

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended May 31, 2018

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-37862

**Stellar Acquisition III Inc.**

(Exact Name of Registrant as Specified in Its Charter)

**Republic of the Marshall Islands**

(State or Other Jurisdiction of  
Incorporation or Organization)

**N/A**

(IRS Employer  
Identification No.)

**90 Kifissias Avenue,  
Maroussi Athens, Greece**  
(Address of principal executive offices)

**+30 (210) 876-4858**  
(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
(Do not check if smaller reporting company)		Emerging growth company	<input checked="" type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

As of July 13, 2018, 5,657,117 shares of common stock, par value \$0.0001 per share, were issued and outstanding.

**Stellar Acquisition III Inc.**  
**Table of Contents**

	<u>Page</u>
<b>PART I – FINANCIAL INFORMATION</b>	
Item 1. Consolidated Financial Statements:	
Condensed Interim Consolidated Balance Sheets as of May 31, 2018 (unaudited) and November 30, 2017	1
Condensed Interim Consolidated Statements of Operations for the three months ended May 31, 2018 (unaudited) and 2017 (unaudited), and for the six months ended May 31, 2018 (unaudited) and 2017 (unaudited)	2
Condensed Interim Consolidated Statements of Cash Flows for the six months ended May 31, 2018 (unaudited) and 2017 (unaudited)	3
Notes to Condensed Interim Consolidated Financial Statements (unaudited)	4
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	15
Item 3. Quantitative and Qualitative Disclosures About Market Risk	20
Item 4. Controls and Procedures	21
<b>PART II – OTHER INFORMATION</b>	
Item 1. Legal Proceedings	22
Item 1A. Risk Factors	22
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	22
Item 3. Defaults Upon Senior Securities	22
Item 4. Mine Safety Disclosures	22
Item 5. Other Information	22
Item 6. Exhibits	22

**Stellar Acquisition III Inc. and Subsidiary**  
**Condensed Interim Consolidated Balance Sheets**

	<b>May 31, 2018</b>	<b>November 30, 2017</b>
	<b>(unaudited)</b>	<b></b>
<b>Assets</b>		
Current assets		
Cash	\$ 84,062	\$ 117,205
Prepaid expenses	32,247	16,869
<b>Total current assets</b>	<b>116,309</b>	<b>134,074</b>
Cash and investments held in the Trust Account	36,931,070	71,215,856
<b>Total assets</b>	<b>\$ 37,047,379</b>	<b>\$ 71,349,930</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 472,012	\$ 124,931
Accrued liabilities	31,100	12,500
Unsecured promissory notes - related parties	833,482	604,300
Unsecured promissory note - Phunware	263,350	-
<b>Total current liabilities</b>	<b>1,599,944</b>	<b>741,731</b>
<b>Non-current liabilities</b>		
Deferred underwriting fees	886,888	1,725,153
<b>Total non-current liabilities</b>	<b>886,888</b>	<b>1,725,153</b>
<b>Total Liabilities</b>	<b>2,486,832</b>	<b>2,466,884</b>
Common stock subject to possible redemption: 2,839,629 and 6,192,221 shares on May 31, 2018 and November 30, 2017, respectively (at a redemption value of approximately \$10.41 and \$10.32 per share, respectively)	29,560,539	63,883,039
<b>Shareholders' Equity</b>		
Preferred shares, \$0.0001 par value, 10,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, \$0.0001 par value, 200,000,000 shares authorized, 2,817,488 and 2,815,509 shares issued and outstanding on May 31, 2018 and November 30, 2017, respectively (2,839,629 and 6,192,221 shares on May 31, 2018 and November 30, 2017, respectively subject to possible redemption)	282	282
Additional paid-in capital	5,769,955	5,397,188
Accumulated deficit	(770,229)	(397,463)
<b>Total shareholders' equity</b>	<b>5,000,008</b>	<b>5,000,007</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 37,047,379</b>	<b>\$ 71,349,930</b>

See accompanying notes to unaudited condensed interim consolidated financial statements.

**Stellar Acquisition III Inc. and Subsidiary**  
**Condensed Interim Consolidated Statements of Operations (unaudited)**

	<b>Three months ended May 31, 2018</b>	<b>Three months ended May 31, 2017</b>	<b>Six months ended May 31, 2018</b>	<b>Six months ended May 31, 2017</b>
<b>Revenue</b>	\$ -	\$ -	\$ -	\$ -
<b>Operating expenses</b>				
Formation and Operating costs	<u>283,355</u>	<u>310,454</u>	<u>868,828</u>	<u>395,238</u>
<b>Loss from operations</b>	<u>(283,355)</u>	<u>(310,454)</u>	<u>(868,828)</u>	<u>(395,238)</u>
Other income –Trust Account investment income	<u>274,424</u>	<u>127,212</u>	<u>496,062</u>	<u>200,466</u>
<b>Net loss</b>	<u><b>\$ (8,931)</b></u>	<u><b>\$ (183,242)</b></u>	<u><b>\$ (372,766)</b></u>	<u><b>\$ (194,772)</b></u>
Weighted average number of common shares outstanding (excluding shares subject to possible redemption)	2,887,844	2,718,139	2,853,284	2,717,580
Basic and diluted net loss per share (excluding shares subject to possible redemption)	<b>\$ (0.00)</b>	<b>\$ (0.07)</b>	<b>\$ (0.13)</b>	<b>\$ (0.07)</b>

See accompanying notes to unaudited condensed interim consolidated financial statements.

**Stellar Acquisition III Inc. and Subsidiary**  
**Condensed Interim Consolidated Statements of Cash Flows (unaudited)**

	<b>Six months ended May 31, 2018</b>	<b>Six months ended May 31, 2017</b>
<b>Cash Flows from Operating Activities</b>		
Net loss	\$ (372,766)	\$ (194,772)
Adjustments to reconcile net loss to net cash used in operating activities:		
Changes in operating assets and liabilities		
Increase in prepaid expenses	(15,378)	(12,301)
Increase in accounts payable	347,081	56,569
Decrease/(increase) in accrued liabilities	18,600	(4,400)
Net cash used in operating activities	<u>(22,463)</u>	<u>(154,904)</u>
<b>Net cash used in Investing Activities</b>		
Cash withdrawn from Trust Account	34,787,998	-
Interest withdrawn from Trust Account	485,382	220,000
Interest income earned on Trust Account	(496,062)	(200,466)
Net cash provided by investing activities	<u>34,777,318</u>	<u>19,534</u>
<b>Cash Flows from Financing Activities</b>		
Payments due to common shares redeemed	(34,787,998)	-
Payments to related parties (including loans)	(15,246)	-
Contributions from related parties (including loans)	15,246	-
Net cash used in financing activities	<u>(34,787,998)</u>	<u>-</u>
Net decrease in cash	(33,143)	(135,370)
Cash at beginning of period	117,205	490,888
Cash at end of period	<u>\$ 84,062</u>	<u>\$ 355,518</u>
<b>Supplemental disclosure of non-cash financing activities</b>		
Deferred underwriting fees reduction	\$ 838,265	\$ -
Funds from related party promissory notes contributed for extension	\$ 229,182	\$ -
Funds from Phunware promissory note contributed for extension	\$ 263,350	\$ -

See accompanying notes to unaudited condensed interim consolidated financial statements.

**Stellar Acquisition III Inc. and Subsidiary**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(unaudited)**

**NOTE 1 — DESCRIPTION OF ORGANIZATION AND BUSINESS OPERATIONS**

***Organization and General:***

Stellar Acquisition III Inc. (the “Company” or “Stellar”) was incorporated pursuant to the laws of the Republic of the Marshall Islands on December 8, 2015. The Company was formed for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or similar business combination with one or more businesses (the “Business Combination”). The Company is an “emerging growth company,” as defined in Section 2(a) of the Securities Act of 1933, as amended, or the “Securities Act,” as modified by the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”).

On February 27, 2018, Stellar entered into a merger agreement (the “Merger Agreement”) with Phunware Inc., a Delaware company (“Phunware”) and STLR Merger Subsidiary Inc., a Delaware corporation and a newly formed wholly-owned subsidiary of Stellar (“Merger Sub”). The Merger Agreement provides for the merger of Merger Sub with and into Phunware (the “Merger”), with Phunware continuing as the surviving corporation in the Merger. On or prior to the consummation of the transactions contemplated by the Merger Agreement (the “Closing”), the holders of Phunware’s preferred stock will convert all of their issued and outstanding shares of preferred stock into shares of Phunware common stock at a conversion ratio of one share of common stock for each share of preferred stock (the “Preferred Stock Exchange”). Subject to the terms and conditions set forth in the Merger Agreement, at the effective time of the Merger (the “Effective Time”): (i) all shares of Phunware common stock and preferred stock (the “Phunware Stock”) issued and outstanding immediately prior to the Effective Time (after giving effect to the Preferred Stock Exchange) will automatically be cancelled and cease to exist in exchange for the right to receive the Stockholder Merger Consideration, without interest; (ii) each outstanding warrant to acquire shares of Phunware Stock will be cancelled, retired and terminated and cease to represent the right to acquire shares of Phunware Stock in exchange for the right to receive from the Successor a new warrant for shares of Successor common stock with its price and number of shares equitably adjusted based on the conversion of the shares of Phunware Stock into the Stockholder Merger Consideration, but with terms otherwise the same as the Phunware warrant; and (iii) each outstanding option to acquire Phunware Stock (whether vested or unvested) shall be assumed by the Successor and automatically converted into an option to acquire shares of Successor common stock, with its price and number of shares equitably adjusted based on the conversion of the shares of Phunware Stock into the Stockholder Merger Consideration. The Merger Agreement states that the Company will use good faith efforts to achieve a minimum of \$40 million in cash, including funds in the Trust Account and proceeds from any Backstop Financing, available to the post-transaction company. On April 11, 2018, Stellar filed with the SEC a registration statement on Form S-4 in connection with the Merger. On June 11, 2018, the Company filed an amendment to the aforementioned registration statement. Phunware anticipates having a shareholder vote and closing the transaction sometime in 2018.

The Merger Agreement also provides that, immediately prior to the Effective Time, Stellar will convert from a Republic of the Marshall Islands corporation to a Delaware corporation, whether by reincorporation, statutory conversion, merger or otherwise and in accordance with the applicable provisions of the Republic of the Marshall Islands Associations Law, as amended, and the applicable provisions of the DGCL (the “Conversion”). At the Closing, Stellar will change its name to “Phunware, Inc.”.

Phunware, Inc. offers a fully integrated software platform that equips companies with the products, solutions and services necessary to engage, manage and monetize their mobile application portfolios globally at scale. Phunware’s Multiscreen as a Service (MaaS) platform provides the entire mobile lifecycle of applications, media and data in one login through one procurement relationship. Its offerings include:

- Enterprise mobile software including content management, location-based services, marketing automation, business intelligence and analytics, alerts, notifications and messaging, audience engagement, audience monetization, vertical solutions and cryptonetworking, as well as an Application Framework for developers and publishers building their own mobile applications in-house;
- Media for mobile audience building and activation, application discovery, brand awareness, user engagement, user monetization and more; and
- Data for audience insights, campaign engagement and business process optimization.

**Stellar Acquisition III Inc. and Subsidiary**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(unaudited)**

Additionally, Phunware plans to launch PhunCoin, a blockchain-powered token and ecosystem that enables consumers, brands and application developers to transact directly and create a value-based and voluntary data exchange.

In connection with the proposed merger with Phunware, the Company formed a wholly-owned subsidiary, STLR Merger Subsidiary Inc., which was incorporated in Delaware in February 2018. Merger Sub did not have any activity as of May 31, 2018. At May 31, 2018, the Company had not commenced any operations. All activity for the period from December 8, 2015 (inception) through May 31, 2018 relates to the Company's formation and the initial public offering ("Public Offering") described below and since August 24, 2016 a search for a target business with which to complete a Business Combination and activities in connection with the proposed acquisition of Phunware. The Company will not generate any operating revenues until after completion of a Business Combination, at the earliest. The Company will generate non-operating income in the form of interest income on cash and cash equivalents from the proceeds derived from the Public Offering. The Company has selected November 30<sup>th</sup> as its fiscal year end.

***Going Concern:***

Following the Company's announcements on August 24, 2017, November 27, 2017 and February 27, 2018, regarding the first, second and third extensions, respectively, the Company extended its time to consummate a Business Combination until May 24, 2018. On May 22, 2018, Stellar's shareholders approved an amendment to the Company's Second Amended and Restated Articles of Incorporation, extending the date by which Stellar must consummate its initial business combination to August 24, 2018.

In connection with the Company's assessment of going concern considerations in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2014-15, "Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern," management has determined that the mandatory liquidation and subsequent dissolution raises substantial doubt about the Company's ability to continue as a going concern. No adjustments have been made to the carrying amounts of assets or liabilities should the Company be required to liquidate after August 24, 2018.

***Sponsors and Public Financing:***

The Company's sponsors are Astra Maritime Inc. and Dominion Investments Inc., affiliated with the Company's Chairman and co-Chief Executive Officer, and Magellan Investments Corp. and Firmus Investments Inc., affiliated with our co-Chief Executive Officer and Chief Financial Officer. All four companies were incorporated pursuant to the laws of the Republic of the Marshall Islands (the "Sponsors"). The registration statement (the "Registration Statement") for the Public Offering (as described in Note 3) was declared effective by the United States Securities and Exchange Commission (the "SEC") on August 18, 2016. The Company intends to finance a Business Combination with the net proceeds from the \$69,006,100 raised in the Public Offering (Note 3) and the \$3,985,244 private placement in each case including the partial exercise of the underwriter's overallotment option. Upon the closing of the Public Offering and the private placement, \$70,386,222 was deposited in a trust account with Continental Stock Transfer and Trust Company acting as trustee (the "Trust Account") as discussed below. On August 24, 2017, November 24, 2017, and February 27, 2018, the period of time the Company has to consummate a business combination was extended by three months by increasing the minimum amount in the Trust Account by \$402,536 each time, pursuant to the Company's prospectus in connection with the Company's initial public offering. On May 22, 2018, Stellar's shareholders approved an amendment to the Company's Second Amended and Restated Articles of Incorporation, extending the date by which Stellar must consummate its initial business combination to August 24, 2018, or such earlier date as determined by the Company's board of directors, by increasing the minimum amount in the Trust Account by \$124,164 each month. Concurrently, 3,353,060 public shares exercised their right to redeem such public shares. An aggregate \$34,787,998 was removed from Stellar's trust account to pay for such redemptions.

**Stellar Acquisition III Inc. and Subsidiary**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(unaudited)**

***The Trust Account:***

The Trust Account will be invested only in U.S. government treasury bills with a maturity of one hundred and eighty (180) days or less or in money market funds meeting certain conditions under Rule 2a-7 under the Investment Company Act of 1940 which invest only in direct U.S. government obligations. Funds will remain in the Trust Account until the earlier of (i) the consummation of its initial Business Combination or (ii) the distribution of the Trust Account as described below. The remaining proceeds outside the Trust Account may be used to pay for business, legal and accounting due diligence expenses for prospective acquisition targets and continuing general and administrative expenses. The proceeds held from the Public Offering were used to invest in U.S. government treasury bills with a maturity of one hundred and eighty (180) days or less or in money market funds meeting certain conditions under Rule 2a-7 under the Investment Company Act of 1940 which invest only in direct U.S. government obligations. At May 31, 2018, the Trust Account consisted of US treasury bills yielding interest of approximately 1.7% per annum, with a value of \$36,821,109 and another \$109,961 held as cash and cash equivalents.

The Company's amended and restated articles of incorporation provides that, other than the withdrawal of interest to pay taxes, if any, or working capital expenses, none of the funds held in the Trust Account will be released until the earlier of: (i) the completion of the Business Combination; or (ii) the redemption of 100% of the shares of common stock included in the Units being sold in the Public Offering if the Company is unable to complete a Business Combination by August 24, 2018 (subject to the requirements of law). Since March 17, 2017, the Company has withdrawn \$870,774 of interest earned from the Trust Account to pay for working capital expenses, respectively. Additionally, \$99,236, \$101,536 and \$34,168 of interest was used for the first, second and third extensions on August 24, 2017, November 24, 2017 and February 23, 2018, respectively.

***Business Combination:***

The Company's management has broad discretion with respect to the specific application of the net proceeds of the Public Offering, although it initially intends to focus its efforts within the international energy logistics industry. Substantially all of the net proceeds of the Public Offering and the private placement are intended to be generally applied toward consummating a Business Combination with (or acquisition of) a Target Business. As used herein, "Target Business" means one or more target businesses that together have a fair market value equal to at least 80% of the balance in the Trust Account (less any deferred underwriting commissions and taxes payable on interest earned) at the time of the Company signing a definitive agreement in connection with the Business Combination. There is no assurance that the Company will be able to successfully effect a Business Combination.

The Company, after signing a definitive agreement for a Business Combination, will either (i) seek stockholder approval of the Business Combination at a meeting called for such purpose in connection with which shareholders may seek to redeem their shares, regardless of whether they vote for or against the Business Combination, for cash equal to their pro rata share of the aggregate amount then on deposit in the Trust Account as of two business days prior to the consummation of the initial Business Combination, including interest but less taxes payable or amounts released to the Company for working capital, or (ii) provide shareholders with the opportunity to sell their shares to the Company by means of a tender offer (and thereby avoid the need for a stockholder vote) for an amount in cash equal to their pro rata share of the aggregate amount then on deposit in the Trust Account as of two business days prior to commencement of the tender offer, including interest but less taxes payable or amounts released to the Company for working capital. The decision as to whether the Company will seek stockholder approval of the Business Combination or will allow shareholders to redeem their shares in a tender offer will be made by the Company, solely in its discretion, and will be based on a variety of factors such as whether the Company is a foreign private issuer, the timing of the transaction and whether the terms of the transaction would otherwise require the Company to seek stockholder approval unless a vote is required by NASDAQ rules. If the Company seeks stockholder approval, it will complete its Business Combination only if a majority of the outstanding shares of common stock voted are voted in favor of the Business Combination. However, in no event will the Company redeem its public shares in an amount that would cause its net tangible assets to be less than \$5,000,001 upon consummation of the initial Business Combination. In such case, the Company would not proceed with the redemption of its public shares and the related Business Combination, and instead may search for an alternate Business Combination.



**Stellar Acquisition III Inc. and Subsidiary**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(unaudited)**

If the Company holds a shareholder vote or there is a tender offer for shares in connection with a Business Combination, a public shareholder will have the right to redeem its shares for an amount in cash equal to their pro rata share of the aggregate amount then on deposit in the Trust Account as of two business days prior to the consummation of the initial Business Combination, including interest but less taxes payable or amounts released to the Company for working capital purposes. As a result, such shares of common stock have been recorded at redemption amount and classified as temporary equity upon the completion of the Public Offering, in accordance with FASB ASU 480, "Distinguishing Liabilities from Equity." The amount in the Trust Account is initially \$10.20 per public common share (\$70,386,222 held in the Trust Account divided by 6,900,610 public common shares), subject to increase of up to an additional \$0.175 per unit in the event that the Sponsors elect to extend the period of time to consummate a Business Combination, as described in more detail below. As of May 31, 2018, the minimum amount in the Trust Account was approximately \$10.41 per public common share (\$36,929,996 held in the Trust Account divided by 3,547,550 public common shares).

The Company has until August 24, 2018, to complete a Business Combination. If the Company does not complete a Business Combination within this period of time, it shall (i) cease all operations except for the purposes of winding up; (ii) as promptly as reasonably possible, but not more than ten business days thereafter, redeem the public shares of common stock for a per share pro rata portion of the Trust Account, including interest, but less taxes payable or amounts released to the Company for working capital (less up to \$50,000 of such net interest to pay dissolution expenses) and (iii) as promptly as possible following such redemption, dissolve and liquidate the balance of the Company's net assets to its remaining shareholders, as part of its plan of dissolution and liquidation. The initial shareholders have entered into letter agreements with the Company, pursuant to which they have waived their rights to participate in any redemption with respect to their founder shares; however, if the initial shareholders or any of the Company's officers, directors or affiliates acquire shares of common stock in or after the Public Offering, they will be entitled to a pro rata share of the Trust Account upon the Company's redemption or liquidation with respect to such shares in the event the Company does not complete a Business Combination within the required time period.

In the event of such distribution, it is possible that the per share value of the residual assets remaining available for distribution (including Trust Account assets) will be less than the initial public offering price per Unit in the Public Offering.

**NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation:***

The accompanying unaudited condensed interim consolidated financial statements are presented in U.S. dollars in conformity with accounting principles generally accepted in the United States of America ("GAAP") for interim information and in accordance with the instructions to Form 10-Q and Article 8 and Article 10 of Regulation S-X. Accordingly, since they are interim statements, the accompanying consolidated financial statements do not include all of the information and notes required by GAAP for a complete consolidated financial statement presentation. In the opinion of management, the interim consolidated financial statements reflect all adjustments (consisting of normal, recurring adjustments) that are necessary for a fair presentation of the financial position, results of consolidated operations and cash flows for the interim periods presented. Interim results are not necessarily indicative of results for a full year and pursuant to the rules and regulations of the SEC.

***Principles of Consolidation:***

The accompanying condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation.

**Stellar Acquisition III Inc. and Subsidiary**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(unaudited)**

***Emerging Growth Company:***

Section 102(b)(1) of the JOBS Act exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies (that is, those that have not had a Securities Act registration statement declared effective or do not have a class of securities registered under the Exchange Act) are required to comply with the new or revised financial accounting standards. The JOBS Act provides that a company can elect to opt out of the extended transition period and comply with the requirements that apply to non-emerging growth companies but any such election to opt out is irrevocable. The Company has elected not to opt out of such extended transition period which means that when a standard is issued or revised and it has different application dates for public or private companies, the Company, as an emerging growth company, can adopt the new or revised standard at the time private companies adopt the new or revised standard.

***Net Loss per Ordinary Share***

Net loss per common share is computed by dividing net loss by the weighted average number of shares of common stock outstanding, ineligible for redemption, during the period, plus to the extent dilutive, the incremental number of shares of common stock to settle warrants, as calculated using the treasury stock method. At May 31, 2018, the Company had outstanding warrants to purchase 14,871,098 shares. For all periods presented, these shares were excluded from the calculation of diluted loss per share of common stock because their inclusion would have been antidilutive. As a result, diluted loss per common share is the same as basic loss per common share for the period.

***Concentration of Credit Risk:***

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash accounts in a financial institution in Cyprus, which has no deposit insurance. The Company has not experienced losses on these accounts and management believes the Company is not exposed to significant risks on such accounts.

***Fair Value of Financial Instruments:***

The fair value of the Company's assets and liabilities, which qualify as financial instruments under FASB ASC 820, "Fair Value Measurements and Disclosures," approximates the carrying amounts represented in the consolidated balance sheets.

***Use of Estimates:***

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Actual results could differ from those estimates.

***Cash and securities held in Trust Account:***

At May 31, 2018 and November 30, 2017, the assets held in the Trust Account were held in cash and U.S. Treasury Bills. Since March 17, 2017, the Company has withdrawn \$870,774 of interest earned from the Trust Account to pay for operating expenses. Additionally, \$99,236, \$101,536 and \$34,168 of interest was used for the first, second and third extensions on August 24, 2017, November 24, 2017, and February 23, 2018, respectively.

**Stellar Acquisition III Inc. and Subsidiary**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(unaudited)**

***Income Taxes:***

There is, at present, no direct taxation in the Marshall Islands and interest, dividends, and gains payable to the Company are received free of all Marshall Islands taxes. The Company is registered as an “exempted company” pursuant to the Marshall Islands Business Corporations Act (as amended). As the Company proceeds with making investments in various jurisdictions, tax considerations outside the Marshall Islands may arise. Although the Company intends to pursue tax-efficient investments, it may be subject to income tax, withholding tax, capital gains tax, and other taxes imposed by tax authorities in other jurisdictions. For U.S. tax purposes, the Company expects to be treated as a passive foreign investment company by its U.S. shareholders. The Company does not expect to be subject to direct taxation based on net income in the U.S. as long as it maintains its non-U.S. trade or business status. The Company does not expect to invest in any U.S. obligation that will be subject to U.S. withholding taxes. As of May 31, 2018, the Company has not commenced operations and thus has no uncertain tax positions. There were no adjustments related to uncertain tax positions recognized during the period December 8, 2015 (inception) to May 31, 2018.

The Company follows the provisions of FASB ASC 740-10 which prescribes a recognition threshold and measurement attribute for how a company should recognize, measure, present and disclose in its consolidated financial statements uncertain tax positions that the Company has taken or expects to take on its tax return. FASB ASC 740-10 requires that the consolidated financial statements reflect expected future tax consequences of such positions presuming the taxing authorities’ full knowledge of the position and all relevant facts, but without considering time values.

***Redeemable Common Stock:***

As discussed in Note 3, all common shares sold as part of a Unit in the Public Offering contain a redemption feature which allows for the redemption of common shares under the Company’s Liquidation or Tender offer/stockholder/approval provisions. In accordance with FASB ASC 480, redemption provisions not solely within the control of the Company require the security to be classified outside of permanent equity. Ordinary liquidation events, which involve the redemption and liquidation of all of an entity’s equity instruments, are excluded from the provisions of FASB ASC 480. Although the Company did not specify a maximum redemption threshold, its charter provides that in no event will it redeem its Public Shares in an amount that would cause its net tangible assets (shareholders’ equity) to be less than \$5,000,001.

The Company recognizes changes in redemption value immediately as they occur and will adjust the carrying value of the security to equal the redemption value at the end of each reporting period. Increases or decreases in the carrying amount of redeemable common stock shall be affected by charges against additional paid-in capital.

Accordingly, at May 31, 2018 and November 30, 2017, 2,839,629 and 6,192,221 of the 3,547,550 and 6,900,610 Public Shares were classified outside of permanent equity at their redemption value, respectively.

***Recent Accounting Pronouncements:***

Management does not believe there are any recently issued, but not yet effective, accounting pronouncements, that if currently adopted, would have a material effect on the Company’s consolidated financial statements.

**Stellar Acquisition III Inc. and Subsidiary**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(unaudited)**

**NOTE 3 — PUBLIC OFFERING**

On August 24, 2016, the Company closed the Public Offering for the sale of 6,500,000 units at a price of \$10.00 per unit (the “Units”). Each Unit consists of one share of the Company’s common stock, \$0.0001 par value (the “Public Shares”) and one redeemable common stock purchase warrant (the “Warrants”). Under the terms of a warrant agreement, the Company has agreed to use its best efforts to file a new registration statement under the Securities Act to register the shares of common stock underlying the Warrants, following the completion of the Business Combination. Each Warrant entitles the holder to purchase one share of common stock at a price of \$11.50. No fractional shares will be issued upon exercise of the Warrants. If, upon exercise of the Warrants, a holder would be entitled to receive a fractional interest in a share, the Company will, upon exercise, round down to the nearest whole number the number of shares of common stock to be issued to the Warrant holder. Each Warrant will become exercisable on the later of 30 days after the completion of the Business Combination or 12 months from the closing of the Public Offering and will expire five years after the completion of the Business Combination or earlier upon redemption or liquidation. However, if the Company does not complete its initial Business Combination on or prior to the applicable time period to complete the Business Combination, the Warrants will expire at the end of such period. If the Company is unable to deliver registered shares of common stock to the holder upon exercise of Warrants issued in connection with the Company’s public Units during the exercise period, there will be no net cash settlement of these Warrants and the Warrants will expire worthless, unless they may be exercised on a cashless basis in the circumstances described in the warrant agreement. Once the Warrants become exercisable, the Company may redeem the outstanding Warrants in whole and not in part at a price of \$0.01 per Warrant upon a minimum of 30 days’ prior written notice of redemption, only in the event that the last sale price of the Company’s shares of common stock equals or exceeds \$21.00 per share for any 20 trading days within the 30-trading day period ending on the third trading day before the Company sends the notice of redemption to the Warrant holders.

The Company granted the underwriters an overallotment option to purchase an additional 975,000 Units at \$10.00 for 45 days following the closing of the Public Offering. Following the partial exercise of the underwriters’ overallotment option on September 28, 2016, the Company sold an additional 400,610 Units at a price of \$10.00 per unit generating additional gross proceeds of \$4,006,100. The Company paid an underwriting fee of \$1,300,000, equal to a 2.00% underwriting discount on the per Unit offering price to the underwriters, based on a sale of 6,500,000 Units, at the closing of the Public Offering and \$80,122 based on a sale of 400,610 Units, following the partial exercise of the underwriters’ overallotment option on September 28, 2016. The Company will pay an additional fee (the “Deferred Discount”) of 2.5% of the gross offering proceeds payable to underwriters, reduced pro rata for any share redemptions, upon the Company’s completion of a Business Combination. The Deferred Discount will become payable to the underwriters from the amounts held in the Trust Account solely in the event the Company completes its initial Business Combination.

The Company issued the underwriters, as additional compensation for the Public Offering, 100,000 shares at the close of the Public Offering. Following the partial exercise of the underwriters’ overallotment option on September 28, 2016, the Company issued the underwriters, as additional compensation for the Public Offering, another 6,164 shares. The Company accounted for the fair value of these shares, as an expense of the Public Offering resulting in a charge directly to shareholders’ equity. The shares were issued at an estimated fair value of \$1,061,640.

**NOTE 4 — RELATED PARTY TRANSACTIONS**

***Founder Shares***

The Company’s initial shareholders currently own 2,003,403 shares of common stock, following the partial exercise of the underwriters’ overallotment option on September 28, 2016. In January 2016, 2,300,000 shares were initially purchased by Messrs. Tsirigakis and Syllantavos for an aggregate of \$25,000, up to 300,000 of which were subject to forfeiture. In January 2016, Messrs. Tsirigakis and Syllantavos collectively transferred an aggregate of 2,099,900 shares to the Sponsors and an aggregate of 34,500 shares to the Company’s director nominees. In addition, in January 2016, Messrs. Tsirigakis and Syllantavos collectively transferred an aggregate of 165,600 shares to the Company’s other initial shareholders. In August 2016, the Sponsors returned to the Company, at no cost, an aggregate of 129,839 founder shares, which the Company cancelled, leaving an aggregate of 2,170,161 founder shares outstanding. Following the partial exercise of the underwriters’ overallotment option on September 28, 2016, the Sponsors returned to the Company, at no cost, an aggregate of 166,758 founder shares, which the Company cancelled, leaving an aggregate of 2,003,403 founder shares outstanding. The founder shares are identical to the common stock included in the Units sold in the Public Offering except that the founder shares are subject to certain transfer restrictions, as described in more detail below. The Company’s initial shareholders currently own 35.4% of the Company’s issued and outstanding shares of common stock.

**Stellar Acquisition III Inc. and Subsidiary**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(unaudited)**

The Company's initial shareholders have agreed not to transfer, assign or sell any of their founder shares until the earlier of (A) one year after the completion of the Business Combination, or earlier if, subsequent to the Business Combination, the last sale price of the Company's common stock equals or exceeds \$12.00 per share (as adjusted for stock splits, stock dividends, reorganizations, recapitalizations and the like) for any 20 trading days within any 30-trading day period commencing at least 150 days after the Business Combination or (B) the date on which the Company completes a liquidation, merger, stock exchange or other similar transaction after the initial Business Combination that results in all of the Company's shareholders having the right to exchange their shares of common stock for cash, securities or other property.

***Private Placement Warrants***

Upon the closing of the Public Offering on August 24, 2016, the Sponsors paid the Company \$3,825,000 in a private placement for the purchase of an aggregate of 7,650,000 Warrants at a price of \$0.50 per Warrant (the "Private Placement Warrants"). Following the partial exercise of the underwriters' overallotment option on September 28, 2016, the Sponsors purchased 320,488 additional Private Placement Warrants for an aggregate price of \$160,244. Each Private Placement Warrant entitles the holder to purchase one share of common stock at \$11.50 per share. The proceeds from the sale of the Private Placement Warrants have been added to the proceeds from the Public Offering held in the Trust Account pending completion of the Business Combination. The Private Placement Warrants (including the common stock issuable upon exercise of the Private Placement Warrants) will not be transferable, assignable or salable until 30 days after the completion of the initial Business Combination and they will be non-redeemable so long as they are held by the Sponsors or their permitted transferees. If the Private Placement Warrants are held by someone other than the Sponsors or their permitted transferees, the Private Placement Warrants will be redeemable by the Company and exercisable by such holders on the same basis as the Warrants included in the Units being sold in the Public Offering. Otherwise, the Private Placement Warrants have terms and provisions that are identical to those of the Warrants sold as part of the Units in the Public Offering and have no net cash settlement provisions.

If the Company does not complete a Business Combination, then the proceeds will be part of the liquidating distribution to the public shareholders and the Warrants issued to the Sponsors will expire worthless.

***Registration Rights***

The Company's initial shareholders and holders of the Private Placement Warrants are entitled to registration rights pursuant to a registration rights agreement executed on August 18, 2016. The Company's initial shareholders and holders of the Private Placement Warrants are entitled to make up to three demands, excluding short form registration demands, that the Company register such securities for sale under the Securities Act. In addition, these holders have "piggy-back" registration rights to include their securities in other registration statements filed by the Company. The Company will bear the expenses incurred in connection with the filing of any such registration statements. There are no penalties associated with delays in registering the securities under the registration rights agreement.

***Related Party Loans***

As of January 15, 2016, three of the Company's Sponsors, Firmus Investments Inc., Astra Maritime, Inc. and Magellan Investments Corp., have agreed to loan the Company an aggregate of \$250,000 against the issuance of an unsecured promissory note (the "Note") to cover expenses related to the Public Offering. Between January and August 2016, the Company borrowed approximately \$207,985 under this loan from the three Sponsors. These loans were non-interest bearing and were paid in full on August 24, 2016. Additionally, between January and August 2016 Nautilus Energy Management Corp., an affiliate of the Company's co-Chief Executive Officers paid for certain expenses related to the Company's roadshow and offering amounting to \$42,550. Nautilus Energy Management Corp. was reimbursed for these expenses in full on August 24, 2016.

**Stellar Acquisition III Inc. and Subsidiary**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(unaudited)**

On August 24, 2017, the Company issued unsecured promissory notes (the “First Extension Notes”) in the aggregate amount of \$303,300 to three of the Company’s Sponsors, Firmus Investments Inc., Astra Maritime, Inc. and Magellan Investments Corp., affiliates of our co-CEOs, Mr. Prokopios (Akis) Tsirigakis, and of Mr. George Syllantavos. The Trust Account was funded properly for the extension. These funds, which were deposited into the Trust Account, were used to extend the period of time the Company has to consummate a business combination by three months to November 24, 2017.

On November 23, 2017, the Company issued unsecured promissory notes (the “Second Extension Notes”) in the aggregate amount of \$301,000 to three of the Company’s Sponsors, Firmus Investments Inc., Astra Maritime, Inc. and Magellan Investments Corp., affiliates of our co-CEOs, Mr. Prokopios (Akis) Tsirigakis, and of Mr. George Syllantavos. These funds, which were deposited into the Trust Account, were used to extend the period of time the Company has to consummate a business combination by three months to February 24, 2018.

On February 23, 2018, the Company issued unsecured promissory notes in the aggregate amount of \$167,100 to three of the Company’s Sponsors, Firmus Investments Inc., Astra Maritime, Inc. and Magellan Investments Corp., affiliates of our co-CEOs, Mr. Prokopios (Akis) Tsirigakis, and of Mr. George Syllantavos. Additionally, on February 22, 2018 the Company issued a promissory note in the aggregate amount of \$201,268 to Phunware. The promissory note payable to Phunware bears no interest, and is payable on the earlier of (a) the date of consummation of the merger pursuant to the terms of the Merger Agreement, (b) the date that the Company consummates its initial business combination, or (c) the date of liquidation of the Company. The aggregate funds from the four aforementioned promissory notes (collectively the “Third Extension Notes”), which were deposited into the Trust Account, were used to extend the period of time the Company has to consummate a business combination by three months to May 24, 2018.

On May 22, 2018, Stellar issued unsecured promissory notes in the aggregate amount of \$62,082 to three of the Company’s Sponsors, Firmus Investments Inc., Astra Maritime, Inc. and Magellan Investments Corp., affiliates of our co-CEOs, Mr. Prokopios (Akis) Tsirigakis, and of Mr. George Syllantavos. Additionally, on May 22, 2018 the Company issued a promissory note in the aggregate amount of \$62,082 to Phunware (collectively the “Fourth Extension Notes”). The aggregate funds from the Fourth Extension Notes were deposited into the Trust Account and were used to extend the period of time the Company has to consummate a business combination by one month to June 24, 2018.

On June 23, 2018, Stellar issued unsecured promissory notes in the aggregate amount of \$62,082 to three of the Company’s Sponsors, Firmus Investments Inc., Astra Maritime, Inc. and Magellan Investments Corp., affiliates of our co-CEOs, Mr. Prokopios (Akis) Tsirigakis, and of Mr. George Syllantavos. Additionally, on May 22, 2018 the Company issued a promissory note in the aggregate amount of \$62,082 to Phunware (collectively the “Fifth Extension Notes”). The aggregate funds from the Fifth Extension Notes were deposited into the Trust Account and were used to extend the period of time the Company has to consummate a business combination by one month to July 24, 2018.

As of May 31, 2018, the outstanding loans to related parties amounted to \$833,482 and the outstanding loans to Phunware amounted to \$263,350.

The First Extension Notes, the Second Extension Notes, the Third Extension Notes and the Fourth Extension Notes (the “Extension Notes”) bear no interest and are repayable in full upon consummation of the Company’s initial business combination. The Sponsors have the option to convert any unpaid balance of the Notes into warrants exercisable for shares of the Company’s common stock, based on a conversion price of \$0.50 per warrant. The terms of any such warrants shall be identical to the terms of the warrants issued pursuant to the private placement that was consummated by the Company in connection with the Company’s initial public offering.

***Administrative Service Agreement and Services Agreement***

The Company has agreed to pay \$10,000 a month for office space, administrative services and secretarial support to Nautilus Energy Management Corp., an affiliate of our co-Chief Executive Officers. Services commenced on the date the securities were first listed on the NASDAQ Capital Market on August 19, 2016 and will terminate upon the earlier of the consummation by the Company of an initial Business Combination or the liquidation of the Company. For the period from December 5, 2015 (inception) through May 31, 2018, the Company paid \$214,194 under this agreement, \$60,000 of which was for the six months ended May 31, 2018.

**Stellar Acquisition III Inc. and Subsidiary**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(unaudited)**

**NOTE 5 — COMMITMENTS AND CONTINGENCIES**

The Company paid an underwriting fee of \$1,300,000, equal to a 2.00% underwriting discount on the per Unit offering price to the underwriters, based on a sale of 6,500,000 Units, at the closing of the Public Offering. Following the partial exercise of the underwriters' over-allotment option on September 28, 2016, the Company paid an additional underwriting fee of \$80,122. The Company will pay an additional fee (the "Deferred Discount") of 2.5% of the gross offering proceeds payable to underwriters, reduced pro rata for any share redemptions, upon the Company's completion of a Business Combination. The Deferred Discount will become payable to the underwriters from the amounts held in the Trust Account solely in the event the Company completes its initial Business Combination. On May 31, 2018, and November 30, 2017, the Deferred Discount amounted to \$886,888 and \$1,725,153, respectively. The reduction was due to the redemption of 3,353,060 shares that took place in May 22, 2018.

The Company sold to the underwriters for \$100, an option to purchase up to a total of 130,000 units, exercisable at \$11.50 per unit (or an aggregate exercise price of \$1,495,000) upon the closing of the Public Offering. The purchase option may be exercised for cash or on a cashless basis, at the holder's option, at any time during the period commencing on the later of the first anniversary of the effective date of the Registration Statement and the closing of our initial Business Combination and terminating on the fifth anniversary of such effectiveness date. The units issuable upon exercise of this option are identical to those offered in the Public Offering. The Company accounted for the fair value of the unit purchase option, net of the receipt of the \$100 cash payment, as an expense of the Public Offering resulting in a charge directly to shareholders' equity. The Company estimates the fair value of this unit purchase option is \$6.01 per unit (for a total fair value of approximately \$781,000) using a Black-Scholes option-pricing model. The fair value of the unit purchase option granted to the underwriter is estimated as of the date of grant using the following assumptions: (1) expected volatility of 37.8% (2) risk-free interest rate of 1.83% and (3) expected life of 5 years. Because the Company's units do not have a trading history, the volatility assumption is based on information currently available to management. The volatility assumption was calculated using the average volatility of stock prices of a selection of companies within the energy logistics space, which are representative of the sectors on which the company intends to focus for the initial business transaction, including: Arc Logistics Partners LP, Ardmore Shipping Corporation, Blueknight Energy Partners, L.P., Buckeye Partners, L.P., Cheniere Energy, Inc., DHT Holdings, Inc., Dorian LPG Ltd., EnLink Midstream, LLC, GasLog Ltd., Genesis Energy LP, Golar LNG Ltd., Kinder Morgan, Inc., Magellan Midstream Partners LP, Navigator Holdings Ltd., Nordic American Tankers Limited, NuStar GP Holdings, LLC, ONEOK Inc., PBF Logistics LP, Scorpio Tankers Inc., StealthGas, Inc., Teekay Tankers Ltd., Tsakos Energy Navigation Limited. The Company believes that the volatility estimate is a reasonable benchmark to use in estimating the expected volatility of the units. Although an expected life of five years was used in the calculation, if the Company does not consummate a Business Combination within the prescribed time period and it liquidates, the option will become worthless. The unit purchase option may be exercised for cash or on a "cashless" basis, at the holder's option, such that the holder may use the appreciated value of the unit purchase option (the difference between the exercise prices of the unit purchase option and the underlying Warrants and the market price of the Units and underlying ordinary shares) to exercise the unit purchase option without the payment of cash.

The Company issued the underwriters, as additional compensation for the Public Offering, 100,000 shares at the close of the Public Offering. Following the partial exercise of the underwriters' over-allotment option on September 28, 2016, the Company issued the underwriters, as additional compensation for the Public Offering, another 6,164 shares. The Company accounted for the fair value of these shares, as an expense of the Public Offering resulting in a charge directly to shareholders' equity. The shares were issued at an estimated fair value of \$1,061,640.

**Stellar Acquisition III Inc. and Subsidiary**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**(unaudited)**

**NOTE 6 — TRUST ACCOUNT AND FAIR VALUE MEASUREMENTS**

As of May 31, 2018, investment securities in the Company’s Trust Account consisted of \$36,821,109 in United States Treasury Bills and another \$109,961 held as cash and cash equivalents. As of November 30, 2017, investment securities in the Company’s Trust Account consisted of \$71,215,004 in United States Treasury Bills and another \$852 held as cash and cash equivalents. The Company classifies its Treasury Instruments and equivalent securities as held-to-maturity in accordance with FASB ASC 320 “Investments - Debt and Equity Securities”. Held-to-maturity securities are those securities which the Company has the ability and intent to hold until maturity. Held-to-maturity treasury securities are recorded at amortized cost on the accompanying May 31, 2018 and November 30, 2017 consolidated balance sheet and adjusted for amortization or accretion of premiums or discounts. The following table presents information about the Company’s assets that are measured at fair value on a recurring basis as of May 31, 2018 and November 30, 2017 and indicates the fair value hierarchy of the valuation techniques the Company utilized to determine such fair value. In addition, the table presents the carrying value under ASC 320, excluding accrued interest income and gross unrealized holding gain. Since all of the Company’s permitted investments consist of U.S. government treasury bills and cash, fair values of its investments are determined by Level 1 inputs utilizing quoted prices (unadjusted) in active markets for identical assets as follows:

	Carrying Value	Gross Unrealized Holding Losses	Quoted prices in Active Markets (Level 1)
U.S. Government Treasury Securities as of May 31, 2018 (maturing on June 21, 2018)	\$ 36,821,109	\$ (1,876)	\$ 36,822,985
U.S. Government Treasury Securities as of November 30, 2017	\$ 71,215,004	\$ (14,157)	\$ 71,229,161

**NOTE 7 — SHAREHOLDERS’ EQUITY**

***Common Stock***

The authorized common stock of the Company includes up to 200,000,000 shares. Holders of the Company’s common stock are entitled to one vote for each share of common stock. At May 31, 2018 and November 30, 2017, there were 5,657,117 and 9,010,177 shares of common stock issued and outstanding, including 2,839,629 and 6,192,221 shares subject to possible redemption, respectively.

***Preferred Stock***

The Company is authorized to issue 10,000,000 shares of preferred stock with such designations, voting and other rights and preferences as may be determined from time to time by the Board of Directors. At May 31, 2018 and November 30, 2017, there were no shares of preferred stock issued and outstanding.



## Stellar Acquisition III Inc. and Subsidiary

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

References to the "Company," "us" or "we" refer to Stellar Acquisition III Inc. The following discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the consolidated financial statements and the notes thereto contained elsewhere in this report.

#### *Special Note Regarding Forward-Looking Statements*

All statements other than statements of historical fact included in this Form 10-Q including, without limitation, statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations" regarding the Company's financial position, business strategy and the plans and objectives of management for future operations, are forward-looking statements. When used in this Form 10-Q, words such as "anticipate," "believe," "estimate," "expect," "intend" and similar expressions, as they relate to us or the Company's management, identify forward-looking statements. Such forward-looking statements are based on the beliefs of management, as well as assumptions made by, and information currently available to, the Company's management. Actual results could differ materially from those contemplated by the forward-looking statements as a result of certain factors detailed in our filings with the SEC.

#### *Overview*

We are a blank check company incorporated pursuant to the laws of the Republic of the Marshall Islands on December 8, 2015 for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or similar Business Combination with one or more businesses. We intend to effectuate our Business Combination using cash from the proceeds of a public offering (the "Public Offering") and a sale of Warrants in a private placement that occurred simultaneously with the completion of the Public Offering (the "Private Placement Warrants"), our capital stock, debt or a combination of cash, stock and debt.

On February 27, 2018, Stellar entered into the Merger Agreement with Phunware Inc., a Delaware company ("Phunware") and STLR Merger Subsidiary Inc., a Delaware corporation and a wholly-owned subsidiary of Stellar ("Merger Sub"). The Merger Agreement provides for the merger of Merger Sub with and into Phunware (the "Merger"), with Phunware continuing as the surviving corporation in the Merger. On or prior to the consummation of the transactions contemplated by the Merger Agreement (the "Closing"), the holders of Phunware's preferred stock will convert all of their issued and outstanding shares of preferred stock into shares of Phunware common stock at a conversion ratio of one share of common stock for each share of preferred stock (the "Preferred Stock Exchange"). Subject to the terms and conditions set forth in the Merger Agreement, at the effective time of the Merger (the "Effective Time"): (i) all shares of Phunware common stock and preferred stock (the "Phunware Stock") issued and outstanding immediately prior to the Effective Time (after giving effect to the Preferred Stock Exchange) will automatically be cancelled and cease to exist in exchange for the right to receive the Stockholder Merger Consideration (as defined below), without interest; (ii) each outstanding warrant to acquire shares of Phunware Stock will be cancelled, retired and terminated and cease to represent the right to acquire shares of Phunware Stock in exchange for the right to receive from the Successor a new warrant for shares of Successor common stock with its price and number of shares equitably adjusted based on the conversion of the shares of Phunware Stock into the Stockholder Merger Consideration, but with terms otherwise the same as the Phunware warrant; and (iii) each outstanding option to acquire Phunware Stock (whether vested or unvested) shall be assumed by the Successor and automatically converted into an option to acquire shares of Successor common stock, with its price and number of shares equitably adjusted based on the conversion of the shares of Phunware Stock into the Stockholder Merger Consideration. On April 11, 2018, Stellar filed with the SEC a registration statement on Form S-4 in connection with the Merger. On June 11, 2018, the Company filed an amendment to the aforementioned registration statement. Phunware anticipates having a shareholder vote and closing the transaction sometime in 2018.

The Merger Agreement also provides that, immediately prior to the Effective Time, Stellar will convert from a Republic of the Marshall Islands corporation to a Delaware corporation, whether by reincorporation, statutory conversion, merger or otherwise and in accordance with the applicable provisions of the Republic of the Marshall Islands Associations Law, as amended, and the applicable provisions of the DGCL (the "Conversion"). At the Closing, Stellar will change its name to "Phunware, Inc."

## Stellar Acquisition III Inc. and Subsidiary

Phunware, Inc. offers a fully integrated software platform that equips companies with the products, solutions and services necessary to engage, manage and monetize their mobile application portfolios globally at scale. Phunware's Multiscreen as a Service (MaaS) platform provides the entire mobile lifecycle of applications, media and data in one login through one procurement relationship. Its offerings include:

- Enterprise mobile software including content management, location-based services, marketing automation, business intelligence and analytics, alerts, notifications and messaging, audience engagement, audience monetization, vertical solutions and cryptonetworking, as well as an Application Framework for developers and publishers building their own mobile applications in-house;
- Media for mobile audience building and activation, application discovery, brand awareness, user engagement, user monetization and more; and
- Data for audience insights, campaign engagement and business process optimization.

Additionally, Phunware plans to launch PhunCoin, a blockchain-powered token and ecosystem that enables consumers, brands and application developers to transact directly and create a value-based and voluntary data exchange.

Under the terms of the Merger Agreement, Phunware shareholders will receive consideration in the form of newly issued Stellar equity securities, valued based on an enterprise value of \$301 million for Phunware and subject to customary adjustments for cash and debt and, at the election of Phunware's shareholders, acquire from Stellar sponsors up to 929,890 warrants to purchase Stellar common stock at \$0.50 per warrant. In addition, all Phunware stock options and warrants will be assumed by Stellar in the transaction as part of the merger consideration. Cash proceeds released from Stellar's trust account after any shareholder redemptions and payment of transaction expenses and other Stellar liabilities shall remain with the combined company, and Phunware intends to use the cash proceeds from the trust account to grow its business, fund inorganic growth initiatives and for working capital.

The issuance of additional shares of our stock in a Business Combination:

- may significantly dilute the equity interest of our stockholders;
- may subordinate the rights of holders of common stock if preferred stock is issued with rights senior to those afforded our common stock;
- could cause a change of control if a substantial number of shares of our common stock are issued, which may affect, among other things, our ability to use our net operating loss carry forwards, if any, and could result in the resignation or removal of our present officers and directors;
- may have the effect of delaying or preventing a change of control of us by diluting the stock ownership or voting rights of a person seeking to obtain control of us; and
- may decrease prevailing market prices for our common stock and/or Warrants.

Similarly, if we issue debt securities, it could result in:

- a decrease in the prevailing market prices for our common stock and/or Warrants.
- default and foreclosure on our assets if our operating revenues after an initial Business Combination are insufficient to repay our debt obligations;

## Stellar Acquisition III Inc. and Subsidiary

- acceleration of our obligations to repay the indebtedness even if we make all principal and interest payments when due if we breach certain covenants that require the maintenance of certain financial ratios or reserves without a waiver or renegotiation of that covenant;
- our immediate payment of all principal and accrued interest, if any, if the debt security is payable on demand;
- our inability to obtain necessary additional financing if the debt security contains covenants restricting our ability to obtain such financing while the debt security is outstanding;
- our inability to pay dividends on our common stock;
- using a substantial portion of our cash flow to pay principal and interest on our debt, which will reduce the funds available for dividends on our common stock if declared, expenses, capital expenditures, acquisitions and other general corporate purposes;
- limitations on our flexibility in planning for and reacting to changes in our business and in the industry in which we operate;
- increased vulnerability to adverse changes in general economic, industry and competitive conditions and adverse changes in government regulation; and
- limitations on our ability to borrow additional amounts for expenses, capital expenditures, acquisitions, debt service requirements, execution of our strategy and other purposes and other disadvantages compared to our competitors who have less debt.

As indicated in the accompanying consolidated financial statements, at May 31, 2018, the Trust Account consisted of US treasury bills yielding interest of approximately 1.7% per annum, with a total value of \$36,821,109 and another \$109,961 held as cash and cash equivalents. We expect to incur significant costs in the pursuit of our acquisition plans. We cannot assure you that our plans to complete our initial Business Combination will be successful.

### *Results of Operations*

For the period from December 8, 2015 (inception) through May 31, 2018, our activities consisted of formation and preparation for the Public Offering and subsequent to the Public Offering, and efforts directed toward locating and completing a suitable Business Combination. Our operating costs for those periods include our search for a Business Combination and are largely associated with our governance and public reporting, and charges of \$10,000 per month payable to an affiliate of our Sponsor for administrative services.

### *Liquidity and Capital Resources*

In August 2016, we consummated the Public Offering of an aggregate of 6,500,000 units at a price of \$10.00 per unit generating gross proceeds of approximately \$65,000,000 before underwriting discounts and expenses. Simultaneously with the consummation of the Public Offering, we consummated the private placement of 7,650,000 Private Placement Warrants, each exercisable to purchase one share of our common stock at \$11.50 per share, to the Sponsor, at a price of \$0.50 per Private Placement Warrant, generating gross proceeds, before expenses, of approximately \$3,825,000. We received net proceeds from the Public Offering and the sale of the Private Placement Warrants of approximately \$66,906,000, net of the non-deferred portion of the underwriting commissions of \$1,300,000 and offering costs and other expenses of approximately \$619,000. Following the partial exercise of the underwriters' overallotment option on September 28, 2016, the Company sold an additional 400,610 units at a price of \$10.00 per unit generating gross proceeds of approximately \$4,006,100 before underwriting discounts and expenses. Simultaneously, the Sponsor purchased an additional 320,488 Private Placement Warrants at a price of \$0.50 per Private Placement Warrant, generating gross proceeds, of approximately \$160,244. The non-deferred portion of the underwriting commissions paid by the Company amounted to \$80,122, while the Company incurred additional expenses related to the partial exercise of the overallotment option of \$11,709. Of the aforementioned proceeds, \$70,386,222 was deposited in the Trust Account and is not available to us for operations (except amounts designated for working capital and amounts to pay taxes and working capital). At May 31, 2018, we had approximately \$51,409 of cash available outside of the Trust Account to fund our activities to search for a Business Combination.

### **Stellar Acquisition III Inc. and Subsidiary**

Until the consummation of the Public Offering, the Company's only sources of liquidity were an initial purchase of shares of our common stock ("Founder Shares") for \$25,000 by Messrs. Tsirigakis and Syllantavos, and a total of approximately \$208,000 loaned by three of the Company's Sponsors, Firmus Investments Inc., Astra Maritime, Inc. and Magellan Investments Corp. against the issuance of an unsecured promissory note (the "Note"). These loans were non-interest bearing and were paid in full on August 24, 2016 in connection with the closing of the Public Offering.

On August 24, 2017, the Company issued unsecured promissory notes (the "First Extension Notes") in the aggregate amount of \$303,300 to three of the Company's Sponsors, Firmus Investments Inc., Astra Maritime, Inc. and Magellan Investments Corp., affiliates of our co-CEOs, Mr. Prokopios (Akis) Tsirigakis, and of Mr. George Syllantavos. The Trust Account was funded properly for the extension. These funds, which were deposited into the Trust Account, were used to extend the period of time the Company has to consummate a business combination by three months to November 24, 2017.

On November 23, 2017, the Company issued unsecured promissory notes (the "Second Extension Notes") in the aggregate amount of \$301,000 to three of the Company's Sponsors, Firmus Investments Inc., Astra Maritime, Inc. and Magellan Investments Corp., affiliates of our co-CEOs, Mr. Prokopios (Akis) Tsirigakis, and of Mr. George Syllantavos. These funds, which were deposited into the Trust Account, were used to extend the period of time the Company has to consummate a business combination by three months to February 24, 2018.

On February 23, 2018, the Company issued unsecured promissory notes in the aggregate amount of \$167,100 to three of the Company's Sponsors, Firmus Investments Inc., Astra Maritime, Inc. and Magellan Investments Corp., affiliates of our co-CEOs, Mr. Prokopios (Akis) Tsirigakis, and of Mr. George Syllantavos. Additionally, on February 22, 2018, the Company issued a promissory note in the aggregate amount of \$201,268 to Phunware. The aggregate funds from the four aforementioned promissory notes (in aggregate the "Third Extension Notes"), which were deposited into the Trust Account, were used to extend the period of time the Company has to consummate a business combination by three months to May 24, 2018.

On May 22, 2018, Stellar's shareholders approved an amendment to its extending the date by which Stellar must consummate its initial business combination to August 24, 2018. Concurrently, 3,353,060 public shares exercised their right to redeem such public shares. An aggregate \$34,787,998 was removed from Stellar's trust account to pay such redemptions. These redemptions thus caused the balance of the trust account to fall below the Minimum Cash Asset Level as defined in the Merger Agreement. On May 22, 2018, Stellar issued unsecured promissory notes in the aggregate amount of \$62,082 to three of the Company's Sponsors, Firmus Investments Inc., Astra Maritime, Inc. and Magellan Investments Corp., affiliates of our co-CEOs, Mr. Prokopios (Akis) Tsirigakis, and of Mr. George Syllantavos. Additionally, on May 22, 2018 the Company issued a promissory note in the aggregate amount of \$62,082 to Phunware (in aggregate the "Fourth Extension Notes"). The aggregate funds from the Fourth Extension Notes were deposited into the Trust Account and were used to extend the period of time the Company has to consummate a business combination by one month to June 24, 2018.

On June 23, 2018, Stellar issued unsecured promissory notes in the aggregate amount of \$62,082 to three of the Company's Sponsors, Firmus Investments Inc., Astra Maritime, Inc. and Magellan Investments Corp., affiliates of our co-CEOs, Mr. Prokopios (Akis) Tsirigakis, and of Mr. George Syllantavos. Additionally, on May 22, 2018 the Company issued a promissory note in the aggregate amount of \$62,082 to Phunware (collectively the "Fifth Extension Notes"). The aggregate funds from the Fifth Extension Notes were deposited into the Trust Account and were used to extend the period of time the Company has to consummate a business combination by one month to July 24, 2018.

As of May 31, 2018, the outstanding loans to related parties amounted to \$833,482 and the outstanding loans to Phunware amounted to \$263,350.

## Stellar Acquisition III Inc. and Subsidiary

### *Critical Accounting Policies*

#### *Off-balance sheet financing arrangements*

We have no obligations, assets or liabilities which would be considered off-balance sheet arrangements. We do not participate in transactions that create relationships with unconsolidated entities or financial partnerships, often referred to as variable interest entities, which would have been established for the purpose of facilitating off-balance sheet arrangements.

We have not entered into any off-balance sheet financing arrangements, established any special purpose entities, guaranteed any debt or commitments of other entities, or entered into any non-financial assets.

#### *Contractual obligations*

At May 31, 2018, we did not have any long-term debt, capital lease obligations, operating lease obligations or long-term liabilities. The Company has agreed to pay \$10,000 a month for office space, administrative services and secretarial support to Nautilus Energy Management Corp., an affiliate of our co-Chief Executive Officers. Services commenced on the date the securities were first listed on the NASDAQ Capital Market on August 19, 2016 and will terminate upon the earlier of the consummation by the Company of an initial Business Combination or the liquidation of the Company.

### *Critical Accounting Policies*

The preparation of consolidated financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and income and expenses during the periods reported. Actual results could materially differ from those estimates. The Company has identified the following as its critical accounting policies:

#### *Emerging Growth Company*

Section 102(b)(1) of the JOBS Act exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies (that is, those that have not had a Securities Act registration statement declared effective or do not have a class of securities registered under the Exchange Act) are required to comply with the new or revised financial accounting standards. The JOBS Act provides that a company can elect to opt out of the extended transition period and comply with the requirements that apply to non-emerging growth companies but any such an election to opt out is irrevocable. The Company has elected not to opt out of such extended transition period which means that when a standard is issued or revised and it has different application dates for public or private companies, the Company, as an emerging growth company, can adopt the new or revised standard at the time private companies adopt the new or revised standard.

#### *Income (Loss) Per Common Share*

Net income (loss) per common share is computed by dividing net loss applicable to common stockholders by the weighted average number of shares of common stock outstanding during the period, plus to the extent dilutive the incremental number of shares of common stock to settle Warrants, as calculated using the treasury stock method. At May 31, 2018, the Company had outstanding Warrants to purchase 14,871,098 shares of common stock. For all periods presented, these shares were excluded from the calculation of diluted loss per share of common stock because their inclusion would have been anti-dilutive. As a result, diluted loss per common share is the same as basic loss per common share for the period.

## Stellar Acquisition III Inc. and Subsidiary

### *Financial Instruments*

The fair value of the Company's assets and liabilities, which qualify as financial instruments under FASB ASC 820, "Fair Value Measurements and Disclosures," approximates the carrying amounts represented in the accompanying consolidated balance sheets.

### *Income Taxes*

There is, at present, no direct taxation in the Marshall Islands and interest, dividends, and gains payable to the Company are received free of all Marshall Islands taxes. The Company is registered as an "exempted company" pursuant to the Marshall Islands Business Corporations Act (as amended). As the Company proceeds with making investments in various jurisdictions, tax considerations outside the Marshall Islands may arise. Although the Company intends to pursue tax-efficient investments, it may be subject to income tax, withholding tax, capital gains tax, and other taxes imposed by tax authorities in other jurisdictions. For U.S. tax purposes, the Company expects to be treated as a passive foreign investment company by its U.S. shareholders. The Company does not expect to be subject to direct taxation based on net income in the U.S. as long as it maintains its non-U.S. trade or business status. The Company does not expect to invest in any U.S. obligation that will be subject to U.S. withholding taxes.

The Company follows the provisions of ASC 740-10 which prescribes a recognition threshold and measurement attribute for how a company should recognize, measure, present and disclose in its consolidated financial statements uncertain tax positions that the Company has taken or expects to take on its tax return. ASC 740-10 requires that the consolidated financial statements reflect expected future tax consequences of such positions presuming the taxing authorities' full knowledge of the position and all relevant facts, but without considering time values. As of May 31, 2018, the Company has not commenced operations and thus has no uncertain tax positions.

### *Redeemable common stock*

All of the 6,900,610 shares of common stock sold as part of the Units in the Public Offering contain a redemption feature which allows for the redemption of such common stock under the Company's liquidation or tender offer/stockholder approval provisions. In accordance with ASC 480, redemption provisions not solely within the control of the Company require the security to be classified outside of permanent equity. Ordinary liquidation events, which involve the redemption and liquidation of all of the entity's equity instruments, are excluded from the provisions of ASC 480. Although the Company does not specify a maximum redemption threshold, its amended and restated certificate of incorporation provides that in no event will the Company redeem its Public Shares in an amount that would cause its net tangible assets (stockholders' equity) to be less than \$5,000,001.

The Company recognizes changes in redemption value immediately as they occur and adjusts the carrying value of the security to equal the redemption value at the end of each reporting period. Increases or decreases in the carrying amount of redeemable common stock are affected by charges against additional paid-in capital.

At May 31, 2018, 2,839,629 of the 5,657,117 Public Shares were classified outside of permanent equity at redemption value of \$10.41 per share.

### *Recent Accounting Pronouncements*

Management does not believe that there are any recently issued, but not yet effective, accounting pronouncements, if currently adopted, would have a material effect on the Company's consolidated financial statements.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The net proceeds of our initial public offering and the sale of the private placement warrants held in the trust account are invested in U.S. government treasury bills with a maturity of 180 days or less or in money market funds meeting certain conditions under Rule 2a-7 under the Investment Company Act which invest only in direct U.S. government treasury obligations. Due to the short-term nature of these investments, we believe there will be no associated material exposure to interest rate risk.

**ITEM 4. CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures*

Under the supervision and with the participation of our management, including our co-Chief Executive Officers (together, the “Certifying Officers”), we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based on the foregoing, our Certifying Officers concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Report.

Disclosure controls and procedures are controls and other procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our Certifying Officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

*Management’s Report on Internal Controls Over Financial Reporting*

This Report does not include a report of management’s assessment regarding internal control over financial reporting or an attestation report of our registered public accounting firm due to a transition period established by the rules of the Commission for newly public companies.

*Changes in Internal Control over Financial Reporting*

There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Stellar Acquisition III Inc. and Subsidiary

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

As of the date of this Report, there have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K for the year ended November 28, 2017 except we may disclose changes to such factors or disclose additional factors from time to time in our future filings with the SEC including, but not limited to, those risks included in the Company's Registration Statement on Form S-4, initially filed by the Company on April 17, 2018 and as amended from time to time.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Description
10.1	<a href="#">Form of Sponsor Promissory Note</a>
10.2	<a href="#">Promissory Note issued to Phunware Inc.</a>
31.1	<a href="#">Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002.</a>
31.2	<a href="#">Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002.</a>
32.1*	<a href="#">Certification of the Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.</a>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

\* Furnished herewith



**Stellar Acquisition III Inc. and Subsidiary**

**SIGNATURES**

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: July 13, 2018

STELLAR ACQUISITION III INC.

By: /s/ Prokopios (Akis) Tsirigakis  
Name: Prokopios (Akis) Tsirigakis  
Title: co-Chief Executive Officer

By: /s/ George Syllantavos  
Name: George Syllantavos  
Title: co-Chief Executive Officer,  
Chief Financial Officer

THIS PROMISSORY NOTE (“NOTE”) HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”). THIS NOTE HAS BEEN ACQUIRED FOR INVESTMENT ONLY AND MAY NOT BE SOLD, TRANSFERRED OR ASSIGNED IN THE ABSENCE OF REGISTRATION OF THE RESALE THEREOF UNDER THE SECURITIES ACT OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY IN FORM, SCOPE AND SUBSTANCE TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED.

### PROMISSORY NOTE

Principal Amount: \$ \_\_\_\_\_

Dated as of \_\_\_\_, 2018  
New York, New York

Stellar Acquisition III Inc., a Marshall Islands corporation and blank check company (the “**Maker**”), promises to pay to the order of \_\_\_\_\_ or its registered assigns or successors in interest (the “**Payee**”), or order, the principal sum of \_\_\_\_\_ (\$\_\_\_\_\_) in lawful money of the United States of America, on the terms and conditions described below. All payments on this Note shall be made by check or wire transfer of immediately available funds or as otherwise determined by the Maker to such account as the Payee may from time to time designate by written notice in accordance with the provisions of this Note.

**1. Principal.** The principal balance of this Note shall be payable by the Maker on the date (the “**Maturity Date**”) on which Maker consummates its initial business combination (the “**Business Combination**”). The principal balance may not be prepaid. Under no circumstances shall any individual, including but not limited to any officer, director, employee or shareholder of the Maker, be obligated personally for any obligations or liabilities of the Maker hereunder.

**2. Interest.** No interest shall accrue on the unpaid principal balance of this Note.

**3. Application of Payments.** All payments shall be applied first to payment in full of any costs incurred in the collection of any sum due under this Note, including (without limitation) reasonable attorneys’ fees, and then to the payment in full of any late charges and finally to the reduction of the unpaid principal balance of this Note.

**4. Events of Default.** The following shall constitute an event of default (“**Event of Default**”):

(a) Failure to Make Required Payments. Failure by Maker to pay the principal amount due pursuant to this Note within five (5) business days of the Maturity Date.

(b) Voluntary Bankruptcy, Etc. The commencement by Maker of a voluntary case under any applicable bankruptcy, insolvency, reorganization, rehabilitation or other similar law, or the consent by it to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or other similar official) of Maker or for any substantial part of its property, or the making by it of any assignment for the benefit of creditors, or the failure of Maker generally to pay its debts as such debts become due, or the taking of corporate action by Maker in furtherance of any of the foregoing.

(c) Involuntary Bankruptcy, Etc. The entry of a decree or order for relief by a court having jurisdiction in the premises in respect of Maker in an involuntary case under any applicable bankruptcy, insolvency or other similar law, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of Maker or for any substantial part of its property, or ordering the winding-up or liquidation of its affairs, and the continuance of any such decree or order unstayed and in effect for a period of 60 consecutive days.

### 5. Remedies.

(a) Upon the occurrence of an Event of Default specified in Section 4(a) hereof, Payee may, by written notice to Maker, declare this Note to be due immediately and payable, whereupon the unpaid principal amount of this Note, and all other amounts payable hereunder, shall become immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived, anything contained herein or in the documents evidencing the same to the contrary notwithstanding.

(b) Upon the occurrence of an Event of Default specified in Sections 4(b) and 4(c), the unpaid principal balance of this Note, and all other sums payable with regard to this Note, shall automatically and immediately become due and payable, in all cases without any action on the part of Payee.

**6. Waivers.** Maker and all endorsers and guarantors of, and sureties for, this Note waive presentment for payment, demand, notice of dishonor, protest, and notice of protest with regard to the Note, all errors, defects and imperfections in any proceedings instituted by Payee under the terms of this Note, and all benefits that might accrue to Maker by virtue of any present or future laws exempting any property, real or personal, or any part of the proceeds arising from any sale of any such property, from attachment, levy or sale under execution, or providing for any stay of execution, exemption from civil process, or extension of time for payment; and Maker agrees that any real estate that may be levied upon pursuant to a judgment obtained by virtue hereof or any writ of execution issued hereon, may be sold upon any such writ in whole or in part in any order desired by Payee.

**7. Unconditional Liability.** Maker hereby waives all notices in connection with the delivery, acceptance, performance, default, or enforcement of the payment of this Note, and agrees that its liability shall be unconditional, without regard to the liability of any other party, and shall not be affected in any manner by any indulgence, extension of time, renewal, waiver or modification granted or consented to by Payee, and consents to any and all extensions of time, renewals, waivers, or modifications that may be granted by Payee with respect to the payment or other provisions of this Note, and agrees that additional makers, endorsers, guarantors, or sureties may become parties hereto without notice to Maker or affecting Maker's liability hereunder.

**8. Notices.** All notices, statements or other documents which are required or contemplated by this Note shall be made in writing and delivered: (i) personally or sent by first class registered or certified mail, overnight courier service or facsimile or electronic transmission to the address designated in writing, (ii) by facsimile to the number most recently provided to such party or such other address or fax number as may be designated in writing by such party or (iii) by electronic mail, to the electronic mail address most recently provided to such party or such other electronic mail address as may be designated in writing by such party. Any notice or other communication so transmitted shall be deemed to have been given on the day of delivery, if delivered personally, on the business day following receipt of written confirmation, if sent by facsimile or electronic transmission, one (1) business day after delivery to an overnight courier service or five (5) days after mailing if sent by mail.

**9. Construction.** THIS NOTE SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE REPUBLIC OF THE MARSHALL ISLANDS, WITHOUT REGARD TO CONFLICT OF LAW PROVISIONS THEREOF.

**10. Severability.** Any provision contained in this Note which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

**11. Trust Waiver .** Notwithstanding anything herein to the contrary, the Payee hereby waives any and all right, title, interest or claim of any kind ("**Claim**") in or to any distribution of or from the trust account (the "**Trust Account**") established in which the proceeds of the initial public offering ("the "**IPO**") conducted by the Maker (including the deferred underwriters' discounts and commissions) and the proceeds of the sale of the warrants issued in a private placement that occurred prior to the closing of the IPO were deposited, as described in greater detail in Maker's Registration Statement on Form S-1 (333-212377) filed with the Securities and Exchange Commission in connection with the IPO (the "**Registration Statement**"), and hereby agrees not to seek recourse, reimbursement, payment or satisfaction for any Claim against the Trust Account for any reason whatsoever.

**12. Amendment; Waiver.** Any amendment hereto or waiver of any provision hereof may be made with, and only with, the written consent of the Maker and the Payee.

**13. Assignment.** No assignment or transfer of this Note or any rights or obligations hereunder may be made by any party hereto (by operation of law or otherwise) without the prior written consent of the other party hereto and any attempted assignment without the required consent shall be void.

**14. Conversion.**

(a) At the Payee's option, at any time prior to payment in full of the principal balance of this Note, the Payee may elect to convert all or any portion of this Note into that number of warrants (the "**Conversion Warrants**") equal to: (i) the portion of the principal amount of the Note being converted pursuant to this Section 14, divided by (ii) \$0.50, rounded up to the nearest whole number. Each Conversion Warrant shall have the same terms and conditions as the warrants issued by the Maker pursuant to a private placement, as described in the Registration Statement. The Conversion Warrants, the shares of Common Stock underlying the Conversion Warrants and any other equity security of Maker issued or issuable with respect to the foregoing by way of a stock dividend or stock split or in connection with a combination of shares, recapitalization, amalgamation, consolidation or reorganization (the "**Warrant Shares**"), shall be entitled to the registration rights set forth in Section 15 hereof.

(b) Upon any complete or partial conversion of the principal amount of this Note, (i) such principal amount shall be so converted and such converted portion of this Note shall become fully paid and satisfied, (ii) the Payee shall surrender and deliver this Note, duly endorsed, to Maker or such other address which Maker shall designate against delivery of the Conversion Warrants, (iii) Maker shall promptly deliver a new duly executed Note to the Payee in the principal amount that remains outstanding, if any, after any such conversion and (iv) in exchange for all or any portion of the surrendered Note, Maker shall deliver to Payee the Conversion Warrants, which shall bear such legends as are required, in the opinion of counsel to Maker or by any other agreement between Maker and the Payee and applicable state and federal securities laws.

(c) The Payee shall pay any and all issue and other taxes that may be payable with respect to any issue or delivery of the Conversion Warrants upon conversion of this Note pursuant hereto; provided, however, that the Payee shall not be obligated to pay any transfer taxes resulting from any transfer requested by the Payee in connection with any such conversion.

(d) The Conversion Warrants shall not be issued upon conversion of this Note unless such issuance and such conversion comply with all applicable provisions of law.

**15. Registration Rights.**

(a) Reference is made to that certain Registration Rights Agreement between the Maker and the parties thereto, dated as of August 18, 2016 (the "**Registration Rights Agreement**"). All capitalized terms used in this Section 15 shall have the same meanings ascribed to them in the Registration Rights Agreement.

(b) The holders ("**Holders**") of the Conversion Warrants (or the Warrant Shares) shall be entitled to one Demand Registration, which shall be subject to the same provisions as set forth in Section 2.1 of the Registration Rights Agreement.

(c) The Holders shall also be entitled to include the Conversion Warrants (or the Warrant Shares) in Piggyback Registrations, which shall be subject to the same provisions as set forth in Section 2.2 of the Registration Rights Agreement; provided, however, that in the event that an underwriter advises the Maker that the Maximum Number of Securities has been exceeded with respect to a Piggyback Registration, the Holders shall not have any priority for inclusion in such Piggyback Registration.

(d) Except as set forth above, the Holders and the Maker, as applicable, shall have all of the same rights, duties and obligations set forth in the Registration Rights Agreement.

[Signature page follows]

**IN WITNESS WHEREOF**, Maker, intending to be legally bound hereby, has caused this Note to be duly executed by the undersigned as of the day and year first above written.

**Stellar Acquisition III Inc.**

By: \_\_\_\_\_  
Name: George Syllantavos  
Title: co-CEO

THIS PROMISSORY NOTE ("NOTE") HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). THIS NOTE HAS BEEN ACQUIRED FOR INVESTMENT ONLY AND MAY NOT BE SOLD, TRANSFERRED OR ASSIGNED IN THE ABSENCE OF REGISTRATION OF THE RESALE THEREOF UNDER THE SECURITIES ACT OR AN OPINION OF COUNSEL REASONABLY SATISFACTORY IN FORM, SCOPE AND SUBSTANCE TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED.

### PROMISSORY NOTE

Dated as of May 23rd, 2018

Principal Amount: \$62,082

New York, New York

Stellar Acquisition III Inc., a Republic of the Marshall Islands corporation and blank check company (the "**Maker**"), promises to pay to the order of Phunware, Inc., a Delaware corporation ("**Phunware**") or its registered assigns or successors in interest (the "**Payee**"), or order, the principal sum of Sixty Two Thousand Eighty Two U.S. Dollars (\$62,082) in lawful money of the United States of America, on the terms and conditions described below. All payments on this Note shall be made by check or wire transfer of immediately available funds or as otherwise determined by the Maker to such account as the Payee may from time to time designate by written notice in accordance with the provisions of this Note. This Note is entered into in connection with, and in anticipation of, Maker and Phunware executing and delivering a definitive agreement (the "**Transaction Agreement**") with respect to Maker's initial business combination with Phunware (the "**Transaction**").

**1. Principal.** The principal balance of this Note shall be due and payable by the Maker on the following date (such applicable payment date, the "**Maturity Date**"), subject to Section 11 below:

(a) If within 30 days after the date of this Note (x) the Board of Directors of Phunware approves the Transaction and Maker and (y) Phunware execute and deliver the Transaction Agreement, then the principal balance of this Note shall be due and payable by the Maker to Payee in cash upon the earliest of (i) the date of the consummation of the Transaction pursuant to the terms of the Transaction Agreement, in which case, this Note shall be paid by increasing the consideration payable to Phunware equity holders under the Transaction Agreement in accordance with the terms and conditions of the Transaction Agreement, (ii) the date that Maker consummates its initial business combination and (iii) the date of the liquidation of Maker; and

(b) If within 30 days after the date of this Note (x) the Board of Directors of Phunware does not approve the Transaction and (y) Maker and Phunware do not execute and deliver the Transaction Agreement, then the principal balance of this Note shall be due and payable by the Maker to Payee 30 days after the date of this Note.

Except as provided in Section 14 below, under no circumstances shall any individual, including but not limited to any officer, director, employee or shareholder of the Maker, be obligated personally for any obligations or liabilities of the Maker hereunder.

**2. Interest.** No interest shall accrue on the unpaid principal balance of this Note.

**3. Application of Payments.** Subject to clause (i) of Section 1(a) above, all payments shall be applied first to payment in full of any costs incurred in the collection of any sum due under this Note, including (without limitation) reasonable attorneys' fees, and then to the payment in full of any late charges and finally to the reduction of the unpaid principal balance of this Note.

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**4. Events of Default.** The following shall constitute an event of default (“**Event of Default**”):

(a) Failure to Make Required Payments. Failure by Maker to pay the principal amount due pursuant to this Note within five (5) business days of the Maturity Date.

(b) Voluntary Bankruptcy, Etc. The commencement by Maker of a voluntary case under any applicable bankruptcy, insolvency, reorganization, rehabilitation or other similar law, or the consent by it to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or other similar official) of Maker or for any substantial part of its property, or the making by it of any assignment for the benefit of creditors, or the failure of Maker generally to pay its debts as such debts become due, or the taking of corporate action by Maker in furtherance of any of the foregoing.

(c) Involuntary Bankruptcy, Etc. The entry of a decree or order for relief by a court having jurisdiction in the premises in respect of Maker in an involuntary case under any applicable bankruptcy, insolvency or other similar law, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of Maker or for any substantial part of its property, or ordering the winding-up or liquidation of its affairs, and the continuance of any such decree or order unstayed and in effect for a period of 60 consecutive days.

**5. Remedies.**

(a) Upon the occurrence of an Event of Default specified in Section 4(a) hereof, Payee may, by written notice to Maker, declare this Note to be due immediately and payable, whereupon the unpaid principal amount of this Note, and all other amounts payable hereunder, shall become immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived, anything contained herein or in the documents evidencing the same to the contrary notwithstanding.

(b) Upon the occurrence of an Event of Default specified in Sections 4(b) and 4(c), the unpaid principal balance of this Note, and all other sums payable with regard to this Note, shall automatically and immediately become due and payable, in all cases without any action on the part of Payee.

**6. Waivers.** Maker and all endorsers and guarantors of, and sureties for, this Note waive presentment for payment, demand, notice of dishonor, protest, and notice of protest with regard to the Note, all errors, defects and imperfections in any proceedings instituted by Payee under the terms of this Note, and all benefits that might accrue to Maker by virtue of any present or future laws exempting any property, real or personal, or any part of the proceeds arising from any sale of any such property, from attachment, levy or sale under execution, or providing for any stay of execution, exemption from civil process, or extension of time for payment; and Maker agrees that any real estate that may be levied upon pursuant to a judgment obtained by virtue hereof or any writ of execution issued hereon, may be sold upon any such writ in whole or in part in any order desired by Payee.

**7. Unconditional Liability.** Maker hereby waives all notices in connection with the delivery, acceptance, performance, default, or enforcement of the payment of this Note, and agrees that its liability shall be unconditional, without regard to the liability of any other party, and shall not be affected in any manner by any indulgence, extension of time, renewal, waiver or modification granted or consented to by Payee, and consents to any and all extensions of time, renewals, waivers, or modifications that may be granted by Payee with respect to the payment or other provisions of this Note, and agrees that additional makers, endorsers, guarantors, or sureties may become parties hereto without notice to Maker or affecting Maker’s liability hereunder.

**8. Notices.** All notices, statements or other documents which are required or contemplated by this Note shall be made in writing and delivered: (i) personally or sent by first class registered or certified mail, overnight courier service or facsimile or electronic transmission to the address designated in writing, (ii) by facsimile to the number most recently provided to such party or such other address or fax number as may be designated in writing by such party or (iii) by electronic mail, to the electronic mail address most recently provided to such party or such other electronic mail address as may be designated in writing by such party. Any notice or other communication so transmitted shall be deemed to have been given on the day of delivery, if delivered personally, on the business day following receipt of written confirmation, if sent by facsimile or electronic transmission, one (1) business day after delivery to an overnight courier service or five (5) days after mailing if sent by mail.

**9. Construction.** THIS NOTE SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE REPUBLIC OF THE MARSHALL ISLANDS, WITHOUT REGARD TO CONFLICT OF LAW PROVISIONS THEREOF.

**10. Severability.** Any provision contained in this Note which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

**11. Trust Waiver .** Notwithstanding anything herein to the contrary, the Payee hereby waives any and all right, title, interest or claim of any kind (“**Claim**”) in or to any distribution of or from the trust account (the “**Trust Account**”) established in which the proceeds of the initial public offering (“the “**IPO**”) conducted by the Maker (including the deferred underwriters’ discounts and commissions) and the proceeds of the sale of the warrants issued in a private placement that occurred prior to the closing of the IPO were deposited, as described in greater detail in Maker’s Registration Statement on Form S-1 (333-212377) filed with the Securities and Exchange Commission in connection with the IPO (the “**Registration Statement**”), and hereby agrees not to seek recourse, reimbursement, payment or satisfaction for any Claim against the Trust Account for any reason whatsoever. The provisions of this Section 11 shall be in addition to, and not in limitation of, any releases of Claims provided by Payee pursuant to any other agreement among Payee and Maker, including the Transaction Agreement when executed and delivered by the parties.

**12. Amendment; Waiver.** Any amendment hereto or waiver of any provision hereof may be made with, and only with, the written consent of the Maker and the Payee.

**13. Assignment.** No assignment or transfer of this Note or any rights or obligations hereunder may be made by any party hereto (by operation of law or otherwise) without the prior written consent of the other party hereto and any attempted assignment without the required consent shall be void.

**14. Guaranty.** Notwithstanding any provision of this Note to the contrary, solely in the event that within 30 days after the date of this Note (x) the Board of Directors of Phunware does not approve the Transaction and (y) Maker and Phunware do not execute and deliver the Transaction Agreement, then each of Astra Maritime Corp. and Magellan Investments Corp. (each, a “**Guarantor**”), hereby jointly and severally guarantee to Payee the full and prompt payment of the entire balance of this Note upon an Event of Default.

[Signature page follows]



**IN WITNESS WHEREOF**, Maker, intending to be legally bound hereby, has caused this Note to be duly executed by the undersigned as of the day and year first above written.

**Stellar Acquisition III Inc.**

By: /s/ Akis Tsirigakis  
Name: Akis Tsirigakis  
Title: co-CEO

*The undersigned join as parties solely with respect to Section 14 above:*

**Astra Maritime Corp.**

By: /s/ Akis Tsirigakis  
Name: Akis Tsirigakis  
Title: Director

**Magellan Investments Corp.**

By: /s/ George Syllantavos  
Name: George Syllantavos  
Title: Director

Acknowledged and agreed as of the date first set forth above:

**Phunware, Inc.**

By: /s/ Tushar Patel  
Name: Tushar Patel  
Title: EVP

**CERTIFICATION**  
**PURSUANT TO RULE 13a-14 AND 15d-14**  
**UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Prokopios (Akis) Tsirigakis, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Stellar Acquisition III Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 13, 2018

/s/ Prokopios (Akis) Tsirigakis

Name: Prokopios (Akis) Tsirigakis

Title: Co-Chief Executive Officer and Chairman  
(Principal executive officer)

**CERTIFICATION**  
**PURSUANT TO RULE 13a-14 AND 15d-14**  
**UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, George Syllantavos, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Stellar Acquisition III Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 13, 2018

/s/ George Syllantavos

Name: George Syllantavos

Title: Co-Chief Executive Officer and Chief

Financial Officer (Principal financial and accounting officer)

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Stellar Acquisition III Inc. (the "Company") on Form 10-Q for the period ended May 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, in the capacities and on the dates indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Dated: July 13, 2018

/s/ Prokopios (Akis) Tsirigakis  
Name: Prokopios (Akis) Tsirigakis  
Title: Co-Chief Executive Officer and Chairman  
(Principal executive officer)

/s/ George Syllantavos  
Name: George Syllantavos  
Title: Co-Chief Executive Officer and Chief  
Financial Officer (Principal financial and accounting  
officer)