9,193		35,521	
Cash and cash equivalents	14	706,470		1,190,715	
			1,695,286		2,146,105
TOTAL ASSETS			**11,784,202**		**13,362,509**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Equity attributable to equity shareholders of the Company					
Share capital	15	37,468		37,468	
Share premium	15	463,482		463,482	
Other reserves		782		782	
Retained earnings		(4,108,858)		283,542	
Total equity			(3,607,126)		785,274
Non-current liabilities					
Bank loans	16	-		12,000,000	
			-		12,000,000
Current liabilities					
Loans financed or underwritten by the shareholders	17	3,500,000		-	
Bank loans	16	11,400,000		-	
Trade and other payables	18	427,773		577,235	
Deferred income	19	63,555		-	
			15,391,328		577,235
Total liabilities			15,391,328		12,577,235
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			**11,784,202**		**13,362,509**

On 16/01/2017 the consolidated financial statements of Spanaco Shipping Services Ltd were approved by the Board of Directors and authorised for issue.

Signed on behalf of the Board of Directors

Lambros Hajigeorghi
Director

Alexandros Zotiades
Director

The notes on pages 9 to 27 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 30 September 2016

	Note	2016 Euro	2015 Euro
Cash flows generated from operating activities			
Loss for the year		(4,392,400)	(97,695)
Adjustments for:			
Depreciation and amortisation expense	6, 10	781,943	701,883
Impairment of vessel	6, 10	4,056,985	-
Finance income	8	(78)	(74)
Finance expense	8	706,286	736,574
Income tax expense	9	62,550	33,543
Cash flows from operations before working capital changes		1,215,286	1,374,231
(Increase)/decrease in inventories		(40,947)	131,056
(Increase)/decrease in trade and other receivables		(18,807)	495,196
(Decrease) / increase in trade and other payables		(86,548)	163,478
Cash flows from operations		1,068,984	2,163,961
Interest received		78	74
Income tax paid		(36,222)	(39,729)
Net cash flows from operating activities		1,032,840	2,124,306
Cash flows from investing activities			
Acquisition of vessels	10	(3,607,966)	-
Payment for vessels capitalised costs	10	(103,475)	(380,928)
Payment for drydocking	10	-	(205,839)
Net cash flows used in investing activities		(3,711,441)	(586,767)
Cash flows from financing activities			
Repayments of bank borrowings	21	(600,000)	-
Repayment of loans from shareholders		-	(15,560,000)
Proceeds from bank borrowings		-	12,000,000
Proceeds from loans from shareholders	17	3,500,000	2,900,000
Interest paid		(705,644)	(770,717)
Net cash flows from / (used in) financing activities		2.194.356	(1,430,717)
Net (decrease) / increase in cash and cash equivalents		(484,245)	106,822
Cash and cash equivalents:			
At beginning of the year		1,190,715	1,083,893
At end of the year	14	706,470	1,190,715
Cash and cash equivalents are represented by:			
Cash at bank and in hand	14	706.470	1,190,715
		706,470	1,190,715

The notes on pages 9 to 27 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 September 2016

	Share capital Euro	Share premium Euro	Other reserve Euro	Retained earnings Euro	Total Euro
Changes in equity for 2016					
At 1 October 2015	37,468	463,482	782	283,542	785,274
Comprehensive income					
Loss for the year	-	-	-	(4,392,400)	(4,392,400)
Total comprehensive income for the year	-	-	-	(4,392,400)	(4,392,400)
At 30 September 2016	37,468	463,482	782	(4,108,858)	(3,607,126)
Changes in equity for 2015					
At 1 October 2014	37,468	463,482	782	381,237	882,969
Comprehensive income					
Loss for the year	-	-	-	(97,695)	(97,695)
Total comprehensive income for the year	-	-	-	(97,695)	(97,695)
At 30 September 2015	37,468	463,482	782	283,542	785,274

The following describes the nature and purpose of each reserve within shareholders' equity;

Reserve	**Description**
Share premium	Amount subscribed for share capital in excess of nominal value.
Retained earnings	Profit for the year and prior years.
Other reserve	Consist of exchange gain on the conversion of share capital to Euro.

The notes on pages 9 to 27 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 September 2016

1. PRINCIPAL ACTIVITIES

The principal activities of the Group are:

- Ship operating and shipbroking services.
- The ownership and operation of dry bulk vessels.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted for use in the European Union, including International Accounting Standards (IAS) and Interpretations issued by the International Accounting Standards Board (IASB), (collectively IFRSs) and also in accordance with the requirements of the Cyprus Companies Law, Cap. 113.

The Directors are of the opinion that the preparation of the financial statements on a going concern basis is appropriate.

The principal accounting policies adopted for dealing with items which are considered material or critical in determining the results for the year and in stating the financial position, are set out below. These policies have been consistently applied to all years presented in these consolidated financial statements unless otherwise stated.

A complete list of other accounting policies is included in note 26.

Emphasis of matter

The Group incurred a loss of Euro 4 million for the year ended 30 September 2016, and, as of that date the Group's current liabilities exceeded its current assets by Euro 14 million. The Company is dependent upon the continuing financial support of its parent company without which there would be significant doubt about its ability to continue as a going concern as well as its ability to realise its assets and discharge its liabilities in the ordinary course of business. The parent company has indicated its intention to continue providing such financial assistance to the Company to enable it to continue as a going concern and to meet its obligations as they fall due.

(a) Significant judgements and estimates

The preparation of financial statements, in conformity with Generally Accepted Accounting Principles (GAAP) under IFRS, requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, income and expenses. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The Group evaluates its estimates on an on-going basis using historical experience and other factors, including expectations of future events that are considered reasonable under the circumstances.

The following paragraphs detail the estimates and judgements the Group believes to have the most significant impact on the annual results under IFRS.

- *Vessel life and impairment.* The carrying value of the Group's vessels represent their original cost at the time of delivery or purchase less depreciation calculated using an estimated useful life of 25 years from the date each vessel was originally delivered from the shipyard. In the shipping industry, use of life in this range has become the standard. The actual life of a vessel may be different. If the economic life assigned to a vessel proves to be too long because of new regulations or other future events, higher depreciation expense and impairment losses could result in future periods related to a reduction in the useful life of the vessel.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 September 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Significant judgements and estimates (continued)

The carrying value of the Group's vessels may not represent their fair market value at any point in time since the market prices of second hand vessels tend to fluctuate with changes in charter rates and the cost of new buildings. Historically, both charter rates and vessel values tend to be cyclical. The Group records impairment losses only when events occur that cause the Group to believe that future cash flows for each vessel will be less than its carrying value. The carrying amount of vessels held and used by the Group are reviewed for potential impairment whenever events or changes in circumstances indicate that the carrying amount of a vessel may not be fully recoverable. In such instances, an impairment charge would be recognized if the estimate of the discounted future cash flows expected to result from the use of a vessel and its eventual disposition is less than the vessel's carrying amount.

In developing estimates of future cash flows, the Group must make assumptions about future charter rates, ship operating expenses and the estimated remaining useful life of the vessel. These assumptions are based on historical trends as well as future expectations. Although management believes that the assumptions used to evaluate potential impairment are reasonable and appropriate, such assumptions may be highly subjective.

- *Provision for doubtful receivables* At each statement of financial position date, the Group evaluates the collectability of trade receivables to assess whether there is any objective evidence that a provision for impairment is required. These provisions for impairment are based on, amongst other things, insurance cover, comparisons of the relative age of accounts and consideration of actual write-off history. The actual level of receivables collected may differ from the estimated levels of recovery, which could impact operational results positively or negatively. Further detail of the level of provisions for doubtful receivables is included in note 13.

(b) Consolidated financial statements

The consolidated financial statements include the financial statements of the holding company and its subsidiaries which are collectively referred to as the "Group". The results of the companies acquired are accounted for from the date of their acquisition to the date of their disposal. All subsidiaries have been consolidated using the acquisition method of accounting. All intra-company transactions and balances between group companies are eliminated on consolidation.

(c) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts and sales related taxes. Sales revenue is recognised only when the relevant services have been rendered, i.e. when the risk and reward has been transferred to the customer. Profit from operations is stated after charging all operating costs including those separately disclosed by virtue of their size or unusual nature or to facilitate a more helpful understanding of the Group's results. It is stated before investment income and finance costs.

- **Freight income**

  All voyage revenues are recognised on a percentage of completion method. The Group used a discharge-to-discharge basis in determining percentage of completion for all voyages.

- **Rendering of services**

  Sales of services are recognised in the accounting period in which the services are rendered by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 September 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Revenue recognition (continued)

- **Commission income**

Commission income is recognised when the right to receive payment is established.

(d) Voyage costs

Voyage expenses primarily consist of commissions, port and bunker expenses that are unique to a particular voyage.

(e) Tangible and intangible assets

The motor vessels are depreciated on a straight line basis over their estimated useful life, based on the cost of the construction less scrap value. The expected useful life has been estimated at 17.5 years for "Spanaco Loyalty" and 17.75 years for "Spanaco Reliability" from the date of delivery of the vessels which took place on 2 October 2015. The expected useful life has been estimated at 18 years for "Spanaco Simplicity" from the date of delivery of the vessel which took place on 24 June 2016.

Significant expenditure on drydocking is capitalised and amortised on a straight-line basis over the period until the next anticipated drydocking which approximately takes place every 3 years.

Where the carrying amount of a vessel is greater than its estimated recoverable amount, the vessel is written down immediately to its recoverable amount.

Expenditure for repairs and maintenance of a vessel is charged to profit or loss of the year in which it is incurred. The cost of major renovations and other subsequent expenditure are included in the carrying amount of the vessel or recognised as a separate asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

Gains and losses on disposal of a vessel are determined as the difference between the sale price (net of selling expenses) and the net book value of the vessel at the date of disposal.

3. REVENUE

	2016	2015
	Euro	Euro
Freight income	19,990,902	22,086,597
Demurrages income	255,555	250,904
Other income from hire	40,823	-
Commissions receivable	5,370	23,494
Other operating income	12,034	108
Stevedoring income	17,848	-
	20,322,532	22,361,103

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 September 2016

4. DIRECT EXPENDITURE

	2016	2015
	Euro	Euro
Freight expense	13,949,227	15,998,117
Fuel	668,162	904,770
Slings expenses	429,906	270,036
Demurrage expense	242,945	317,868
Stevendoring expenses	90,392	42,543
Port expenses	955,111	757,757
Sundry expenses	125,244	152,799
	16,460,987	18,443,890

5. VESSEL OPERATING EXPENSES

	2016	2015
	Euro	Euro
Crew wages and related costs	1,029,560	896,179
Deck stores and spares	129,153	89,592
Engine stores and spares	125,685	106,659
Repairs and maintenance	122,372	21,852
Insurance	120,788	125,328
Lubricants	50,965	31,533
Classification and inspection fees	36,479	42,375
Management fees	206,229	174,535
Other vessel expenses	62,272	34,551
	1,883,503	1,522,604

	2016	2015
	Number	Number
Average number of crew staff	24	16

6. (LOSS) /PROFIT FROM OPERATIONS

	2016	2015
	Euro	Euro
(Loss) from operations / profit is stated after the following:		
Employee benefit costs (Note 7)	408,627	316,524
Depreciation and amortisation expense (Note 10)	781,944	701,883
Impairment charge of vessel (Note 10)	4,056,985	-
Audit fees	18,000	19,500
Currency translation differences	14,819	(96,514)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 September 2016

7. EMPLOYEE BENEFIT COSTS

	2016	2015
	Euro	Euro
Cost		
Wages and Salaries	373,485	288,894
Employer's Social Security	27,672	21,852
Social cohesion fund	7,470	5,778
	408,627	316,524

	2016	2015
	Number	Number
Average Number of Employees		
Administration	6	5
	6	5

Directors' and key management personnel remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including the directors of the Group.

	2016	2015
	Euro	Euro
Salaries and other short-term employee benefits	139,000	120,498
	139,000	120,498

8. FINANCE INCOME AND EXPENSES

	2016	2015
	Euro	Euro
Finance income		
Bank interest	-	49
Other	78	25
	78	74
Finance costs		
Bank borrowing	636,899	559,355
Loans from related parties	67,187	177,219
Other	2,200	-
	706,286	736,574

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 September 2016

9. TAXATION

	2016 Euro	2015 Euro
Corporation tax - current for the year	59,752	33,523
Corporation tax - prior years	2,775	-
Withholding tax suffered at source	-	13
Defence contribution - current	23	7
Total expense	62,550	33,543

The charge for the period can be reconciled to the loss per the statement of profit or loss and comprehensive income as follows:

	2016 Euro	2015 Euro
Loss before tax	(4,329,850)	(64,152)
Taxation calculated at the applicable tax rates	53,814	36,529
Tax effect of expenses not deductible for taxation purposes	6,983	(2,998)
Tax effect of allowances and income not subject to taxation	(1,045)	(8)
Adjustments for under/(over) provisions in prior years	2,775	-
Defence contribution - current	23	7
Withholding tax suffered at source	-	13
Tax expense	62,550	33,543
Effective tax rate for the year	N/A	N/A

10. TANGIBLE AND INTANGIBLE ASSETS

Year ended 30 September 2016	Tangible assets	Intangible assets	Total
	Motor Vessels Euro	Vessel drydocking Euro	Euro
Cost			
At 1 October 2015	11,712,448	205,839	11,918,287
Additions	103,475	-	103,475
Acquisition of vessel	3,387,797	220,169	3,607,966
Impairment charge	(4,056,985)	-	(4,056,985)
At 30 September 2016	11,146,735	426,008	11,572,743
Accumulated depreciation and impairment			
At 1 October 2015	619,547	82,336	701,883
Charge for the year	681,261	100,683	781,944
At 30 September 2016	1,300,808	183,019	1,483,827
Carrying amount			
At 30 September 2016	9,845,927	242,989	10,088,916

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 September 2016

10. TANGIBLE AND INTANGIBLE ASSETS (continued)

Year ended 30 September 2015	Motor Vessels	Vessel drydocking	Total
	Euro	Euro	Euro
Cost			
At 1 October 2014	11,331,520	-	11,331,520
Additions	380,928	205,839	586,767
At 30 September 2015	11,712,448	205,839	11,918,287
Accumulated depreciation and impairment			
Charge for the year	619,547	82,336	701,883
At 30 September 2015	619,547	82,336	701,883
Carrying amount			
At 30 September 2015	11,092,901	123,503	11,216,404

Bank borrowings of Euro 11.4 million (2015: Euro 12 million) are secured on the Group's Vessels.

On 24 June 2016 the m/v Amurdiep was acquired and delivered at Bredo Shipyard, Bremerhaven, Germany and renamed to m/v Spanaco Simplicity. The vessel became fully operational on 29 June 2016 after completing upgrading, repairs and change of flag registration.

As at 30 September 2016, management carried out a review of the carrying value of the Group's vessels, in accordance with the Group's policy as described in note 2 to the financial statements.

The review led to the recognition of an impairment loss in the current year amounting to Euro 4,056,98, relating to m/v Spanaco Loyalty and m/v Spanaco Reliability, no impairment has been recognised for m/v Spanaco Simplicity.

The carry value of the Group's vessels has been determined on the basis of their value in use. The assessment of the value in use was based on the present value of the expected future cash flows derived from discounted cash flow.

11. INVESTMENTS

The details of consolidated subsidiaries are as follows:

Name	Country of incorporation	Principal activities	2016 Shareholding %	2015 Shareholding %
Spanaco One Ltd	Malta	Ownership and management of dry bulk vessel	**100**	100
Spanaco Two Ltd	Malta	Ownership and management of dry bulk vessel	**100**	100
Spanaco Three Ltd	Malta	Ownership and management of dry bulk vessel	**100**	100
Spanaco Four Ltd	Malta	Dormant for the year ended 30.09.2016	**100**	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 September 2016

12. INVENTORIES

	2016	2015
	Euro	Euro
Fuel	84,206	54,485
Lubricants	51,244	41,426
Other	9,074	7,666
	144,524	103,577

13. TRADE AND OTHER RECEIVABLES

	2016	2015
	Euro	Euro
Trade receivables	251,126	313,366
Amounts due from related parties (Note 21)	267,068	169,850
Deposits, prepayments and accrued income	10,157	111,380
Deferred expenses	22,277	-
Other accounts receivables	253,384	193,454
Refundable VAT	31,087	28,242
	835,099	816,292

Trade receivables are further analysed as follows:

	2016	2015
	Euro	Euro
Gross value	251,126	313,366
Net value	251,126	313,366
Analysis of trade receivables:		
Not due	251,126	313,366
Total	251,126	313,366

Uninsured trade receivables that are due and not impaired represent balances with customers who have no default history.

Amounts due from related parties are further analysed as follows:

	2016	2015
	Euro	Euro
Gross value	267,068	169,850
Net value	267,068	169,850
Analysis of trade receivables:		
Not due	267,068	169,850
Total	267,068	169,850

The fair values of trade and other receivables due approximate to their carrying amounts as presented above.

The exposure of the Group to credit risk in relation to trade and other receivables is reported in note 25 of the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 September 2016

14. CASH AND CASH EQUIVALENTS

	Cash
	Euro
At 1 October 2014	1,083,893
Movement for the year	106,822
At 1 October 2015	1,190,715
Movement for the year	(484,245)
At 30 September 2016	706,470

15. SHARE CAPITAL

	2016	2015	2016	2015
	Number	Number	Euro	Euro
Authorised ordinary shares of €1,71 each	25,000	25,000	42,750	42,750
Issued ordinary shares of €1,71 each	21,911	21,911	37,468	37,468
Share premium			463,482	463,482

There are no restrictions attaching to the ordinary shares.

16. BANK LOANS

	2016	2015
	Euro	Euro
Bank loans (Note 21)	11,400,000	12,000,000
Less instalments due after more than one year	-	(12,000,000)
Bank loans due within one year	11,400,000	-

The weighted average interest rates paid were as follows:

	2016	2015
	%	%
Bank loans	5.23	5.37

The carrying amount of short and long term borrowings approximate their fair value.

	2016	2015
	Euro	Euro
Bank loans	11,400,000	12,000,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 September 2016

16. BANK LOANS (continued)

Bank borrowings amounting to Euro 11.4 million (2015: Euro 12 million), are subject to renewal on 31 December 2016. By common accord and agreement, the facility may be extended for an additional ten years thereafter.

Bank borrowings are secured by ship mortgages on m/v Spanaco Loyalty and m/v Spanaco Reliability, pledges over insurance proceeds and pledge over a term deposit for Euro 3 million provided by Douglas Technical Limited.

17. LOANS FINANCED OR UNDERWRITTEN BY THE SHAREHOLDERS

	2016 Euro	2015 Euro
Total loans (Note 21)	3,500,000	-
Less instalments due after more than one year	-	-
Loans due within one year	3,500,000	-

Repayments of loans are analysed as follows:

	2016 Euro	2015 Euro
Due within 1 year	3,500,000	-
	3,500,000	-

The interest rate on the loans is 5%.

18. TRADE AND OTHER PAYABLES

	2016 Euro	2015 Euro
Trade payables	189,105	350,214
Social insurance and other taxes	13,599	11,611
Other payables and accruals	150,380	143,314
Other creditors	58,189	56,238
Amounts due to related parties (Note 21)	16,500	15,858
	427,773	577,235

The directors consider that the carrying amount of trade payables approximates to their fair value.

19. DEFERRED INCOME

	2016 Euro	2015 Euro
Freight income	63,555	-
	63,555	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 September 2016

20. REFUNDABLE TAX

	2016	2015
	Euro	Euro
Corporation tax	9,193	35,522
Special contribution for defence	-	(1)
	9,193	35,521

21. RELATED PARTY TRANSACTIONS

The Group is controlled by Douglas Technical Limited, incorporated in Isle of Man, which owns 100% of the Group's shares. The ultimate controlling party of the Group is Luda Stiftung, a discretionary, irrevocable foundation registered in Liechtenstein, which itself owns all the assets and is controlled by the foundation board.

The following transactions were carried out with related parties:

Sales of services and balances with related parties

	Sale of services		Amounts owed by related parties	
	2016	2015	2016	2015
	Euro	Euro	Euro	Euro
Other related parties	6,809,593	9,465,816	267,068	169,850
	6,809,593	9,465,816	267,068	169,850

Purchases of services, finance costs and balances with related parties

	Finance costs		Purchase of services		Amounts owed to related parties	
	2016	2015	2016	2015	2016	2015
	Euro	Euro	Euro	Euro	Euro	Euro
Fellow subsidiaries	-	-	-	1,635	-	-
Other related parties	706,286	736,574	163,960	465,285	16,500	15,858
	706,286	736,574	163,960	466,920	16,500	15,858

Sales and purchases of services are made with related parties on an arm's length basis in the normal course of business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 September 2016

21. RELATED PARTY TRANSACTIONS (continued)

Loans financed or underwritten by the shareholders (Note 17)

	2016 Euro	2015 Euro
At beginning of year		
- Principal	-	12,000,000
- Interest	-	50,000
	-	12,050,000
Movements during the year		
Loan repayments	-	(12,000,000)
Interest charged	-	131,667
Interest paid	-	(181,667)
	-	(12,050,000)
At year end		
- Principal	-	-
- Interest	-	-
	-	-

Loans from related parties (Note 17)

	2016 Euro	2015 Euro
At beginning of year		
- Principal	-	660,000
- Interest	-	-
	-	660,000
Movements during the year		
Loans advanced	6,110,000	2,900,000
Loan repayments	(2,610,000)	(3,560,000)
Interest charged	67,187	45,552
Interest paid	(67,187)	(45,552)
	3,500,000	(660,000)
At year end		
- Principal	3,500,000	-
- Interest	-	-
	3,500,000	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 September 2016

21. RELATED PARTY TRANSACTIONS (continued)

Bank loans (Note 16 and 18)

	2016	2015
	Euro	Euro
At beginning of year		
- Principal	12,000,000	-
- Interest	15,858	-
	12,015,858	-
Movements during the year		
Loans advanced	-	12,000,000
Loan repayments	(600,000)	-
Interest charged	621,899	515,605
Interest paid	(621,257)	(499,747)
	(599,358)	12,015,858
At year end		
- Principal	11,400,000	12,000,000
- Interest	16,500	15,858
	11,416,500	12,015,858

22. CONTINGENT LIABILITIES

The Group had no contingent liabilities as at 30 September 2016.

23. CAPITAL COMMITMENTS

The Group had no capital or other commitments as at 30 September 2016.

24. EVENTS AFTER THE REPORTING PERIOD

On 30 November 2016 the Group acquired its fourth dry bulk vessel m/v Spanaco Fidelity, which after completing upgrading, repairs and change of flag registration become fully operational on 19 December 2016.

As part of the Group refinancing of existing short term borrowing the following transactions have taken place:

On 7 December 2016, the Group was granted a Euro 2 million subordinated shareholder loan, the loan is to be repaid over a 11 year terms.

On 9 December 2016, the Group effected a Euro 1.5 million repayment on existing short term bank borrowing and refinanced bank borrowing amounting to Euro 11.4 million into new term loans amounting to Euro 9.9 million, the loans being repaid over 10 and 11 year terms. On the same date the Group received a new bank loan amounting to Euro 3 million, being repaid over a 12 year term.

The additional funding under the refinancing of Euro 3.5 million was used to repay a Euro 3.5 million loan provided by a related party.

25. RISK MANAGEMENT

General objectives, policies and processes

The Group operates procedures designed to reduce or eliminate financial risk and ensure that funds are available for current and future needs. The policies are approved by the Board and the use of financial instruments is strictly controlled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 September 2016

25. RISK MANAGEMENT (continued)

Principal financial instruments

A summary of the financial instruments held by category is provided below:

Financial assets	Loans and receivables	
	2016	2015
	Euro	Euro
Trade, related party and other receivables (excl.prepayments, VAT, corporate and other taxes, social security, provisions)	730,250	621,851
Cash and cash equivalents	706,470	1,190,715
Total financial assets	1,436,720	1,812,566

Financial liabilities	At amortised cost	
	2016	2015
	Euro	Euro
Trade, related party, investment and other payables (excl. prepayments, dividend payable, VAT, corporate and other taxes, social security, provisions)	263,794	422,310
Loans financed or underwritten by the shareholders	3,500,000	-
Bank borrowings	11,400,000	12,000,000
Total financial liabilities	15,163,794	12,422,310

Fair value of financial liabilities

The table below is an analysis of the book values and fair values of the financial liabilities excluding trade payables.

	Book value		Fair values	
	2016	2015	2016	2015
	Euro	Euro	Euro	Euro
Loans financed or underwritten by the shareholders	3,500,000	-	3,500,000	-
Bank borrowings	11,400,000	12,000,000	11,400,000	12,000,000
Trade, related party, investment and other payables (excl. prepayments, dividend payable, VAT, corporate and other taxes, social security, provisions)	263,794	422,310	263,794	422,310
	15,163,794	12,422,310	15,163,794	12,422,310

Fair values of trade and other payables approximate their book value largely due to the short-term maturities of these instruments.

Fair values of bank borrowings and loans financed or underwritten by the shareholders are evaluated by the Group based on interest rates at the financial year end. Based on this evaluation the book values approximate their calculated fair values as bank borrowings and loans financed or underwritten by the shareholders have variable rates.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods, such as estimated discounted cash flows, and makes assumptions that are based on market conditions existing at the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 September 2016

25. RISK MANAGEMENT (continued)

The nominal value less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

Credit risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date. The Group has no significant concentration of credit risk. Cash balances are held with high credit quality financial institutions and the Group has policies to limit the amount of credit exposure to any financial institution.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each receivable.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified.

Quantitative disclosures of the credit risk exposure in relation to financial assets are set out below.

	Carrying value		Maximum exposure	
	2016	2015	2016	2015
	Euro	Euro	Euro	Euro
Trade and other receivables (agree to note 13)	835,099	816,292	835,099	816,292
Cash and cash equivalents	706,470	1,190,715	706,470	1,190,715
Total financial assets	1,541,569	2,007,007	1,541,569	2,007,007

Market risk

(i) Interest rate risk
Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's Management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

25. RISK MANAGEMENT (continued)

Liquidity risk

Group liquidity risk management aims to ensure that the Group is able to timely obtain the financing required to properly carry on its business activities, implement its strategy, and meet its payment obligations when due, while avoiding the need of having to obtain funding under unfavourable terms.

For this purpose, Liquidity management at the Group comprises:

- consistent financial planning and cash flow forecasting at Group levels with different time horizons; business plans are prepared prior to initial funds raising in relation to new investments.
- diversification of financing sources;
- diversification of the maturities of the debt issued in order to avoid excessive concentration of debt repayments in short periods of time;

  arrangement of committed credit facilities with relationship banks, ensuring the right balance between satisfactory liquidity and adequate commitment fees.

Maturity of financial liabilities
The table below summarises the maturity profile of the Group's financial liabilities excluding trade payables (Note 18) based on contractual undiscounted payments.

As at 30 September 2016	On demand Euro	less than 12 months Euro	1-5 years Euro	>5 years Euro	Total Euro
Loans financed or underwritten by the shareholders	-	3,535,208	-	-	3,535,208
Bank borrowings	-	11,551,800	-	-	11,551,800
Trade, related party, investment and other payables (excl. prepayments, dividend payable, VAT, corporate and other taxes, social security, provisions)	-	263,794	-	-	263,794
	-	15,350,802	-	-	15,350,802

As at 30 September 2015	On demand Euro	less than 12 months Euro	1-5 years Euro	>5 years Euro	Total Euro
Bank borrowings	-	636,000	12,181,000	-	12,817,000
Trade, related party, investment and other payables (excl. prepayments, dividend payable, VAT, corporate and other taxes, social security, provisions)	-	422,310	-	-	422,310
	-	1,058,310	12,181,000	-	13,239,310

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 September 2016

25. RISK MANAGEMENT (continued)

Capital disclosures

Capital is defined as Total Equity. Adjusted capital is defined as Total Equity plus loans financed or underwritten by the shareholders.

The Group's objectives when maintaining adjusted capital are:
- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group sets the amount of adjusted capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

26. OTHER ACCOUNTING POLICIES

(a) Changes in accounting policies

(i) New standards, amendments to published standards and interpretations to existing standards effective in the current financial year adopted by the Group.
There have been no standards adopted by the Group for the first time for the financial year beginning on or after 1 October 2015 that will have a material impact on the Group.

(ii) Standards, amendments and interpretations to published standards effective in 2016 but which are not relevant to the Group.
A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 October 2016, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Group.

(b) Taxation

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

(c) Foreign currency translation

(1) **Functional and presentation currency**
Items included in the Group's financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Euro (Euro), which is the Group's functional and presentation currency.

(2) **Transactions and balances**
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 September 2016

26. OTHER ACCOUNTING POLICIES (continued)

(d) Inventories

Stocks are stated at the lower of cost and net realisable value. Fuel stock is valued based on the first in first out method. The other stock categories are valued based on the weighted average cost method. The net realisable value is based on the estimated selling price less any additional expenses expected to occur by the stock's date of sale. When considered necessary, a general or specific provision is made for defective and obsolete stock or slow moving stock, which is included in cost of sales.

(e) Employee benefits

The Group and its employees contribute to the Government Social Insurance Fund based on employees' salaries. The Group has no legal or constructive obligations to pay further contributions if the scheme does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods. The Group makes a provision for bonuses where contractual obligations exist for payment.

(f) Dividends

Interim dividends are recognised in equity in the year in which they are paid. Final dividends are recognised in equity in the year in which they are declared. Dividend income is recognised when the right to receive payment is established.

(g) Financial assets

The Group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. The Group has not classified any of its financial assets as held to maturity.

Other than financial assets in a qualifying hedging relationship, the Group's accounting policy for each category is as follows:

(i) *Loans and receivables*

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flow associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised, in other operating expenses, in the statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

(ii) *Cash and cash equivalents*

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within loans and borrowings in current liabilities on the statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 September 2016

26. OTHER ACCOUNTING POLICIES (continued)

(h) Financial liabilities

The Group's financial liabilities comprise:

(i) *Bank and other borrowings*

Are initially recognised at fair value. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premia payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

(ii) *Trade payables and other short-term liabilities*

Are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

(i) Deferred income

Deferred income represents income receipts which relate to future periods.

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