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FORM 20-F

DIANA SHIPPING INC. - DSX

Filed: March 22, 2013 (period: December 31, 2012)

Annual and transition report of foreign private issuers under sections 13 or 15(d)

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

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Date of event requiring this shell company report.

Commission file number 001-32458

DIANA SHIPPING INC.

(Exact name of Registrant as specified in its charter)

Diana Shipping Inc.

(Translation of Registrant's name into English)

Republic of The Marshall Islands

(Jurisdiction of incorporation or organization)

Pendelis 16, 175 64 Palaio Faliro, Athens, Greece

(Address of principal executive offices)

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class

Common stock, \$0.01 par value

Preferred stock purchase rights

Name of each exchange on which registered

New York Stock Exchange

New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2012, there were 82,233,424 shares of the registrant's common stock outstanding

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Note-Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards

Other

as issued

by the International Accounting Standards
Board

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

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FORWARD-LOOKING STATEMENTS

Diana Shipping Inc., or the Company, desires to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and is including this cautionary statement in connection with this safe harbor legislation. This document and any other written or oral statements made by us or on our behalf may include forward-looking statements, which reflect our current views with respect to future events and financial performance. The words "believe", "except," "anticipate," "intends," "estimate," "forecast," "project," "plan," "potential," "may," "should," "expect" and similar expressions identify forward-looking statements.

Please note in this annual report, "we", "us", "our" and "the Company" all refer to Diana Shipping Inc. and its subsidiaries.

The forward-looking statements in this document are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management's examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, because these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control, we cannot assure you that we will achieve or accomplish these expectations, beliefs or projections.

In addition to these important factors and matters discussed elsewhere herein, important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include the strength of world economies, fluctuations in currencies and interest rates, general market conditions, including fluctuations in charter hire rates and vessel values, changes in demand in the dry-bulk shipping industry, changes in the Company's operating expenses, including bunker prices, crew costs, drydocking and insurance costs, changes in governmental rules and regulations or actions taken by regulatory authorities, potential liability from pending or future litigation, general domestic and international political conditions, potential disruption of shipping routes due to accidents or political events, and other important factors described from time to time in the reports filed by the Company with the Securities and Exchange Commission, or the SEC.

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not Applicable.

Item 2. Offer Statistics and Expected Timetable

Not Applicable.

Item 3. Key Information

A. Selected Financial Data

The following table sets forth our selected consolidated financial data and other operating data. The selected consolidated financial data in the table as of December 31, 2012, 2012, 2011, 2010, 2009 and 2008 are derived from our audited consolidated financial statements and notes thereto which have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). The following data should be read in conjunction with Item 5. "Operating and Financial Review and Prospects", the consolidated financial statements, related notes and other financial information included elsewhere in this annual report.

	As of and for the Year Ended December 31,				
	2012	2011	2010	2009	2008
	(in thousands of U.S. dollars, except for share and per share data, fleet data and average daily results)				
Income Statement Data:					
Time charter revenues	\$ 220,785	\$ 255,669	\$ 275,448	\$ 239,342	\$ 337,391
Other revenues	2,447	1,117	-	-	-
Voyage expenses	8,274	10,597	12,392	11,965	15,003
Vessel operating expenses	66,293	55,375	52,585	41,369	39,899
Depreciation and amortization of deferred charges	62,010	55,278	53,083	44,686	43,259
General and administrative expenses	24,913	25,123	25,347	17,464	13,831
Foreign currency gains	(1,374)	(503)	(1,598)	(478)	(438)
Operating income	63,116	110,916	133,639	124,336	225,837
Interest and finance costs	(7,618)	(4,924)	(5,213)	(3,284)	(5,851)
Interest income	1,432	1,033	920	951	768

	As of and for the Year Ended December 31,				
	2012	2011	2010	2009	2008
(in thousands of U.S. dollars, except for share and per share data, fleet data and average daily results)					
Loss from derivative instruments	(518)	(737)	(1,477)	(505)	-
Insurance settlements for vessel un-repaired damages	-	-	-	-	945
Income / (loss) from investment in Diana Containerships Inc.	(1,773)	1,207	-	-	-
Net income	<u><u>\$ 54,639</u></u>	<u><u>\$ 107,495</u></u>	<u><u>\$ 127,869</u></u>	<u><u>\$ 121,498</u></u>	<u><u>\$ 221,699</u></u>
Loss assumed by non controlling interests	<u><u>\$ -</u></u>	<u><u>\$ 2</u></u>	<u><u>\$ 910</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Net income attributed to Diana Shipping Inc.	<u><u>\$ 54,639</u></u>	<u><u>\$ 107,497</u></u>	<u><u>\$ 128,779</u></u>	<u><u>\$ 121,498</u></u>	<u><u>\$ 221,699</u></u>
Earnings per common share, basic	<u><u>\$ 0.67</u></u>	<u><u>\$ 1.33</u></u>	<u><u>\$ 1.60</u></u>	<u><u>\$ 1.55</u></u>	<u><u>\$ 2.97</u></u>
Earnings per common share, diluted	<u><u>\$ 0.67</u></u>	<u><u>\$ 1.33</u></u>	<u><u>\$ 1.59</u></u>	<u><u>\$ 1.55</u></u>	<u><u>\$ 2.97</u></u>
Weighted average number of common shares, basic	<u><u>81,083,485</u></u>	<u><u>81,081,774</u></u>	<u><u>80,682,770</u></u>	<u><u>78,282,775</u></u>	<u><u>74,375,686</u></u>
Weighted average number of common shares, diluted	<u><u>81,083,485</u></u>	<u><u>81,124,348</u></u>	<u><u>80,808,232</u></u>	<u><u>78,385,464</u></u>	<u><u>74,558,254</u></u>
Cash dividends declared and paid per share	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3.31</u></u>
Balance Sheet Data:					
Cash and cash equivalents	\$ 446,624	\$ 416,674	\$ 345,414	\$ 282,438	\$ 62,033
Total current assets	466,986	432,691	354,649	297,156	68,554
Vessels' net book value	1,211,138	1,046,719	1,160,850	979,343	960,431
Property and equipment, net	22,774	21,659	21,842	200	136
Total assets	1,742,802	1,604,471	1,585,389	1,320,425	1,057,206
Total current liabilities	61,477	48,095	32,510	32,386	20,012
Deferred revenue, non-current portion	-	-	4,227	11,244	22,502
Long-term debt (including current portion), net of deferred financing costs	459,112	373,338	383,623	281,481	238,094
Total stockholders' equity	1,266,424	1,208,878	1,169,930	999,325	775,476
Cash Flow Data:					
Net cash provided by operating activities	\$ 119,886	\$ 154,230	\$ 178,292	\$ 151,903	261,151
Net cash used in investing activities	(169,913)	(90,428)	(252,313)	(73,081)	(108,662)
Net cash provided by / (used in) financing activities	79,977	7,458	136,997	141,583	(107,182)
Fleet Data:					
Average number of vessels (1)	27.6	23.6	22.9	19.2	18.9
Number of vessels at end of period	30.0	24.0	25.0	20.0	19.0
Weighted average age of drybulk vessels at year-end (in years)	6.0	6.3	5.4	4.9	4.3
Weighted average age of containerships at year-end (in years)	-	-	0.6	-	-

	As of and for the Year Ended December 31,				
	2012	2011	2010	2009	2008
Ownership days (2)	10,119	8,609	8,348	7,000	6,913
Available days (3)	9,998	8,474	8,208	6,930	6,892
Operating days (4)	9,865	8,418	8,180	6,857	6,862
Fleet utilization (5)	98.7%	99.3%	99.7%	98.9%	99.6%
Average Daily Results:					
Time charter equivalent (TCE) rate (6)	\$ 21,255	\$ 28,920	\$ 32,049	\$ 32,811	\$ 46,777
Daily vessel operating expenses (7)	6,551	6,432	6,299	5,910	5,772

- (1) Average number of vessels is the number of vessels that constituted our fleet for the relevant period, as measured by the sum of the number of days each vessel was a part of our fleet during the period divided by the number of calendar days in the period.
- (2) Ownership days are the aggregate number of days in a period during which each vessel in our fleet has been owned by us. Ownership days are an indicator of the size of our fleet over a period and affect both the amount of revenues and the amount of expenses that we record during a period.
- (3) Available days are the number of our ownership days less the aggregate number of days that our vessels are off-hire due to scheduled repairs or repairs under guarantee, vessel upgrades or special surveys and the aggregate amount of time that we spend positioning our vessels for such events. The shipping industry uses available days to measure the number of days in a period during which vessels should be capable of generating revenues.
- (4) Operating days are the number of available days in a period less the aggregate number of days that our vessels are off-hire due to any reason, including unforeseen circumstances. The shipping industry uses operating days to measure the aggregate number of days in a period during which vessels actually generate revenues.
- (5) We calculate fleet utilization by dividing the number of our operating days during a period by the number of our available days during the period. The shipping industry uses fleet utilization to measure a company's efficiency in finding suitable employment for its vessels and minimizing the amount of days that its vessels are off-hire for reasons other than scheduled repairs or repairs under guarantee, vessel upgrades, special surveys or vessel positioning for such events.
- (6) Time charter equivalent rates, or TCE rates, are defined as our time charter revenues less voyage expenses during a period divided by the number of our available days during the period, which is consistent with industry standards. Voyage expenses include port charges, bunker (fuel) expenses, canal charges and commissions. TCE rate is a non-GAAP measure, and is a standard shipping industry performance measure used primarily to compare daily earnings generated by vessels on time charters with daily earnings generated by vessels on voyage charters, because charter hire rates for vessels on voyage charters are generally not expressed in per day amounts while charter hire rates for vessels on time charters are generally expressed in such amounts. The following table reflects the calculation of our TCE rates for the periods presented.

	Year Ended December 31,				
	2012	2011	2010	2009	2008
(in thousands of U.S. dollars, except for TCE rates, which are expressed in U.S. dollars, and available days)					
Time charter revenues	\$ 220,785	\$ 255,669	\$ 275,448	\$ 239,342	\$ 337,391
Less: voyage expenses	(8,274)	(10,597)	(12,392)	(11,965)	(15,003)
Time charter equivalent revenues	<u>\$ 212,511</u>	<u>\$ 245,072</u>	<u>\$ 263,056</u>	<u>\$ 227,377</u>	<u>\$ 322,388</u>
Available days	9,998	8,474	8,208	6,930	6,892
Time charter equivalent (TCE) rate	\$ 21,255	\$ 28,920	\$ 32,049	\$ 32,811	\$ 46,777

(7) Daily vessel operating expenses, which include crew wages and related costs, the cost of insurance, expenses relating to repairs and maintenance, the costs of spares and consumable stores, tonnage taxes and other miscellaneous expenses, are calculated by dividing vessel operating expenses by ownership days for the relevant period.

B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

Some of the following risks relate principally to the industry in which we operate and our business in general. Other risks relate principally to the securities market and ownership of our common stock. The occurrence of any of the events described in this section could significantly and negatively affect our business, financial condition or operating results or the trading price of our common stock.

Industry Specific Risk Factors

Charter hire rates for dry bulk carriers may decrease in the future, which may adversely affect our earnings.

The dry bulk shipping industry is cyclical with attendant volatility in charter hire rates and profitability. The degree of charter hire rate volatility among different types of dry bulk carriers has varied widely, and charter hire rates for Panamax and Capesize dry bulk carriers have reached near historically low levels. Because we charter some of our vessels pursuant to short-term time charters, we are exposed to changes in spot market and short-term charter rates for dry bulk carriers and such changes may affect our earnings and the value of our dry bulk carriers at any given time. In addition, we have seven vessels coming off of their current charters in 2013 for which we will be seeking new employment. We cannot assure you that we will be able to successfully charter our vessels in the future or renew existing charters at rates sufficient to allow us to meet our obligations or pay any dividends in the future. Fluctuations in charter rates result from changes in the supply and demand for vessel capacity and changes in the supply and demand for the major commodities carried by water internationally. Because the factors affecting the supply and demand for vessels are outside of our control and are unpredictable, the nature, timing, direction and degree of changes in industry conditions are also unpredictable.

Factors that influence demand for vessel capacity include:

- supply and demand for energy resources, commodities, semi-finished and finished consumer and industrial products;
- changes in the exploration or production of energy resources, commodities, semi-finished and finished consumer and industrial products;
- the location of regional and global exploration, production and manufacturing facilities;
- the location of consuming regions for energy resources, commodities, semi-finished and finished consumer and industrial products;
- the globalization of production and manufacturing;
- global and regional economic and political conditions, including armed conflicts and terrorist activities; embargoes and strikes;
- natural disasters and other disruptions in international trade;
- developments in international trade;
- changes in seaborne and other transportation patterns, including the distance cargo is transported by sea;
- environmental and other regulatory developments;
- currency exchange rates; and
- weather.

Factors that influence the supply of vessel capacity include:

- the number of newbuilding deliveries;
- the scrapping rate of older vessels;
- vessel casualties; and
- the number of vessels that are out of service, namely those that are laid-up, drydocked, awaiting repairs or otherwise not available for hire.

In addition to the prevailing and anticipated freight rates, factors that affect the rate of newbuilding, scrapping and laying-up include newbuilding prices, secondhand vessel values in relation to scrap prices, costs of bunkers and other operating costs, costs associated with classification society surveys, normal maintenance and insurance coverage, the efficiency and age profile of the existing dry bulk fleet in the market and government and industry regulation of maritime transportation practices, particularly environmental protection laws and regulations. These factors influencing the supply of and demand for shipping capacity are outside of our control, and we may not be able to correctly assess the nature, timing and degree of changes in industry conditions.

Demand for our dry bulk carriers is dependent upon economic growth in the world's economies, including China and India, seasonal and regional changes in demand, changes in the capacity of the global dry bulk carrier fleet and the sources and supply of dry bulk cargo transported by sea. Given the large number of new dry bulk carriers currently on order with shipyards, the capacity of the global dry bulk carrier fleet seems likely to increase and economic growth may not resume in areas that have experienced a recession or continue in other areas. Adverse economic, political, social or other developments could have a material adverse effect on our business and operating results.

The dry bulk carrier charter market remains significantly below its high in 2008, which has had and may continue to have an adverse effect on our revenues, earnings and profitability, and may affect our ability to comply with our loan covenants.

The abrupt and dramatic downturn in the dry bulk charter market, from which we derive substantially all of our revenues, has severely affected the dry bulk shipping industry and has adversely affected our business. The Baltic Dry Index, or the BDI, has long been viewed as the main benchmark to monitor the movements of the dry bulk vessel charter market and the performance of the entire dry bulk shipping market. The BDI declined 94% in 2008 from a peak of 11,793 in May 2008 to a low of 663 in December 2008 and has remained volatile since then. The BDI recorded a 25-year record low of 647 in 2012. While the BDI has since increased to 923 as of March 20, 2013, there can be no assurance that the drybulk charter market will increase further, and the market could decline. The decline and volatility in charter rates is due to various factors, including the lack of trade financing for purchases of commodities carried by sea, which has resulted in a significant decline in cargo shipments, and the excess supply of iron ore in China, which has resulted in falling iron ore prices and increased stockpiles in Chinese ports. The decline and volatility in charter rates in the dry bulk market also affects the value of our dry bulk vessels, which follows the trends of dry bulk charter rates, and earnings on our charters, and similarly, affects our cash flows, liquidity and compliance with the covenants contained in our loan agreements.

The decline in the dry bulk carrier charter market has had and may continue to have additional adverse consequences for our industry, including an absence of financing for vessels, no active secondhand market for the sale of vessels, charterers seeking to renegotiate the rates for existing time charters, and widespread loan covenant defaults in the dry bulk shipping industry. Accordingly, the value of our common shares could be substantially reduced or eliminated.

A significant economic slowdown in the Asia Pacific region could exacerbate the effect of recent slowdowns in the economies of the United States and the European Union and may have a material adverse effect on our business, financial condition and results of operations.

Continued economic slowdown in the Asia Pacific region, especially in Japan and China, may exacerbate the effect on us of the recent slowdown in the rest of the world. Before the global economic financial crisis that began in 2008, China had one of the world's fastest growing economies in terms of gross domestic product, or GDP, which had a significant impact on shipping demand. The growth rate of China's GDP decreased to approximately 7.8% for the year ended December 31, 2012, as compared to approximately 9.3% for the year ended December 31, 2011, and continues to remain below pre-2008 levels. China has imposed measures to restrain lending, which may further contribute to a slowdown in its economic growth. China and other countries in the Asia Pacific region may continue to experience slowed or even negative economic growth in the future. Moreover, the current economic slowdown in the economies of the United States, the European Union and other Asian countries may further adversely affect economic growth in China and elsewhere. Our results of operations and ability to grow our fleet would be impeded by a continuing or worsening economic downturn in any of these countries.

A decrease in the level of China's export of goods or an increase in trade protectionism could have a material adverse impact on our charterers' business and, in turn, could cause a material adverse impact on our results of operations, financial condition and cash flows.

Our vessels may be deployed on routes involving trade in and out of emerging markets, and our charterers' shipping and business revenue may be derived from the shipment of goods from the Asia Pacific region to various overseas export markets including the United States and Europe. Any reduction in or hindrance to the output of China-based exporters could have a material adverse effect on the growth rate of China's exports and on our charterers' business.

For instance, the government of China has recently implemented economic policies aimed at increasing domestic consumption of Chinese-made goods. This may have the effect of reducing the supply of goods available for export and may, in turn, result in a decrease of demand for container shipping. Additionally, though in China there is an increasing level of autonomy and a gradual shift in emphasis to a "market economy" and enterprise reform, many of the reforms, particularly some limited price reforms that result in the prices for certain commodities being principally determined by market forces, are unprecedented or experimental and may be subject to revision, change or abolition. The level of imports to and exports from China could be adversely affected by changes to these economic reforms by the Chinese government, as well as by changes in political, economic and social conditions or other relevant policies of the Chinese government.

Our operations expose us to the risk that increased trade protectionism will adversely affect our business. If the continuing global recovery is undermined by downside risks and the recent economic downturn is prolonged, governments may turn to trade barriers to protect their domestic industries against foreign imports, thereby depressing the demand for shipping. Specifically, increasing trade protectionism in the markets that our charterers serve has caused and may continue to cause an increase in: (i) the cost of goods exported from China, (ii) the length of time required to deliver goods from China and (iii) the risks associated with exporting goods from China, as well as a decrease in the quantity of goods to be shipped.

Any increased trade barriers or restrictions on trade, especially trade with China, would have an adverse impact on our charterers' business, operating results and financial condition and could thereby affect their ability to make timely charter hire payments to us and to renew and increase the number of their time charters with us. This could have a material adverse effect on our business, results of operations and financial condition and our ability to pay dividends to our shareholders.

The instability of the euro or the inability of countries to refinance their debts could have a material adverse effect on our revenue, profitability and financial position.

As a result of the credit crisis in Europe, in particular in Greece, Italy, Ireland, Portugal and Spain, the European Commission created the European Financial Stability Facility, or the EFSF, and the European Financial Stability Mechanism, or the EFSM, to provide funding to Eurozone countries in financial difficulties that seek such support. In March 2011, the European Council agreed on the need for Eurozone countries to establish a permanent stability mechanism, the European Stability Mechanism, or the ESM, which was established on September 27, 2012 to assume the role of the EFSF and the EFSM in providing external financial assistance to Eurozone countries. Despite these measures, concerns persist regarding the debt burden of certain Eurozone countries and their ability to meet future financial obligations and the overall stability of the euro. An extended period of adverse development in the outlook for European countries could reduce the overall demand for drybulk cargoes and for our services. These potential developments, or market perceptions concerning these and related issues, could affect our financial position, results of operations and cash flow.

An over-supply of dry bulk carrier capacity may prolong or further depress the current low charter rates and, in turn, adversely affect our profitability.

The market supply of dry bulk carriers has been increasing due to the high level of new deliveries in the last few years. Dry bulk newbuildings were delivered in significant numbers starting at the beginning of 2006 and continued to be delivered in significant numbers through the end of 2012. As of February 2013, the dry bulk orderbook was equivalent to 19% of the existing fleet and a high level of new deliveries is scheduled for the remainder of 2013. However, due to lack of financing, many analysts expect significant cancellations and/ or slippage of newbuilding orders and not all of the vessels scheduled for delivery in 2013 are likely to be delivered on time. While vessel supply will continue to be affected by the delivery of new vessels and the removal of vessels from the global fleet, either through scrapping or accidental losses, an over-supply of dry bulk carrier capacity could exacerbate the recent decrease in charter rates or prolong the period during which low charter rates prevail. Currently, seven of our charters are scheduled to expire in 2013.

World events could affect our results of operations and financial condition.

Continuing conflicts and recent developments in the Middle East, including Egypt, and North Africa, and the presence of U.S. and other armed forces in the Middle East, may lead to additional acts of terrorism and armed conflict around the world, which may contribute to further economic instability in the global financial markets. These uncertainties could also adversely affect our ability to obtain additional financing on terms acceptable to us or at all. In the past, political conflicts have also resulted in attacks on vessels, mining of waterways and other efforts to disrupt international shipping, particularly in the Arabian Gulf region. Acts of terrorism and piracy have also affected vessels trading in regions such as the South China Sea and the Gulf of Aden off the coast of Somalia. Any of these occurrences could have a material adverse impact on our operating results.

Acts of piracy on ocean-going vessels have recently increased in frequency, which could adversely affect our business.

Acts of piracy have historically affected ocean-going vessels trading in regions of the world such as the South China Sea, the Indian Ocean and in the Gulf of Aden off the coast of Somalia. Although the frequency of sea piracy worldwide decreased during 2012 to its lowest level since 2009, sea piracy incidents continue to occur, particularly in the Gulf of Aden off the coast of Somalia and increasingly in the Gulf of Guinea, with drybulk vessels and tankers particularly vulnerable to such attacks. If these piracy attacks result in regions in which our vessels are deployed being characterized as "war risk" zones by insurers, as the Gulf of Aden temporarily was in May 2008, or Joint War Committee "war and strikes" listed areas, premiums payable for such coverage could increase significantly and such insurance coverage may be more difficult to obtain. In addition, crew costs, including due to employing onboard security guards, could increase in such circumstances. Furthermore, while we believe the charterer remains liable for charter payments when a vessel is seized by pirates, the charterer may dispute this and withhold charterhire until the vessel is released. A charterer may also claim that a vessel seized by pirates was not "on-hire" for a certain number of days and is therefore entitled to cancel the charter party, a claim that we would dispute. We may not be adequately insured to cover losses from these incidents, which could have a material adverse effect on us. In addition, any detention hijacking as a result of an act of piracy against our vessels, or an increase in cost, or unavailability, of insurance for our vessels, could have a material adverse impact on our business, financial condition and results of operations.

If economic conditions throughout the world do not improve, it will impede our results of operations, financial condition and cash flows.

Negative trends in the global economy that emerged in 2008 continue to adversely affect global economic conditions. In addition, the world economy continues to face a number of new challenges, including uncertainty related to the continuing discussions in the United States regarding the federal debt ceiling and recent turmoil and hostilities in the Middle East, North Africa and other geographic areas and countries and continuing economic weakness in the European Union. The deterioration in the global economy has caused, and may continue to cause, a decrease in worldwide demand for certain goods and, thus, shipping. We cannot predict how long the current market conditions will last. However, recent and developing economic and governmental factors, together with the concurrent decline in charter rates and vessel values, have had a material adverse effect on our results of operations, financial condition and cash flows, have caused the price of our common shares to decline and could cause the price of our common shares to decline further.

The economies of the United States, the European Union and other parts of the world continue to experience relatively slow growth or remain in recession and exhibit weak economic trends. The credit markets in the United States and Europe have experienced significant contraction, deleveraging and reduced liquidity, and the U.S. federal government and state governments and European authorities continue to implement a broad variety of governmental action and/or new regulation of the financial markets. Global financial markets and economic conditions have been, and continue to be, severely disrupted and volatile. Since 2008, lending by financial institutions worldwide remains at very low levels compared to the period preceding 2008.

Our operating results are subject to seasonal fluctuations, which could affect our operating results and the amount of available cash with which we could pay dividends, if declared.

We operate our vessels in markets that have historically exhibited seasonal variations in demand and, as a result, in charter hire rates. This seasonality may result in quarter-to-quarter volatility in our operating results which could affect the amount of dividends, if any, that we may pay to our shareholders from quarter to quarter. The dry bulk carrier market is typically stronger in the fall and winter months in anticipation of increased consumption of coal and other raw materials in the northern hemisphere during the winter months. In addition, unpredictable weather patterns in these months tend to disrupt vessel scheduling and supplies of certain commodities. As a result, our revenues may be weaker during the fiscal quarters ended June 30 and September 30, and, conversely, our revenues may be stronger in fiscal quarters ended December 31 and March 31. While this seasonality will not directly affect our operating results and cash available for distribution to our shareholders as dividends as long as our fleet is employed on period time charters, it could materially affect our operating results to the extent our vessels are employed in the spot market in the future.

Fuel, or bunker prices, may adversely affect profits.

While we generally will not bear the cost of fuel, or bunkers for vessels operating on time charters, fuel is a significant factor in negotiating charter rates. As a result, an increase in the price of fuel beyond our expectations may adversely affect our profitability at the time of charter negotiation. Fuel is also a significant, if not the largest, expense in our shipping operations when vessels are under voyage charter. The price and supply of fuel is unpredictable and fluctuates based on events outside our control, including geopolitical developments, supply and demand for oil and gas, actions by the Organization of Petroleum Exporting Countries and other oil and gas producers, war and unrest in oil producing countries and regions, regional production patterns and environmental concerns. Further, fuel may become much more expensive in the future, which may reduce the profitability and competitiveness of our business versus other forms of transportation, such as truck or rail.

We are subject to complex laws and regulations, including environmental regulations that can adversely affect the cost, manner or feasibility of doing business.

Our operations are subject to numerous laws and regulations in the form of international conventions and treaties, national, state and local laws and national and international regulations in force in the jurisdictions in which our vessels operate or are registered, which can significantly affect the ownership and operation of our vessels. These requirements include, but are not limited to, European Union Regulations, the International Convention for the Prevention of Pollution from Ships of 1975, the International Maritime Organization, or IMO, International Convention for the Prevention of Marine Pollution of 1973, the IMO International Convention for the Safety of Life at Sea of 1974, the International Convention on Load Lines of 1966, the U.S. Oil Pollution Act of 1990, or OPA, the U.S. Comprehensive Environmental Response, Compensation and Liability Act of 1980, or CERCLA, the U.S. Clean Air Act, U.S. Clean Water Act and the U.S. Marine Transportation Security Act of 2002. Compliance with such laws, regulations and standards, where applicable, may require installation of costly equipment or operational changes and may affect the resale value or useful lives of our vessels. We may also incur additional costs in order to comply with other existing and future regulatory obligations, including, but not limited to, costs relating to air emissions including greenhouse gases, the management of ballast waters, maintenance and inspection, development and implementation of emergency procedures and insurance coverage or other financial assurance of our ability to address pollution incidents. These costs could have a material adverse effect on our business, results of operations, cash flows and financial condition. A failure to comply with applicable laws and regulations may result in administrative and civil penalties, criminal sanctions or the suspension or termination of our operations. Environmental laws often impose strict liability for remediation of spills and releases of oil and hazardous substances, which could subject us to liability without regard to whether we were negligent or at fault. Under OPA, for example, owners, operators and bareboat charterers are jointly and severally strictly liable for the discharge of oil within the 200-mile exclusive economic zone around the United States. Furthermore, the 2010 explosion of the *Deepwater Horizon* and the subsequent release of oil into the Gulf of Mexico, or other events, may result in further regulation of the shipping industry, and modifications to statutory liability schemes, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. An oil spill could result in significant liability, including fines, penalties and criminal liability and remediation costs for natural resource damages under other federal, state and local laws, as well as third-party damages. We are required to satisfy insurance and financial responsibility requirements for potential oil (including marine fuel) spills and other pollution incidents. Although we have arranged insurance to cover certain environmental risks, there can be no assurance that such insurance will be sufficient to cover all such risks or that any claims will not have a material adverse effect on our business, results of operations, cash flows and financial condition and our ability to pay dividends.

We are subject to international safety regulations and the failure to comply with these regulations may subject us to increased liability, may adversely affect our insurance coverage and may result in a denial of access to, or detention in, certain ports.

The operation of our vessels is affected by the requirements set forth in the United Nations' International Maritime Organization's International Management Code for the Safe Operation of Ships and Pollution Prevention, or ISM Code. The ISM Code requires ship owners, ship managers and bareboat charterers to develop and maintain an extensive "Safety Management System" that includes the adoption of a safety and environmental protection policy setting forth instructions and procedures for safe operation and describing procedures for dealing with emergencies. The failure of a shipowner or bareboat charterer to comply with the ISM Code may subject it to increased liability, may invalidate existing insurance or decrease available insurance coverage for the affected vessels and may result in a denial of access to, or detention in, certain ports. Each of the vessels that has been delivered to us is ISM Code-certified and we expect that each other vessel that we have agreed to purchase will be ISM Code-certified when delivered to us.

In addition, vessel classification societies also impose significant safety and other requirements on our vessels. In complying with current and future environmental requirements, vessel-owners and operators may also incur significant additional costs in meeting new maintenance and inspection requirements, in developing contingency arrangements for potential spills and in obtaining insurance coverage. Government regulation of vessels, particularly in the areas of safety and environmental requirements, can be expected to become stricter in the future and require us to incur significant capital expenditures on our vessels to keep them in compliance.

The operation of our vessels is also affected by other government regulation in the form of international conventions, national, state and local laws and regulations in force in the jurisdictions in which the vessels operate, as well as in the country or countries of their registration. Because such conventions, laws, and regulations are often revised, we cannot predict the ultimate cost of complying with such conventions, laws and regulations or the impact thereof on the resale prices or useful lives of our vessels. Additional conventions, laws and regulations may be adopted that could limit our ability to do business or increase the cost of our doing business and which may materially adversely affect our operations. We are required by various governmental and quasi-governmental agencies to obtain certain permits, licenses, certificates, and financial assurances with respect to our operations.

Increased inspection procedures, tighter import and export controls and new security regulations could increase costs and disrupt our business.

International shipping is subject to various security and customs inspection and related procedures in countries of origin, destination and trans-shipment points. These security procedures can result in cargo seizure, delays in the loading, offloading, trans-shipment or delivery and the levying of customs duties, fines or other penalties against us.

For example, since the events of September 11, 2001, U.S. authorities have significantly increased the levels of inspection for all imported containers. Government investment in non-intrusive container scanning technology has grown, and there is interest in electronic monitoring technology, including so-called "e-seals" and "smart" containers that would enable remote, centralized monitoring of containers during shipment to identify tampering with or opening of the containers, along with potentially measuring other characteristics such as temperature, air pressure, motion, chemicals, biological agents and radiation.

It is possible that changes to inspection procedures, such as those described above, could impose additional financial and legal obligations on us. Changes to inspection procedures could also impose additional costs and obligations on our customers and may, in certain cases, render the shipment of certain types of cargo uneconomical or impractical. Any such changes or developments may have a material adverse effect on our business, financial condition and results of operations.

The operation of dry bulk carriers has certain unique operational risks which could affect our earnings and cash flow.

The operation of vessels, such as dry bulk carriers, has certain unique risks. With a dry bulk carrier, the cargo itself and its interaction with the vessel can be an operational risk. By their nature, dry bulk cargoes are often heavy, dense, easily shifted, and react badly to water exposure. In addition, dry bulk carriers are often subjected to battering treatment during unloading operations with grabs, jackhammers (to pry encrusted cargoes out of the hold) and small bulldozers. This treatment may cause damage to the vessel. Vessels damaged due to treatment during unloading procedures may be more susceptible to breach to the sea. Hull breaches in dry bulk carriers may lead to the flooding of the vessels' holds. If a dry bulk carrier suffers flooding in its forward holds, the bulk cargo may become so dense and waterlogged that its pressure may buckle the vessel's bulkheads leading to the loss of a vessel. If we are unable to adequately repair our vessels after such damages, we may be unable to prevent these events. Any of these circumstances or events could negatively impact our business, financial condition, results of operations and ability to pay dividends, if any, in the future. In addition, the loss of any of our vessels could harm our reputation as a safe and reliable vessel owner and operator.

If our vessels call on ports located in countries that are subject to sanctions and embargoes imposed by the U.S. or other governments, that could adversely affect our reputation and the market for our common stock.

From time to time on charterers' instructions, our vessels may call on ports located in countries subject to sanctions and embargoes imposed by the United States government and countries identified by the U.S. government as state sponsors of terrorism, including Cuba, Iran, Sudan and Syria. The U.S. sanctions and embargo laws and regulations vary in their application, as they do not all apply to the same covered persons or proscribe the same activities, and such sanctions and embargo laws and regulations may be amended or strengthened over time. In 2010, the U.S. enacted the Comprehensive Iran Sanctions Accountability and Divestment Act, or CISADA, which expanded the scope of the Iran Sanctions Act. Among other things, CISADA expands the application of the prohibitions to companies such as ours and introduces limits on the ability of companies and persons to do business or trade with Iran when such activities relate to the investment, supply or export of refined petroleum or petroleum products. In addition, 2012, President Obama signed Executive Order 13608 which prohibits foreign persons from violating or attempting to violate, or causing a violation of any sanctions in effect against Iran or facilitating any deceptive transactions for or on behalf of any person subject to U.S. sanctions. Any persons found to be in violation of Executive Order 13608 will be deemed a foreign sanctions evader and will be banned from all contacts with the United States, including conducting business in U.S. dollars. Also in 2012, President Obama signed into law the Iran Threat Reduction and Syria Human Rights Act of 2012, or the Iran Threat Reduction Act, which created new sanctions and strengthened existing sanctions. Among other things, the Iran Threat Reduction Act intensifies existing sanctions regarding the provision of goods, services, infrastructure or technology to Iran's petroleum or petrochemical sector. The Iran Threat Reduction Act also includes a provision requiring the President of the United States to impose five or more sanctions from Section 6(a) of the Iran Sanctions Act, as amended, on a person the President determines is a controlling beneficial owner of, or otherwise owns, operates, or controls or insures a vessel that was used to transport crude oil from Iran to another country and (1) if the person is a controlling beneficial owner of the vessel, the person had actual knowledge the vessel was so used or (2) if the person otherwise owns, operates, or controls, or insures the vessel, the person knew or should have known the vessel was so used. Such a person could be subject to a variety of sanctions, including exclusion from U.S. capital markets, exclusion from financial transactions subject to U.S. jurisdiction, and exclusion of that person's vessels from U.S. ports for up to two years.

Although we believe that we have been in compliance with all applicable sanctions and embargo laws and regulations, and intend to maintain such compliance, there can be no assurance that we will be in compliance in the future, particularly as the scope of certain laws may be unclear and may be subject to changing interpretations. Any such violation could result in fines, penalties or other sanctions that could severely impact our ability to access U.S. capital markets and conduct our business, and could result in some investors deciding, or being required, to divest their interest, or not to invest, in us. In addition, certain institutional investors may have investment policies or restrictions that prevent them from holding securities of companies that have contracts with countries identified by the U.S. government as state sponsors of terrorism. The determination by these investors not to invest in, or to divest from, our common stock may adversely affect the price at which our common stock trades. Moreover, our charterers may violate applicable sanctions and embargo laws and regulations as a result of actions that do not involve us or our vessels, and those violations could in turn negatively affect our reputation. In addition, our reputation and the market for our securities may be adversely affected if we engage in certain other activities, such as entering into charters with individuals or entities in countries subject to U.S. sanctions and embargo laws that are not controlled by the governments of those countries, or engaging in operations associated with those countries pursuant to contracts with third parties that are unrelated to those countries or entities controlled by their governments. Investor perception of the value of our common stock may be adversely affected by the consequences of war, the effects of terrorism, civil unrest and governmental actions in these and surrounding countries.

Maritime claimants could arrest one or more of our vessels, which could interrupt our cash flow.

Crew members, suppliers of goods and services to a vessel, shippers of cargo and other parties may be entitled to a maritime lien against a vessel for unsatisfied debts, claims or damages. In many jurisdictions, a claimant may seek to obtain security for its claim by arresting a vessel through foreclosure proceedings. The arrest or attachment of one or more of our vessels could interrupt our cash flow and require us to pay large sums of money to have the arrest or attachment lifted. In addition, in some jurisdictions, such as South Africa, under the "sister ship" theory of liability, a claimant may arrest both the vessel which is subject to the claimant's maritime lien and any "associated" vessel, which is any vessel owned or controlled by the same owner. Claimants could attempt to assert "sister ship" liability against one vessel in our fleet for claims relating to another of our vessels.

Governments could requisition our vessels during a period of war or emergency, resulting in a loss of earnings.

A government could requisition one or more of our vessels for title or for hire. Requisition for title occurs when a government takes control of a vessel and becomes her owner, while requisition for hire occurs when a government takes control of a vessel and effectively becomes her charterer at dictated charter rates. Generally, requisitions occur during periods of war or emergency, although governments may elect to requisition vessels in other circumstances. Although we would be entitled to compensation in the event of a requisition of one or more of our vessels, the amount and timing of payment would be uncertain. Government requisition of one or more of our vessels may negatively impact our revenues and reduce the amount of cash we may have available for distribution as dividends to our shareholders, if any such dividends are declared.

Failure to comply with the U.S. Foreign Corrupt Practices Act could result in fines, criminal penalties and an adverse effect on our business.

We may operate in a number of countries throughout the world, including countries known to have a reputation for corruption. We are committed to doing business in accordance with applicable anti-corruption laws and have adopted a code of business conduct and ethics which is consistent and in full compliance with the U.S. Foreign Corrupt Practices Act of 1977, or the FCPA. We are subject, however, to the risk that we, our affiliated entities or our or their respective officers, directors, employees and agents may take actions determined to be in violation of such anti-corruption laws, including the FCPA. Any such violation could result in substantial fines, sanctions, civil and/or criminal penalties, curtailment of operations in certain jurisdictions, and might adversely affect our business, results of operations or financial condition. In addition, actual or alleged violations could damage our reputation and ability to do business. Furthermore, detecting, investigating, and resolving actual or alleged violations is expensive and can consume significant time and attention of our senior management.

Company Specific Risk Factors

The market values of our vessels have decreased, which could limit the amount of funds that we can borrow under our credit facilities.

The fair market value of our vessels is related to prevailing freight charter rates. While the fair market value of vessels and the freight charter market have a very close relationship as the charter market moves from trough to peak, the time lag between the effect of charter rates on market values of ships can vary.

The fair market values of our vessels have generally experienced high volatility, and you should expect the market value of our vessels to fluctuate depending on a number of factors including:

- the prevailing level of charter hire rates;
- general economic and market conditions affecting the shipping industry;
- competition from other shipping companies and other modes of transportation;
- the types, sizes and ages of vessels;
- the supply and demand for vessels;
- applicable governmental regulations;
- technological advances; and
- the cost of newbuildings.

As a result of the decline in the market value of our fleet, we may not be able to obtain other financing or incur debt on terms that are acceptable to us or at all.

The market values of our vessels have decreased, which could cause us to breach covenants in our credit facilities and adversely affect our operating results.

The market values of our vessels are at relatively low levels compared to historical averages, and as of December 31, 2012, we were not in compliance with the market value covenant contained in one of our loan agreements. We have obtained a waiver from the relevant lender and, as of the date of this annual report, we believe we are in compliance with all of the covenants of our credit facilities. If we are not in compliance upon expiration of the waiver or are unable to obtain additional waivers, our lenders could accelerate our debt and foreclose on our fleet. In addition, if the book value of a vessel is impaired due to unfavorable market conditions or a vessel is sold at a price below its book value, we would incur a loss that could adversely affect our operating results.

We charter some of our vessels on short-term time charters in a volatile shipping industry and the decline in charter hire rates could affect our results of operations and ability to pay dividends again.

We charter certain of our vessels pursuant to short-term time charters, although we have also entered into long-term time charters ranging in duration on commencement of the time charter from 17 months to 62 months. Although significant exposure to short-term time charters is not unusual in the dry bulk shipping industry, the short-term time charter market is highly competitive and spot market charter hire rates (which affect time charter rates) may fluctuate significantly based upon available charters and the supply of, and demand for, seaborne shipping capacity. While the short-term time charter market may enable us to benefit in periods of increasing charter hire rates, we must consistently renew our charters and this dependence makes us vulnerable to declining charter rates. As a result of the volatility in the dry bulk carrier charter market, we may not be able to employ our vessels upon the termination of their existing charters at their current charter hire rates. The dry bulk carrier charter market is volatile, and in the recent past, short-term time charter and spot market charter rates for some dry bulk carriers declined below the operating costs of those vessels before rising. We cannot assure you that future charter hire rates will enable us to operate our vessels profitably, or to pay dividends again.

Rising crew costs could adversely affect our results of operations.

Due to an increase in the size of the global shipping fleet, the limited supply of and increased demand for crew has created upward pressure on crew costs. Continued higher crew costs or further increases in crew costs could adversely affect our results of operations.

Our investment in Diana Containerships Inc. exposes us to the risks of the containership market.

We currently own approximately 10.4% of Diana Containerships Inc., which operates in the containership market. Through this investment, we are partially exposed to containership market risks such as the cyclical and volatility of charterhire rates; the reduction in demand for container shipping due to the recent global economic recession; increased risk of charter counterparty risk due to financial pressure on liner companies as a result of a decline in global trade; and the risk of over-supply of containership capacity. Containership market risks may reduce the value of our investment in Diana Containerships Inc., and could adversely affect our financial condition.

Our earnings, and the amount of dividends, if any, paid in the future, may be adversely affected if we are not able to take advantage of favorable charter rates.

We charter certain of our dry bulk carriers to customers pursuant to short-term time charters that range in duration from 11 to 14 months. However, as part of our business strategy, 31 of our vessels are currently fixed on long-term time charters ranging in duration from 17 months to 62 months. We may extend the charter periods for additional vessels in our fleet, including additional dry bulk carriers that we may purchase in the future, to take advantage of the relatively stable cash flow and high utilization rates that are associated with long-term time charters. While we believe that long-term charters provide us with relatively stable cash flows and higher utilization rates than shorter-term charters, our vessels that are committed to long-term charters may not be available for employment on short-term charters during periods of increasing short-term charter hire rates when these charters may be more profitable than long-term charters.

Investment in derivative instruments such as forward freight agreements could result in losses.

From time to time, we may take positions in derivative instruments including forward freight agreements, or FFAs. FFAs and other derivative instruments may be used to hedge a vessel owner's exposure to the charter market by providing for the sale of a contracted charter rate along a specified route and period of time. Upon settlement, if the contracted charter rate is less than the average of the rates, as reported by an identified index, for the specified route and period, the seller of the FFA is required to pay the buyer an amount equal to the difference between the contracted rate and the settlement rate, multiplied by the number of days in the specified period. Conversely, if the contracted rate is greater than the settlement rate, the buyer is required to pay the seller the settlement sum. If we take positions in FFAs or other derivative instruments and do not correctly anticipate charter rate movements over the specified route and time period, we could suffer losses in the settling or termination of the FFA. This could adversely affect our results of operations and cash flows.

Our board of directors has suspended the payment of cash dividends as a result of market conditions in the international shipping industry. We cannot assure you that our board of directors will reinstate dividend payments in the future, or when such reinstatement might occur.

As a result of market conditions in the international shipping industry and in order to position us to take advantage of market opportunities, our board of directors, beginning with the fourth quarter of 2008, has suspended our common stock dividend. Our dividend policy will be assessed by the board of directors from time to time. We believe that this suspension will enhance our future flexibility by permitting cash flow that would have been devoted to dividends to be used for opportunities that may arise in the current marketplace, such as funding our operations, acquiring vessels or servicing our debt.

Our policy, historically, was to declare quarterly distributions to shareholders by each February, May, August and November substantially equal to our available cash from operations during the previous quarter after accounting for cash expenses and reserves for scheduled drydockings, intermediate and special surveys and other purposes as our board of directors may from time to time determine are required, and after taking into account contingent liabilities, the terms of our loan facilities, our growth strategy and other cash needs and the requirements of Marshall Islands law. The declaration and payment of dividends, if any, will always be subject to the discretion of our board of directors. The timing and amount of any dividends declared will depend on, among other things, our earnings, financial condition and cash requirements and availability, our ability to obtain debt and equity financing on acceptable terms as contemplated by our growth strategy and provisions of Marshall Islands law affecting the payment of dividends. In addition, other external factors, such as our lenders imposing restrictions on our ability to pay dividends under the terms of our loan facilities, may limit our ability to pay dividends. Further, we may not be permitted to pay dividends under the terms of our loan agreements, that would result in an event of default or if an event of default has occurred and is continuing.

Our growth strategy contemplates that we will finance the acquisition of additional vessels through a combination of debt and equity financing on terms acceptable to us. If financing is not available to us on acceptable terms, our board of directors may determine to finance or refinance acquisitions with cash from operations, which could also reduce or even eliminate the amount of cash available for the payment of dividends.

Marshall Islands law generally prohibits the payment of dividends other than from surplus (retained earnings and the excess of consideration received for the sale of shares above the par value of the shares) or while a company is insolvent or would be rendered insolvent by the payment of such a dividend. We may not have sufficient surplus in the future to pay dividends. We can give no assurance that we will reinstate our dividends in the future or when such reinstatement might occur.

We may have difficulty effectively managing our planned growth, which may adversely affect our earnings.

Since the completion of our initial public offering in March 2005, we have taken delivery of twenty four vessels. Six of these vessels were delivered to us in 2012 and two at the beginning of 2013. In addition, we expect to take delivery of two newbuilding vessels during the fourth quarter of 2013. The addition of these vessels to our fleet has resulted in a significant increase in the size of our fleet and imposes significant additional responsibilities on our management and staff. While we expect our fleet to grow further, this may require us to increase the number of our personnel. We will also have to increase our customer base to provide continued employment for the new vessels.

Our future growth will primarily depend on our ability to:

- locate and acquire suitable vessels;
- identify and consummate acquisitions or joint ventures;
- enhance our customer base;
- manage our expansion; and
- obtain required financing on acceptable terms.

Growing any business by acquisition presents numerous risks, such as undisclosed liabilities and obligations, the possibility that indemnification agreements will be unenforceable or insufficient to cover potential losses and difficulties associated with imposing common standards, controls, procedures and policies, obtaining additional qualified personnel, managing relationships with customers and integrating newly acquired assets and operations into existing infrastructure. We cannot give any assurance that we will be successful in executing our growth plans or that we will not incur significant expenses and losses in connection with our future growth.

Because the Public Company Accounting Oversight Board is not currently permitted to inspect our independent accounting firm, you may not benefit from such inspections.

Auditors of U.S. public companies are required by law to undergo periodic Public Company Accounting Oversight Board (PCAOB) inspections that assess their compliance with U.S. law and professional standards in connection with performance of audits of financial statements filed with the Commission. Certain European Union countries, including Greece, do not currently permit the PCAOB to conduct inspections of accounting firms established and operating in such European Union countries, even if they are part of major international firms. Accordingly, unlike for most U.S. public companies, the PCAOB is prevented from evaluating our auditor's performance of audits and its quality control procedures, and, unlike shareholders of most U.S. public companies, we and our shareholders are deprived of the possible benefits of such inspections.

We cannot assure you that we will be able to borrow amounts under our credit and loan facilities and restrictive covenants in our credit and loan facilities may impose financial and other restrictions on us.

Since February 2005 we have entered into several loan agreements to finance vessel acquisitions and the construction of newbuildings. As of December 31, 2012, we had \$460.9 million outstanding under our facilities. Our ability to borrow amounts under our facilities is subject to the execution of customary documentation relating to the facility, including security documents, satisfaction of certain customary conditions precedent and compliance with terms and conditions included in the loan documents. Prior to each drawdown, we are required, among other things, to provide the lender with acceptable valuations of the vessels in our fleet confirming that the vessels in our fleet have a minimum value and that the vessels in our fleet that secure our obligations under the facilities are sufficient to satisfy minimum security requirements. To the extent that we are not able to satisfy these requirements, including as a result of a decline in the value of our vessels, we may not be able to draw down the full amount under the facilities without obtaining a waiver or consent from the lender. We will also not be permitted to borrow amounts under the facilities if we experience a change of control.

The credit and loan facilities also impose operating and financial restrictions on us. These restrictions may limit our ability to, among other things:

- pay dividends or make capital expenditures if we do not repay amounts drawn under our loan facilities, if there is a default under the loan facilities or if the payment of the dividend or capital expenditure would result in a default or breach of a loan covenant;
- incur additional indebtedness, including through the issuance of guarantees;
- change the flag, class or management of our vessels;
- create liens on our assets;
- sell our vessels;
- enter into a time charter or consecutive voyage charters that have a term that exceeds, or which by virtue of any optional extensions may exceed a certain period;
- merge or consolidate with, or transfer all or substantially all our assets to, another person; and
- enter into a new line of business.

Therefore, we may need to seek permission from our lenders in order to engage in some corporate actions. Our lenders' interests may be different from ours and we cannot guarantee that we will be able to obtain our lenders' permission when needed. This may limit our ability to finance our future operations, make acquisitions or pursue business opportunities.

We cannot assure you that we will be able to refinance indebtedness incurred under our loan facilities.

We cannot assure you that we will be able to refinance indebtedness with equity offerings on terms that are acceptable to us or at all. If we are not able to refinance these amounts with the net proceeds of equity offerings on terms acceptable to us or at all, we will have to dedicate a greater portion of our cash flow from operations to pay the principal and interest of this indebtedness than if we were able to refinance such amounts. If we are not able to satisfy these obligations, we may have to undertake alternative financing plans. The actual or perceived credit quality of our charterers, any defaults by them, and the market value of our fleet, among other things, may materially affect our ability to obtain alternative financing. In addition, debt service payments under our loan facilities or alternative financing may limit funds otherwise available for working capital, capital expenditures and other purposes. If we are unable to meet our debt obligations, or if we otherwise default under our loan facilities or an alternative financing arrangement, our lenders could declare the debt, together with accrued interest and fees, to be immediately due and payable and foreclose on our fleet, which could result in the acceleration of other indebtedness that we may have at such time and the commencement of similar foreclosure proceedings by other lenders.

Purchasing and operating secondhand vessels may result in increased operating costs and reduced operating days.

While we have the right to inspect previously owned vessels prior to our purchase of them and we usually inspect secondhand vessels that we acquire, such inspections do not provide us with the same knowledge about their condition that we would have if these vessels had been built for, and operated exclusively by, us. A secondhand vessel may have conditions or defects that we were not aware of when we bought the vessel and which may require us to incur costly repairs to the vessel. These repairs may require us to put a vessel into drydock which would reduce our operating days. Furthermore, we usually do not receive the benefit of warranties on secondhand vessels.

We are subject to certain risks with respect to our counterparties on contracts, and failure of such counterparties to meet their obligations could cause us to suffer losses or otherwise adversely affect our business.

We enter into, among other things, charter parties with our customers. Such agreements subject us to counterparty risks. The ability of each of our counterparties to perform its obligations under a contract with us will depend on a number of factors that are beyond our control and may include, among other things, general economic conditions, the condition of the maritime and offshore industries, the overall financial condition of the counterparty, charter rates received for specific types of vessels, and various expenses. In addition, in depressed market conditions, our charterers may no longer need a vessel that is currently under charter or may be able to obtain a comparable vessel at lower rates. As a result, charterers may seek to renegotiate the terms of their existing charter parties or avoid their obligations under those contracts. Should a counterparty fail to honor its obligations under agreements with us, we could sustain significant losses, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

In the highly competitive international shipping industry, we may not be able to compete for charters with new entrants or established companies with greater resources, and as a result, we may be unable to employ our vessels profitably.

We employ our vessels in a highly competitive market that is capital intensive and highly fragmented. Competition arises primarily from other vessel owners, some of whom have substantially greater resources than we do. Competition for the transportation of dry bulk cargo by sea is intense and depends on price, location, size, age, condition and the acceptability of the vessel and its operators to the charterers. Due in part to the highly fragmented market, competitors with greater resources than us could enter the dry bulk shipping industry and operate larger fleets through consolidations or acquisitions and may be able to offer lower charter rates and higher quality vessels than we are able to offer.

We may be unable to attract and retain key management personnel and other employees in the shipping industry, which may negatively impact the effectiveness of our management and results of operations.

Our success depends to a significant extent upon the abilities and efforts of our management team. We have entered into employment contracts with our Chairman and Chief Executive Officer, Mr. Simeon Palios; our President, Mr. Anastasios Margaronis; our Chief Financial Officer, Mr. Andreas Michalopoulos; and our Executive Vice President, Mr. Ioannis Zafirakis. Our success will depend upon our ability to retain key members of our management team and to hire new members as may be necessary. The loss of any of these individuals could adversely affect our business prospects and financial condition. Difficulty in hiring and retaining replacement personnel could have a similar effect. We do not currently, nor do we intend to, maintain "key man" life insurance on any of our officers or other members of our management team.

The fiduciary duties of our officers and directors may conflict with those of the officers and directors of Diana Containerships Inc.

Certain of our officers and directors are officers and directors of Diana Containerships Inc. and have fiduciary duties to manage our business in a manner beneficial to us and our shareholders, as well as a duty to the shareholders of Diana Containerships Inc. Consequently, these officers and directors may encounter situations in which their fiduciary obligations to Diana Containerships Inc and to us are in conflict. The resolution of these conflicts may not always be in our best interest or that of our shareholders and could have a material adverse effect on our business, results of operations, cash flows and financial condition.

Risks associated with operating ocean-going vessels could affect our business and reputation, which could adversely affect our revenues and stock price.

The operation of ocean-going vessels carries inherent risks. These risks include the possibility of:

- marine disaster;
- terrorism;
- environmental accidents;
- cargo and property losses or damage;
- business interruptions caused by mechanical failure, human error, war, terrorism, political action in various countries, labor strikes or adverse weather conditions; and
- piracy.

These hazards may result in death or injury to persons, loss of revenues or property, environmental damage, higher insurance rates, damage to our customer relationships, delay or rerouting. If our vessels suffer damage, they may need to be repaired at a drydocking facility. The costs of drydock repairs are unpredictable and may be substantial. We may have to pay drydocking costs that our insurance does not cover in full. The loss of earnings while these vessels are being repaired and repositioned, as well as the actual cost of these repairs, would decrease our earnings. In addition, space at drydocking facilities is sometimes limited and not all drydocking facilities are conveniently located. We may be unable to find space at a suitable drydocking facility or our vessels may be forced to travel to a drydocking facility that is not conveniently located to our vessels' positions. The loss of earnings while these vessels are forced to wait for space or to steam to more distant drydocking facilities would decrease our earnings. The involvement of our vessels in an environmental disaster may also harm our reputation as a safe and reliable vessel owner and operator.

We may not have adequate insurance to compensate us if we lose our vessels or to compensate third parties.

We procure insurance for our fleet against risks commonly insured against by vessel owners and operators. Our current insurance includes hull and machinery insurance, war risks insurance and protection and indemnity insurance (which includes environmental damage and pollution insurance). We can give no assurance that we are adequately insured against all risks or that our insurers will pay a particular claim. Even if our insurance coverage is adequate to cover our losses, we may not be able to timely obtain a replacement vessel in the event of a loss. Furthermore, in the future, we may not be able to obtain adequate insurance coverage at reasonable rates for our fleet. We may also be subject to calls, or premiums, in amounts based not only on our own claim records but also the claim records of all other members of the protection and indemnity associations through which we receive indemnity insurance coverage for tort liability. Our insurance policies also contain deductibles, limitations and exclusions which, although we believe are standard in the shipping industry, may nevertheless increase our costs.

Our vessels may suffer damage and we may face unexpected drydocking costs, which could adversely affect our cash flow and financial condition.

If our vessels suffer damage, they may need to be repaired at a drydocking facility. The costs of drydock repairs are unpredictable and can be substantial. The loss of earnings while a vessel is being repaired and repositioned, as well as the actual cost of these repairs not covered by our insurance, would decrease our earnings and cash available for dividends, if declared. We may not have insurance that is sufficient to cover all or any of the costs or losses for damages to our vessels and may have to pay drydocking costs not covered by our insurance.

The aging of our fleet may result in increased operating costs in the future, which could adversely affect our earnings.

In general, the cost of maintaining a vessel in good operating condition increases with the age of the vessel. Currently, our fleet consists of 17 Panamax dry bulk carriers, two Kamsarmax dry bulk carriers, three Post-Panamax dry bulk carriers, eight Capesize dry bulk carriers, two Newcastlemax vessels and two ice-class Panamax vessels under construction, having a combined carrying capacity of 3.5 million dead weight tons (dwt) and a weighted average age of 6.0 years as of March 21, 2013, excluding our two ice class newbuilding Panamax vessels under construction. As our fleet ages, we will incur increased costs. Older vessels are typically less fuel efficient and more costly to maintain than more recently constructed vessels due to improvements in engine technology. Cargo insurance rates increase with the age of a vessel, making older vessels less desirable to charterers. Governmental regulations and safety or other equipment standards related to the age of vessels may also require expenditures for alterations or the addition of new equipment to our vessels and may restrict the type of activities in which our vessels may engage. We cannot assure you that, as our vessels age, market conditions will justify those expenditures or enable us to operate our vessels profitably during the remainder of their useful lives.

We are exposed to U.S. dollar and foreign currency fluctuations and devaluations that could harm our reported revenue and results of operations.

We generate all of our revenues in U.S. dollars but currently incur around half of our operating expenses and around 38% of our general and administrative expenses in currencies other than the U.S. dollar, primarily the Euro. Because a significant portion of our expenses is incurred in currencies other than the U.S. dollar, our expenses may from time to time increase relative to our revenues as a result of fluctuations in exchange rates, particularly between the U.S. dollar and the Euro, which could affect the amount of net income that we report in future periods. While we historically have not mitigated the risk associated with exchange rate fluctuations through the use of financial derivatives, we may employ such instruments from time to time in the future in order to minimize this risk. Our use of financial derivatives would involve certain risks, including the risk that losses on a hedged position could exceed the nominal amount invested in the instrument and the risk that the counterparty to the derivative transaction may be unable or unwilling to satisfy its contractual obligations, which could have an adverse effect on our results.

Volatility in LIBOR could affect our profitability, earnings and cash flow.

LIBOR may be volatile, with the spread between LIBOR and the prime lending rate widening significantly at times. These conditions are the result of disruptions in the international markets. Because the interest rates borne by our outstanding indebtedness fluctuate with changes in LIBOR, it would affect the amount of interest payable on our debt, which, in turn, could have an adverse effect on our profitability, earnings and cash flow.

We depend upon a few significant customers for a large part of our revenues and the loss of one or more of these customers could adversely affect our financial performance.

We have historically derived a significant part of our revenues from a small number of charterers. During 2012, approximately 40% of our revenues derived from three charterers. During 2011, approximately 41% of our revenues derived from three charterers. During 2010, approximately 44% of our revenues derived from three charterers. If one or more of our charterers chooses not to charter our vessels or is unable to perform under one or more charters with us and we are not able to find a replacement charter, we could suffer a loss of revenues that could adversely affect our financial condition and results of operations.

We are a holding company, and we depend on the ability of our subsidiaries to distribute funds to us in order to satisfy our financial obligations.

We are a holding company and our subsidiaries conduct all of our operations and own all of our operating assets. We have no significant assets other than the equity interests in our subsidiaries. As a result, our ability to satisfy our financial obligations depends on our subsidiaries and their ability to distribute funds to us. If we are unable to obtain funds from our subsidiaries, we may not be able to satisfy our financial obligations.

As we expand our business, we may need to improve our operating and financial systems and will need to recruit suitable employees and crew for our vessels.

Our current operating and financial systems may not be adequate as we expand the size of our fleet and our attempts to improve those systems may be ineffective. In addition, as we expand our fleet, we will need to recruit suitable additional seafarers and shoreside administrative and management personnel. While we have not experienced any difficulty in recruiting to date, we cannot guarantee that we will be able to continue to hire suitable employees as we expand our fleet. If we or our crewing agent encounter business or financial difficulties, we may not be able to adequately staff our vessels. If we are unable to grow our financial and operating systems or to recruit suitable employees as we expand our fleet, our financial performance may be adversely affected, among other things.

We may have to pay tax on U.S. source income, which would reduce our earnings.

Under the U.S. Internal Revenue Code of 1986, as amended, or the "Code", 50% of the gross shipping income of a vessel-owning or chartering corporation, such as ourselves and our subsidiaries, that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States is characterized as U.S. source shipping income and such income is generally subject to a 4% U.S. federal income tax without allowance for deductions, unless that corporation qualifies for exemption from tax under Section 883 of the Code and the Treasury Regulations thereunder.

We expect that we and each of our subsidiaries qualify for this statutory tax exemption for the 2012 taxable year and we will take this position for U.S. federal income tax return reporting purposes. However, there are factual circumstances beyond our control that could cause us to lose the benefit of this tax exemption in future years and thereby become subject to U.S. federal income tax on our U.S. source shipping income. For example, at December 31, 2012, our 5% shareholders owned approximately 39.6% of our outstanding common stock. There is a risk that we could no longer qualify for exemption under Section 883 of the Code for a particular taxable year if other shareholders with a 5% or greater interest in our common stock were, in combination with our existing 5% shareholders, to own 50% or more of the outstanding shares of our common stock on more than half the days during the taxable year. Due to the factual nature of the issues involved, we can give no assurances on our tax-exempt status or that of any of our subsidiaries.

If we or our subsidiaries are not entitled to this exemption under Section 883 of the Code for any taxable year, we or our subsidiaries would be subject for those years to a 4% U.S. federal income tax on our gross U.S.-source shipping income. The imposition of this taxation could have a negative effect on our business and would result in decreased earnings available for distribution to our shareholders, although, for the 2012 taxable year, we estimate our maximum U.S. federal income tax liability to be immaterial if we were subject to this U.S. federal income tax. Please see the section of this Annual Report entitled "Taxation" under Item 10E for a more comprehensive discussion of U.S. federal income tax considerations.

U.S. federal tax authorities could treat us as a "passive foreign investment company", which could have adverse U.S. federal income tax consequences to U.S. shareholders.

A foreign corporation will be treated as a "passive foreign investment company", or "PFIC", for U.S. federal income tax purposes if either (1) at least 75% of its gross income for any taxable year consists of certain types of "passive income" or (2) at least 50% of the average value of the corporation's assets produce or are held for the production of those types of "passive income." For purposes of these tests, "passive income" includes dividends, interest, gains from the sale or exchange of investment property, and rents and royalties other than rents and royalties which are received from unrelated parties in connection with the active conduct of a trade or business. For purposes of these tests, income derived from the performance of services does not constitute "passive income." U.S. shareholders of a PFIC are subject to a disadvantageous U.S. federal income tax regime with respect to the income derived by the PFIC, the distributions they receive from the PFIC and the gain, if any, they derive from the sale or other disposition of their shares in the PFIC.

Based on our current and proposed method of operation, we do not believe that we will be a PFIC with respect to any taxable year. In this regard, we intend to treat the gross income we derive or are deemed to derive from our time chartering activities as services income, rather than rental income. Accordingly, we believe that our income from our time chartering activities does not constitute "passive income," and the assets that we own and operate in connection with the production of that income do not constitute assets that produce or are held for the production of "passive income".

There is substantial legal authority supporting this position consisting of case law and U.S. Internal Revenue Service, or "IRS", pronouncements concerning the characterization of income derived from time charters and voyage charters as services income for other tax purposes. However, it should be noted that there is also authority which characterizes time charter income as rental income rather than services income for other tax purposes. Accordingly, no assurance can be given that the IRS or a court of law will accept this position, and there is a risk that the IRS or a court of law could determine that we are a PFIC. Moreover, no assurance can be given that we would not constitute a PFIC for any future taxable year if the nature and extent of our operations changed.

If the IRS or a court of law were to find that we are or have been a PFIC for any taxable year, our U.S. shareholders would face adverse U.S. federal income tax consequences. Under the PFIC rules, unless those shareholders make an election available under the Code (which election could itself have adverse consequences for such shareholders), such shareholders would be subject to U.S. federal income tax at the then prevailing U.S. federal income tax rates on ordinary income plus interest upon excess distributions and upon any gain from the disposition of our common stock, as if the excess distribution or gain had been recognized ratably over the shareholder's holding period of our common stock. Please see the section of this Annual Report entitled "Taxation" under Item 10E for a more comprehensive discussion of the U.S. federal income tax consequences if we were to be treated as a PFIC.

Risks Relating to Our Common Stock

There is no guarantee that there will continue to be an active and liquid public market for you to resell our common stock in the future.

The price of our common stock may be volatile and may fluctuate due to factors such as:

- actual or anticipated fluctuations in our quarterly and annual results and those of other public companies in our industry;
- mergers and strategic alliances in the dry bulk shipping industry;
- market conditions in the dry bulk shipping industry;
- changes in government regulation;
- shortfalls in our operating results from levels forecast by securities analysts;
- announcements concerning us or our competitors; and
- the general state of the securities market.

The dry bulk shipping industry has been highly unpredictable and volatile. The market for common stock in this industry may be equally volatile.

Since we are incorporated in the Marshall Islands, which does not have a well-developed body of corporate law, you may have more difficulty protecting your interests than shareholders of a U.S. corporation.

Our corporate affairs are governed by our amended and restated articles of incorporation and bylaws and by the Marshall Islands Business Corporations Act, or the BCA. The provisions of the BCA resemble provisions of the corporation laws of a number of states in the United States. However, there have been few judicial cases in the Marshall Islands interpreting the BCA. The rights and fiduciary responsibilities of directors under the laws of the Marshall Islands are not as clearly established as the rights and fiduciary responsibilities of directors under statutes or judicial precedent in existence in the United States. The rights of shareholders of the Marshall Islands may differ from the rights of shareholders of companies incorporated in the United States. While the BCA provides that it is to be interpreted according to the laws of the State of Delaware and other states with substantially similar legislative provisions, there have been few, if any, court cases interpreting the BCA in the Marshall Islands and we cannot predict whether Marshall Islands courts would reach the same conclusions as United States courts. Thus, you may have more difficulty in protecting your interests in the face of actions by the management, directors or controlling shareholders than would shareholders of a corporation incorporated in a United States jurisdiction which has developed a relatively more substantial body of case law.

Certain existing shareholders will be able to exert considerable control over matters on which our shareholders are entitled to vote.

As of the date of this annual report Mr. Simeon Palios, our Chairman and Chief Executive Officer, beneficially owns 15,278,977 shares, or approximately 18.4% of our outstanding common stock, the vast majority of which is held indirectly through entities over which he exercises sole voting power. Please see Item 7.A. "Major Shareholders." While Mr. Palios and the non-voting shareholders of these entities have no agreement, arrangement or understanding relating to the voting of their shares of our common stock, they are able to influence the outcome of matters on which our shareholders are entitled to vote, including the election of directors and other significant corporate actions. The interests of these shareholders may be different from your interests.

Future sales of our common stock could cause the market price of our common stock to decline.

Sales of a substantial number of shares of our common stock in the public market, or the perception that these sales could occur, may depress the market price for our common stock. These sales could also impair our ability to raise additional capital through the sale of our equity securities in the future.

Our amended and restated articles of incorporation authorize us to issue up to 200,000,000 shares of common stock, of which as of December 31, 2012, 82,233,424 shares were outstanding. The number of shares of common stock available for sale in the public market is limited by restrictions applicable under securities laws and agreements that we and our executive officers, directors and principal shareholders have entered into.

Anti-takeover provisions in our organizational documents could make it difficult for our shareholders to replace or remove our current board of directors or have the effect of discouraging, delaying or preventing a merger or acquisition, which could adversely affect the market price of our common stock.

Several provisions of our amended and restated articles of incorporation and bylaws could make it difficult for our shareholders to change the composition of our board of directors in any one year, preventing them from changing the composition of management. In addition, the same provisions may discourage, delay or prevent a merger or acquisition that shareholders may consider favorable.

These provisions include:

- authorizing our board of directors to issue "blank check" preferred stock without shareholder approval;
- providing for a classified board of directors with staggered, three year terms;
- prohibiting cumulative voting in the election of directors;
- authorizing the removal of directors only for cause and only upon the affirmative vote of the holders of a majority of the outstanding shares of our common stock entitled to vote for the directors;
- prohibiting shareholder action by written consent;
- limiting the persons who may call special meetings of shareholders; and
- establishing advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted on by shareholders at shareholder meetings.

In addition, we have adopted a shareholder rights plan pursuant to which our board of directors may cause the substantial dilution of any person that attempts to acquire us without the approval of our board of directors.

These anti-takeover provisions, including provisions of our shareholder rights plan, could substantially impede the ability of public shareholders to benefit from a change in control and, as a result, may adversely affect the market price of our common stock and your ability to realize any potential change of control premium.

Item 4. Information on the Company

A. History and development of the Company

Diana Shipping Inc. is a holding company incorporated under the laws of Liberia in March 1999 as Diana Shipping Investments Corp. In February 2005, the Company's articles of incorporation were amended. Under the amended and restated articles of incorporation, the Company was renamed Diana Shipping Inc. and was redomiciled from the Republic of Liberia to the Marshall Islands. Our executive offices are located at Pendelis 16, 175 64 Palaio Faliro, Athens, Greece. Our telephone number at this address is +30-210-947-0100. Our agent and authorized representative in the United States is our wholly-owned subsidiary, Bulk Carriers (USA) LLC, established in September 2006, in the State of Delaware, which is located at 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808.

Business Development and Capital Expenditures and Divestitures

In January 2010, we established Diana Containerships Inc., or Diana Containerships, with the purpose of acquiring containerships and in April 2010, we invested \$50.0 million in a private offering completed by Diana Containerships in which we acquired 3,333,333 common shares of its common stock, resulting to an ownership of 54.6%. In January 2011, we distributed 2,667,015 shares or 80% of our interest in Diana Containerships to our shareholders of record on January 3, 2011 and as a result our ownership percentage of Diana Containerships was reduced to approximately 11%. As a result of this partial spin-off, the consolidated financial statements of Diana Containerships were no longer consolidated to our consolidated financial statements and we accounted for our investment in Diana Containerships under the equity method of accounting, on the basis of the significant influence exercised over Diana Containerships through our shareholding, the management services provided by DSS (which, were terminated on March 1, 2013) and shared executive management.

In June 2010, we and Diana Containerships terminated our existing Consultancy Agreements with companies controlled by each of the executive officers and the services that were previously provided to us and to Diana Containerships by the consultants are provided by Diana Shipping Services, or DSS. DSS appointed Diana Enterprises Inc., or Diana Enterprises, a related party controlled by our Chief Executive Officer and Chairman Mr. Simeon Palios, as broker to assist it in providing services to us and to Diana Containerships pursuant to the Broker Services Agreement, dated June 1, 2010. On February 22, 2012, the agreement between DSS and Diana Enterprises was terminated and replaced by a new agreement with similar terms but an annual fee of \$2.4 million. On March 1, 2013, the agreement between DSS and Diana Enterprises for the services performed to Diana Containerships was terminated. On March 15, 2013, the agreement between DSS and Diana Enterprises was also terminated and replaced by a new agreement with duration from March 1, 2013 to March 31, 2014 and a monthly fee of \$0.2 million payable quarterly in advance.

In June 2010, Diana Containerships, acquired from a third party company the vessels Sagitta and Centaurus, for the purchase price of Euro 37.3 million, each. Sagitta was delivered in June 2010 and its purchase price amounted to \$45.7 million. Centaurus was delivered in July 2010 and its purchase price amounted to \$47.2 million. Part of the acquisition cost of the vessels was financed through a loan facility between Likiep Shipping Company Inc. and Orangina Inc., with DnB NOR Bank ASA for up to \$40.0 million, entered into in July 2010.

In March 2010, we took delivery of the *New York*, which was under construction at the Shanghai Waigaoqiao Shipbuilding Co., Ltd for \$60.2 million. We financed \$40.0 million of the acquisition cost of the *New York* with funds drawn under our facility with Deutsche Bank AG that we entered into in October 2009 and repaid \$30.1 million under a loan agreement with Fortis Bank which was then terminated.

In April 2010, our wholly owned subsidiaries Lae Shipping Company Inc. and Namu Shipping Company Inc., entered into a shipbuilding contract with China Shipbuilding Trading Company, Limited and Shanghai Jiangnan-Changxing Shipbuilding Co., Ltd for the construction of the Newcastlemax vessels *Los Angeles* and *Philadelphia* for a contract price of \$58.0 million each. We took delivery of the *Los Angeles* in February 2012 and of the *Philadelphia* in May 2012 and financed part of their construction cost with funds drawn under our facility with the Export-Import Bank of China and DnB Bank ASA, that we entered into in October 2010, amounting to \$72.1 million, equal to 70% of the market value of the vessels.

In September 2010, we acquired *Alcmene*, a 93,193 dwt Post-Panamax vessel built in 2010, for \$40.8 million. *Alcmene* was delivered to us in November 2010. The acquisition cost of the *Alcmene* was funded with cash on hand.

In October 2010, we acquired Universal Shipping and Real Estates Inc., or Universal, and Diana Shipping Agencies S.A., or DSA, from Poinsettia Management Ltd., or Poinsettia, an entity affiliated with the Company's CEO and Chairman and with other executives, for an aggregate price of \$21.5 million. Universal and DSA were entities controlled by Poinsettia and owned the real property which the Company was leasing as its principal executive offices in Athens, Greece. In October 2010, the real property was transferred to DSS. Universal and DSA were subsequently dissolved.

In May 2011, we acquired *Arethusa*, a 73,593 dwt Panamax dry bulk carrier, built in 2007, for \$30.0 million, which was delivered to us in July 2011. Part of the purchase price of the vessel was financed through a loan facility entered into in September 2011 with Emporiki Bank of Greece S.A., for a loan of up to \$15.0 million. In December 2012, the loan agreement was transferred to Credit Agricole Corporate and Investment Bank.

In June 2011, concurrently with a public offering of Diana Containerships' common shares, we acquired 2,666,667 shares of Diana Containerships' common stock at the price of \$7.50 per share, for a total amount of \$20.0 million, increasing our ownership percentage in the share capital of Diana Containerships to 14.5%. Since August 2012, our ownership in Diana Containerships decreased to 10.4% after a follow on offering of Diana Containerships.

In November 2011, we acquired *Leto*, an 81,297 dwt Panamax dry bulk carrier, built in 2010, for \$32.3 million, which was delivered to us in January 2012. The purchase price of the vessel was partly financed with the proceeds from a loan agreement with Nordea Bank Finland Plc that Jemo entered into in February 2012.

In December 2011, we entered into an agreement with Goldman, Sachs & Co. (the "Broker") to repurchase our stock according to Rule 10b5-1(c)(1) and to the extend applicable to Rule 10b-18 under the Securities and Exchange Act of 1934. The agreement was terminated on February 29, 2012. On June 14 and August 2, 2012, we entered into two similar agreements which were terminated on July 11, and on October 15, 2012, respectively. We repurchased and retired 154,091 shares up to December 31, 2011 for an aggregate cost of \$1.2 million, and an additional 853,607 shares in 2012 for an additional cost of \$6.0 million.

In March 2012, our wholly owned subsidiaries Erikub Shipping Company Inc. and Wootho Shipping Company Inc., each entered into a shipbuilding contract with China Shipbuilding Trading Company, Limited and Jiangnan Shipyard (Group) Co., Ltd, respectively, for the construction of one 76,000 dwt ice class Panamax dry bulk carrier for the contract price of \$29.0 million each. The contract price shall be paid in two installments of \$4.35 million, one installment of \$2.9 million and a fourth installment of \$17.4 million. The vessels are expected to be delivered in the fourth quarter of 2013.

In June 2012, the agreement between Jemo Shipping Company Inc. and Nordea Bank Finland Plc was restated and amended by a supplemental agreement in order to include Mandaringina Inc. as a new borrower and increase the loan amount to up to \$26.5 million for the purpose of financing part of the acquisition cost of the *Melia*.

In December 2012, our wholly-owned subsidiaries Palau Shipping Company Inc. and Guam Shipping Company Inc. entered into a new agreement with Nordea Bank Finland Plc for a term loan facility of \$20.0 million, to finance part of the acquisition cost of vessels *Amphitrite* and *Polymnia*.

In 2012, we acquired the *Melia*, a 76,225 dwt Panamax dry bulk carrier, built in 2005, for \$20.7 million, delivered in May 2012; the *Amphitrite*, a 98,697 dwt new built Post-Panamax dry bulk carrier, delivered in August 2012; the *Polymnia*, a 98,704 dwt new built Post-Panamax dry bulk carrier, for \$24.6 million, delivered in November 2012; and we also entered into an agreement to acquire the *Myrto*, an 82,131 dwt Kamsarmax newbuilding dry bulk carrier, for \$26.5 million, which was built and delivered to us in January 2013.

In February 2013, we acquired at an auction that took place in France, the *Maia*, a Kamsarmax dry bulk carrier, for \$19.8 million. The vessel was delivered to us on February 19, 2013.

In March 2013, we signed a commitment letter with Deutsche Bank AG for a loan facility of \$18.0 million to partly finance the acquisition cost of the *Myrto* and the *Maia*. Both vessels will be cross-collateralized with *New York*, which has a loan agreement with the bank since October 2009.

Please see "Item 5.B Liquidity and Capital Resources" for a discussion of our loan facilities.

B. Business overview

We are a global provider of shipping transportation services. We specialize in transporting dry bulk cargoes, including such commodities as iron ore, coal, grain and other materials along worldwide shipping routes. Currently, our operating fleet consists of 32 dry bulk carriers, of which 17 are Panamax, two are Kamsarmax, three are Post-Panamax, eight are Capesize and two are Newcastlemax vessels, having a combined carrying capacity of approximately 3.5 million dwt. In addition, we expect to take delivery of two vessels under construction with a carrying capacity of 152,000 dwt, in the fourth quarter of 2013.

As of December 31, 2012, our fleet consisted of 17 Panamax, three Post-Panamax, eight Capesize and two Newcastlemax vessels, having a combined carrying capacity of approximately 3.4 million dwt, and a weighted average age of 6.0 years, excluding our vessels under construction.

As of December 31, 2011, our fleet consisted of 15 Panamax, one Post-Panamax, and eight Capesize dry bulk carriers, having a combined carrying capacity of approximately 2.6 million dwt, and a weighted average age of 6.3 years, excluding our Newcastlemax vessels that were under construction and the *Leto* which was delivered in January 2012.

During 2012, 2011 and 2010, we had a fleet utilization of 98.7%, 99.3% and 99.7%, respectively, our vessels achieved daily time charter equivalent rates of \$21,255, \$28,920 and \$32,049, respectively, and we generated revenues of \$220.8 million, \$255.7 million and \$275.4 million, respectively.

During 2010, Diana Containerships' fleet had a fleet utilization of 97.5%, achieved a daily time charter equivalent rate of \$15,146 and generated revenues of \$5.7 million. The results of Diana Containerships' fleet have been part of our consolidated results for the period ended December 31, 2010.

The following table presents certain information concerning the dry bulk carriers in our fleet, as of March 21, 2013.

Vessel	BUILT	DWT	Sister Ships*	Gross Rate (USD Per Day)	Com**	Delivery Date to Charterer		Redelivery Date to Owners***	Notes
						Charterer	Panamax Bulk Carriers		
Panamax Bulk Carriers									
1CORNIS	2006	74,381	C	\$10,600	5.00%	EDF Trading Limited, UK	12-Mar-12	27-Nov-13 - 27-Jun-14	
2ERATO	2004	74,444	C	\$12,200	5.00%	Hyundai Merchant Marine Co., Ltd., Seoul, South Korea	26-Nov-11	9-Jan-13	
				\$6,500	5.00%	Cargill International S.A., Geneva	9-Jan-13	9-Jul-14 - 9-Jan-15	
3ARETHUSA			B	\$7,300	5.00%	Cargill International S.A., Geneva	22-Nov-12	22-May-14 22-Nov-14	

<u>2007</u>	<u>73,593</u>						
4NAIAS	B	\$9,250	5.00%	Ultrabulk A/S, Copenhagen, Denmark	2-Sep-12	2-Feb-14 - 2-Aug-14	
<u>2006</u>	<u>73,546</u>						
5CLIO	B	\$10,750	5.00%	Cargill International S.A., Geneva	22-Feb-12	22-Aug-13 - 22-Feb-14	
<u>2005</u>	<u>73,691</u>						
6CALIPSO	B	\$12,250	5.00%	Louis Dreyfus Commodities Suisse S.A., Geneva	11-Oct-11	11-Aug-13 - 11-Dec-13	
<u>2005</u>	<u>73,691</u>						
7PROTEFS	B	\$9,000	5.00%	Cargill International S.A., Geneva	14-Sep-12	14-Sep-14 - 14-Feb-15	
<u>2004</u>	<u>73,630</u>						
8THETIS	B	\$10,500	5.00%	EDF Trading Limited, UK	22-Feb-12	22-Aug-13 - 22-Jun-14	1
<u>2004</u>	<u>73,583</u>						
9DIONE	A	\$9,700	5.00%	EDF Trading Limited, UK	19-Jul-12	19-Jul-14 - 19-Dec-14	
<u>2001</u>	<u>75,172</u>						
10DANAE	A	\$15,600	5.00%	Hyundai Merchant Marine Co., Ltd., Seoul, South Korea	18-Apr-11	10-Mar-13	2,3
		\$8,250	5.00%	Intermare Transport GmbH, Hamburg	10-Mar-13	10-Sep-14 - 10-Jan-15	
<u>2001</u>	<u>75,106</u>						
11OCEANIS	A	\$9,250	5.00%	Ultrabulk A/S, Copenhagen, Denmark	14-Aug-12	14-Jan-14 - 14-Jul-14	
<u>2001</u>	<u>75,211</u>						
12TRITON	A	\$19,500	4.75%	Resource Marine Pte., Ltd, Singapore	11-Dec-10	11-Nov-13 - 11-Feb-14	4
<u>2001</u>	<u>75,336</u>						
13ALCYON	A	\$7,750	5.00%	EDF Trading Limited, UK	21-Dec-12	21-Nov-14 - 21-May-15	
<u>2001</u>	<u>75,247</u>						
14NIREFS	A	\$12,250	5.00%	Morgan Stanley Capital Group Inc.	18-Dec-11	29-Jan-13	5,6
		\$8,000	5.00%	Intermare Transport GmbH, Hamburg	29-Jan-13	29-Jul-14 - 29-Jan-15	
<u>2001</u>	<u>75,311</u>						
15MELIA	G	\$10,900	5.00%	STX Panocean Co., Ltd., Seoul	2-May-12	2-Apr-13 - 2-Jul-13	7
<u>2005</u>	<u>76,225</u>						
16MELITE	G	\$7,750	5.00%	Cargill International S.A., Geneva	28-Dec-12	1-Jul-14 - 1-Jan-15	
<u>2004</u>	<u>76,436</u>						

17LETO		\$12,900	5.00%	EDF Trading Limited, UK	17-Jan-12	17-Jan-14 - 17-Nov-14	
2010	81,297						
Kamsarmax Bulk Carriers							
18MAIA	H	\$10,900	5.00%	Glencore Grain B.V., Rotterdam	27-Feb-13	12-Aug-14 - 27-Feb-15	
Post-Panamax Bulk Carriers							
20ALCMENE		\$7,000	5.00%	NCS Shipping Fareast Company Limited, British Virgin Islands	26-Dec-12	13-Feb-13	8
		\$7,250	5.00%	ADM International Sarl, Rolle, Switzerland	22-Feb-13	7-Aug-14 - 22-Feb-15	
2010	93,193						
21AMPHITRITE		\$10,000	5.00%	Bunge S.A., Geneva	15-Aug-12	31-May-14 - 30-Oct-14	9
2012	98,697						
22POLYMNIA		\$8,000	5.00%	Sino East Transportation Ltd, Hong Kong	21-Nov-12	7-Jan-13	
		\$7,600	5.00%	Augustea Bunge Maritime Limited, Malta	16-Jan-13	16-Jul-14 - 16-Jan-15	10
2012	98,704						
Capesize Bulk Carriers							
23NORFOLK		\$74,750	3.75%	Corus UK Limited	12-Feb-08	16-Jan-13	11
2002	164,218	\$10,700	4.50%	Clearlake Shipping Pte. Ltd., Singapore	16-Jan-13	16-Jul-14 - 16-Jan-15	
24ALIKI		\$26,500	5.00%	Minimetal Logistics Group Co. Ltd., Beijing	1-Mar-11	1-Feb-16 - 1-Apr-16	
2005	180,235						
25SALT LAKE CITY		\$13,000	5.00%	Morgan Stanley Capital Group Inc.	11-Aug-12	11-Jun-14 - 11-Dec-14	
2005	171,810						
26SIDERIS GS	D	\$30,500	5.00%	BHP Billiton Marketing AG	16-Oct-10	14-Mar-13	12
		\$13,500	4.75%	Cargill International S.A., Geneva	14-Mar-13	14-Dec-14 - 14-Jun-15	
2006	174,186						
27SEMIRIO	D	\$17,350	5.00%	Cargill International S.A., Geneva	30-May-11	19-Mar-13	
		\$14,000	4.75%		19-Mar-13	19-Jan-15 - 19-Jun-15	
2007	174,261						
28BOSTON	D	\$14,000	5.00%	Morgan Stanley Capital Group Inc.	29-Oct-11	29-Aug-13 - 29-Dec-13	13

<u>2007</u>	<u>177,828</u>							
29	HOUSTON	D	\$55,000	4.75%	Shagang Shipping Co.	3-Nov-09	3-Oct-14 - 3-Jan-15	14
<u>2009</u>	<u>177,729</u>							
30	NEW YORK	D	\$48,000	3.75%	Nippon Yusen Kaisha, Tokyo (NYK)	3-Mar-10	3-Jan-15 - 3-May-15	
<u>2010</u>	<u>177,773</u>							
Newcastlemax Bulk Carriers								
31	LOS ANGELES	E	\$18,000	5.00%	EDF Trading Limited, UK	9-Feb-12	9-Dec-15 - 9-Apr-16	
<u>2012</u>	<u>206,104</u>							
32	PHILADELPHIA	E	\$18,000	5.00%	EDF Trading Limited, UK	17-May-12	17-Jan-16 - 17-Jul-16	
<u>2012</u>	<u>206,040</u>							
Vessels Under Construction								
33	HULL H2528	F	-	-	-	-	---	15
<u>2013</u>	<u>76,000</u>							
34	HULL H2529	F	-	-	-	-	---	15
2013	76,000							

* Each dry bulk carrier is a "sister ship", or closely similar, to other dry bulk carriers that have the same letter.

** Total commission percentage paid to third parties.

*** Charterers' optional period to redeliver the vessel to owners. Charterers have the right to add the off hire days, if any, and therefore the optional period may be extended.

1 Vessel off-hire from September 23, 2012 to October 3, 2012.

2 Vessel off-hire for unscheduled maintenance from March 04, 2013 to March 06, 2013.

3 Hyundai Merchant Marine Co. Ltd., Seoul, South Korea, has agreed to compensate the owners for the early redelivery of the vessel on March 10, 2013 till the minimum agreed redelivery date, March 18, 2013.

4 Resource Marine Pte., Ltd, Singapore is a guaranteed nominee of Macquarie Bank Limited.

5 Vessel off-hire for drydocking from September 26, 2012 to October 15, 2012.

6 Vessel off-hire for unscheduled maintenance from October 18, 2012 to November 30, 2012.

7 Vessel off-hire for drydocking from November 27, 2012 to December 10, 2012.

8 Charter includes a one time gross ballast bonus payment of US\$390,000.

9 The charterer has the option to employ the vessel for a further 11 to 14 month period at a gross charter rate of US\$11,300 per day. The optional period, if exercised, must be declared on or before the end of the 21st month of employment and will only commence at the end of the 24th month.

10 The charterer has the option to further employ the vessel for about 11 to maximum 13 months at a gross charter rate of US\$11,000 per day. The optional period, if exercised, must be declared on or before the 22nd month of employment and will only commence at the end of the 24th month.

11 Since September 2010 charterers' name has changed to Tata Steel UK, Limited.

12 Since October 25, 2012 charterers have changed to BHP Billiton Singapore Pte Ltd.

13 Morgan Stanley Capital Group Inc. has the option to employ the vessel for a further minimum eleven (11) to a maximum thirteen (13) month period at a gross rate of US\$15,000 per day starting twenty-four (24) months after delivery of the vessel to the charterer.

14 Shagang Shipping Co. is a guaranteed nominee of the Jiangsu Shagang Group Co.

15 Year of delivery and dwt are based on shipbuilding contract.

Each of our vessels is owned through a separate wholly-owned subsidiary.

Management of Our Fleet

The commercial and technical management of our fleet is carried out by our wholly-owned subsidiary, Diana Shipping Services S.A., which we refer to as DSS, or our fleet manager. In exchange for providing us with commercial and technical services, personnel and office space, we pay our fleet manager a commission that is equal to 2% of our revenues, a fixed management fee of \$15,000 per month for each vessel in operation and a fixed monthly fee of \$7,500 for vessels under construction and for laid up vessels. These amounts are considered inter-company transactions and, therefore, are eliminated from our consolidated financial statements.

Until March 1, 2013, DSS also provided to Diana Containerships commercial, technical, accounting, administrative, financial reporting and other services necessary for the operation of its business, pursuant to an Administrative Services Agreement and Vessel Management Agreements. DSS received a monthly fee of \$10,000 for administrative services; a commission of 1% of the gross hire and freight earned by the vessels and a technical management fee of \$15,000 per vessel per month for each vessel in operation. For 2010 and until January 18, 2011, such fees received by DSS, relating to the management services offered to Diana Containerships, were eliminated from our consolidated financial statements as intercompany transactions. Effective January 19, 2011, after the partial spin-off of Diana Containerships, they were recorded as other revenues.

Pursuant to the Broker Services Agreement, dated June 1, 2010, DSS appointed Diana Enterprises, a related party controlled by our Chief Executive Officer and Chairman, Mr. Simeon Palios, as broker to assist it in providing services to us for an annual fee of \$1.7 million and Diana Containerships for an annual fee of \$1.04 million per year. Both agreements had a term of five years. In February 2012, the agreement between DSS and Diana Enterprises was terminated and replaced by a new agreement for the provision of brokerage services with a term of five years, for an increased annual commission of \$2.4 million per year, paid quarterly at the beginning of each quarter and with a retroactive effect from January 1, 2012. On March 15, 2013, the agreement between DSS and Diana Enterprises was terminated again and replaced by a new agreement for the provision of brokerage services for a monthly fee of \$0.2 million payable quarterly at the beginning of each quarter and with a retroactive effect from March 1, 2013. The new agreement has a term of 13 months until March 31, 2014.

Effective January 19, 2011, after the partial spin-off of Diana Containerships, fees relating to Diana Containerships did not constitute part of our expenses and on March 1, 2013 the agreement between DSS and Diana Enterprises for Diana Containerships was terminated.

Our Customers

Our customers include national, regional and international companies, such as Cargill International S.A., BHP Billiton, Corus UK Limited and EDF Trading Ltd. During 2012, three of our charterers accounted for 40% of our revenues; EDF Trading (10%), Cargill International S.A., (18%) and Corus UK Limited (12%). During 2011, three of our charterers accounted for 41% of our revenues; BHP Billiton (12%), Cargill International S.A., (18%) and Corus UK Limited (11%). During 2010, three of our charterers accounted for 44% of our revenues; BHP Billiton (18%), Cargill International S.A., (16%) and Corus UK Limited (10%).

We charter our dry bulk carriers to customers primarily pursuant to time charters. Under our time charters, the charterer typically pays us a fixed daily charter hire rate and bears all voyage expenses, including the cost of bunkers (fuel oil) and canal and port charges. We remain responsible for paying the chartered vessel's operating expenses, including the cost of crewing, insuring, repairing and maintaining the vessel. We have historically paid commissions that have ranged from 0% to 6.25% of the total daily charter hire rate of each charter to unaffiliated ship brokers and to in-house brokers associated with the charterer, depending on the number of brokers involved with arranging the charter.

We strategically monitor developments in the dry bulk shipping industry on a regular basis and, subject to market demand, seek to adjust the charter hire periods for our vessels according to prevailing market conditions. In order to take advantage of the relatively stable cash flow and high utilization rates associated with long-term time charters, we have fixed 31 of our vessels on long-term time charters ranging in duration from 17 months to 62 months. Those of our vessels on short-term time charters provide us with flexibility in responding to market developments. We will continue to evaluate our balance of short- and long-term charters and may extend or reduce the charter hire periods of the vessels in our fleet according to the developments in the dry bulk shipping industry.

The Dry Bulk Shipping Industry

The global dry bulk carrier fleet could be divided into seven categories based on a vessel's carrying capacity. These categories consist of:

- **Very Large Ore Carriers (VLOC).** Very large ore carriers have a carrying capacity of more than 200,000 dwt and are a comparatively new sector of the dry bulk carrier fleet. VLOCs are built to exploit economies of scale on long-haul iron ore routes.
- **Capesize.** Capesize vessels have a carrying capacity of 110,000-199,999 dwt. Only the largest ports around the world possess the infrastructure to accommodate vessels of this size. Capesize vessels are primarily used to transport iron ore or coal and, to a much lesser extent, grains, primarily on long-haul routes.
- **Post-Panamax.** Post-Panamax vessels have a carrying capacity of 80,000-109,999 dwt. These vessels tend to have a shallower draft and larger beam than a standard Panamax vessel with a higher cargo capacity. These vessels have been designed specifically for loading high cubic cargoes from draught restricted ports, although they cannot transit the Panama Canal.
- **Panamax.** Panamax vessels have a carrying capacity of 60,000-79,999 dwt. These vessels carry coal, iron ore, grains, and, to a lesser extent, minor bulks, including steel products, cement and fertilizers. Panamax vessels are able to pass through the Panama Canal, making them more versatile than larger vessels with regard to accessing different trade routes. Most Panamax and Post-Panamax vessels are "gearless," and therefore must be served by shore-based cargo handling equipment. However, there are a small number of geared vessels with onboard cranes, a feature that enhances trading flexibility and enables operation in ports which have poor infrastructure in terms of loading and unloading facilities.
- **Handymax/Supramax.** Handymax vessels have a carrying capacity of 40,000-59,999 dwt. These vessels operate in a large number of geographically dispersed global trade routes, carrying primarily grains and minor bulks. Within the Handymax category there is also a sub-sector known as Supramax. Supramax bulk carriers are ships between 50,000 to 59,999 dwt, normally offering cargo loading and unloading flexibility with on-board cranes, or "gear," while at the same time possessing the cargo carrying capability approaching conventional Panamax bulk carriers.
- **Handysize.** Handysize vessels have a carrying capacity of up to 39,999 dwt. These vessels are primarily involved in carrying minor bulk cargoes. Increasingly, ships of this type operate within regional trading routes, and may serve as trans-shipment feeders for larger vessels. Handysize vessels are well suited for small ports with length and draft restrictions. Their cargo gear enables them to service ports lacking the infrastructure for cargo loading and unloading.

Other size categories occur in regional trade, such as Kamsarmax, with a maximum length of 229 meters, the maximum length that can load in the port of Kamsar in the Republic of Guinea. Other terms such as Seawaymax, Setouchmax, Dunkirkmax, and Newcastlemax also appear in regional trade.

The supply of dry bulk carriers is dependent on the delivery of new vessels and the removal of vessels from the global fleet, either through scrapping or loss. The level of scrapping activity is generally a function of scrapping prices in relation to current and prospective charter market conditions, as well as operating, repair and survey costs. The average age at which a vessel is scrapped over the last five years has been 31 years.

The demand for dry bulk carrier capacity is determined by the underlying demand for commodities transported in dry bulk carriers, which in turn is influenced by trends in the global economy. Demand for dry bulk carrier capacity is also affected by the operating efficiency of the global fleet, along with port congestion, which has been a feature of the market since 2004, absorbing tonnage and therefore leading to a tighter balance between supply and demand. In evaluating demand factors for dry bulk carrier capacity, the Company believes that dry bulk carriers can be the most versatile element of the global shipping fleets in terms of employment alternatives.

Charter Hire Rates

Charter hire rates fluctuate by varying degrees among dry bulk carrier size categories. The volume and pattern of trade in a small number of commodities (major bulks) affect demand for larger vessels. Therefore, charter rates and vessel values of larger vessels often show greater volatility. Conversely, trade in a greater number of commodities (minor bulks) drives demand for smaller dry bulk carriers. Accordingly, charter rates and vessel values for those vessels are usually subject to less volatility.

Charter hire rates paid for dry bulk carriers are primarily a function of the underlying balance between vessel supply and demand, although at times other factors may play a role. Furthermore, the pattern seen in charter rates is broadly mirrored across the different charter types and the different dry bulk carrier categories. In the time charter market, rates vary depending on the length of the charter period and vessel-specific factors such as age, speed and fuel consumption.

In the voyage charter market, rates are, among other things, influenced by cargo size, commodity, port dues and canal transit fees, as well as commencement and termination regions. In general, a larger cargo size is quoted at a lower rate per ton than a smaller cargo size. Routes with costly ports or canals generally command higher rates than routes with low port dues and no canals to transit. Voyages with a load port within a region that includes ports where vessels usually discharge cargo or a discharge port within a region with ports where vessels load cargo also are generally quoted at lower rates, because such voyages generally increase vessel utilization by reducing the unloaded portion (or ballast leg) that is included in the calculation of the return charter to a loading area.

Within the dry bulk shipping industry, the charter hire rate references most likely to be monitored are the freight rate indices issued by the Baltic Exchange. These references are based on actual charter hire rates under charters entered into by market participants as well as daily assessments provided to the Baltic Exchange by a panel of major shipbrokers. The Baltic Panamax Index is the index with the longest history. The Baltic Capesize Index and Baltic Handymax Index are of more recent origin.

The Baltic Dry Index, or BDI, a daily average of charter rates in 20 shipping routes measured on a time charter and voyage basis and covering Capesize, Panamax, Supramax, and Handysize dry bulk carriers declined from a high of 11,793 in May 2008 to a low of 663 in December 2008. In 2009, BDI ranged from a low of 772 in January 2009 to a high of 4,661 in November 2009, representing an increase of 504%. In 2010, BDI decreased from a high of 4,209 in May 2010 to a low of 1,700 in July 2010 and in 2011 ranged from a low of approximately 1,043 in February 2011 to a high of approximately 2,173 in October 2011. In 2012, the BDI ranged from a high of 1624 in January to a low of 647 in February. In 2013 BDI started from a low 698 in January and increased to 912 on March 19, 2013.

Vessel Prices

Dry bulk vessel values have declined as a result of the significant deterioration in charter rates. Consistent with these trends, the market value of our dry bulk carriers has also declined. Charter rates and vessel values remain significantly below the highs reached in May to June 2008, and there can be no assurance as to how long charter rates and vessel values will remain at their current levels or whether they will decrease or improve to any significant degree in the near future.

Competition

Our business fluctuates in line with the main patterns of trade of the major dry bulk cargoes and varies according to changes in the supply and demand for these items. We operate in markets that are highly competitive and based primarily on supply and demand. We compete for charters on the basis of price, vessel location, size, age and condition of the vessel, as well as on our reputation as an owner and operator. We compete with other owners of dry bulk carriers in the Panamax, Post-Panamax and smaller class sectors and with owners of Capesize and Newcastlemax dry bulk carriers. Ownership of dry bulk carriers is highly fragmented.

We believe that we possess a number of strengths that provide us with a competitive advantage in the dry bulk shipping industry:

- *We own a modern, high quality fleet of dry bulk carriers.* We believe that owning a modern, high quality fleet reduces operating costs, improves safety and provides us with a competitive advantage in securing favorable time charters. We maintain the quality of our vessels by carrying out regular inspections, both while in port and at sea, and adopting a comprehensive maintenance program for each vessel.
- *Our fleet includes eight groups of sister ships.* We believe that maintaining a fleet that includes sister ships enhances the revenue generating potential of our fleet by providing us with operational and scheduling flexibility. The uniform nature of sister ships also improves our operating efficiency by allowing our fleet manager to apply the technical knowledge of one vessel to all vessels of the same series and creates economies of scale that enable us to realize cost savings when maintaining, supplying and crewing our vessels.
- *We have an experienced management team.* Our management team consists of experienced executives who each have, on average, more than 27 years of operating experience in the shipping industry and has demonstrated ability in managing the commercial, technical and financial areas of our business. Our management team is led by Mr. Simeon Palios, a qualified naval architect and engineer who has more than 40 years of experience in the shipping industry.
- *Internal management of vessel operations.* We conduct all of the commercial and technical management of our vessels in-house through DSS. We believe having in-house commercial and technical management provides us with a competitive advantage over many of our competitors by allowing us to more closely monitor our operations and to offer higher quality performance, reliability and efficiency in arranging charters and the maintenance of our vessels.
- *We benefit from strong relationships with members of the shipping and financial industries.* We have developed strong relationships with major international charterers, shipbuilders and financial institutions that we believe are the result of the quality of our operations, the strength of our management team and our reputation for dependability.

- *We have a strong balance sheet and a relatively low level of indebtedness.* We believe that our strong balance sheet and relatively low level of indebtedness provide us with the flexibility to increase the amount of funds that we may draw under our loan facilities in connection with future acquisitions and enable us to use cash flow that would otherwise be dedicated to debt service for other purposes.

Permits and Authorizations

We are required by various governmental and quasi-governmental agencies to obtain certain permits, licenses and certificates with respect to our vessels. The kinds of permits, licenses and certificates required depend upon several factors, including the commodity transported, the waters in which the vessel operates the nationality of the vessel's crew and the age of a vessel. We have been able to obtain all permits, licenses and certificates currently required to permit our vessels to operate. Additional laws and regulations, environmental or otherwise, may be adopted which could limit our ability to do business or increase the cost of us doing business.

Environmental and Other Regulations

Government regulation significantly affects the ownership and operation of our vessels. We are subject to international conventions and treaties, national, state and local laws and regulations in force in the countries in which our vessels may operate or are registered relating to safety and health and environmental protection including the storage, handling, emission, transportation and discharge of hazardous and non-hazardous materials, and the remediation of contamination and liability for damage to natural resources. Compliance with such laws, regulations and other requirements entails significant expense, including vessel modifications and implementation of certain operating procedures.

A variety of government and private entities subject our vessels to both scheduled and unscheduled inspections. These entities include the local port authorities (such as the U.S. Coast Guard, harbor master or equivalent), classification societies; flag state administrations (countries of registry) and charterers, particularly terminal operators. Certain of these entities require us to obtain permits, licenses, certificates or approvals for the operation of our vessels. Failure to maintain necessary permits, licenses, certificates or approvals could require us to incur substantial costs or temporarily suspend the operation of one or more of our vessels.

We believe that the heightened level of environmental and quality concerns among insurance underwriters, regulators and charterers is leading to greater inspection and safety requirements on all vessels and may accelerate the scrapping of older vessels throughout the dry bulk shipping industry. Increasing environmental concerns have created a demand for vessels that conform to the stricter environmental standards. We are required to maintain operating standards for all of our vessels that emphasize operational safety, quality maintenance, continuous training of our officers and crews and compliance with United States and international regulations. We believe that the operation of our vessels is in substantial compliance with applicable environmental laws and regulations and that our vessels have all material permits, licenses, certificates or other approvals necessary for the conduct of our operations as of the date of this annual report. However, because such laws and regulations are frequently changed and may impose increasingly strict requirements, we cannot predict the ultimate cost of complying with these requirements, or the impact of these requirements on the resale value or useful lives of our vessels. In addition, a future serious marine incident, such as the 2010 Deepwater Horizon oil spill, that results in significant oil pollution or otherwise causes significant adverse environmental impact could result in additional legislation or regulation that could negatively affect our profitability.

The laws and regulations discussed below may not constitute a comprehensive list of all such laws and regulations that are applicable to the operation of our vessels.

International Maritime Organization

The United Nations' International Maritime Organization (the "IMO") has adopted the International Convention for the Prevention of Marine Pollution from Ships, 1973, as modified by the Protocol of 1978 relating thereto (collectively referred to as MARPOL 73/78 and herein as "MARPOL"). MARPOL entered into force on October 2, 1983. It has been adopted by over 150 nations, including many of the jurisdictions in which our vessels operate. MARPOL sets forth pollution-prevention requirements applicable to drybulk carriers, among other vessels, and is broken into six Annexes, each of which regulates a different source of pollution. Annex I relates to oil leakage or spilling; Annexes II and III relate to harmful substances carried, in bulk, in liquid or packaged form, respectively; Annexes IV and V relate to sewage and garbage management, respectively; and Annex VI, lastly, relates to air emissions. Annex VI, separately adopted by the IMO in September of 1997, related to air emissions.

Air Emissions

In September of 1997, the IMO adopted Annex VI to MARPOL to address air pollution. Effective May 2005, Annex VI sets limits on nitrogen oxide emissions from ships whose diesel engines were constructed (or underwent major conversions) on or after January 1, 2000. It also prohibits "deliberate emissions" of "ozone depleting substances," defined to include certain halons and chlorofluorocarbons. "Deliberate emissions" are not limited to times when the ship is at sea; they can for example include discharges occurring in the course of the ship's repair and maintenance. Emissions of "volatile organic compounds" from certain tankers, and the shipboard incineration (from incinerators installed after January 1, 2000) of certain substances (such as polychlorinated biphenyls (PCBs)) are also prohibited. Annex VI also includes a global cap on the sulfur content of fuel oil (see below).

The IMO's Marine Environment Protection Committee, or MEPC, adopted amendments to Annex VI on October 10, 2008, which amendments were entered into force on July 1, 2010. The amended Annex VI seeks to further reduce air pollution by, among other things, implementing a progressive reduction of the amount of sulphur contained in any fuel oil used on board ships. As of January 1, 2012, the amended Annex VI required that fuel oil contain no more than 3.50% sulfur (from the current cap of 4.50%). By January 1, 2020, sulfur content must not exceed 0.50%, subject to a feasibility review to be completed no later than 2018.

Sulfur content standards are even stricter within certain "Emission Control Areas" ("ECAs"). By July 1, 2010, ships operating within an ECA were not permitted to use fuel with sulfur content in excess of 1.0% (from 1.50%), which will be further reduced to 0.10% on January 1, 2015. Amended Annex VI establishes procedures for designating new ECAs. Currently, the Baltic Sea and the North Sea have been so designated. Effective August 1, 2012, certain coastal areas of North America were designated ECAs, as will applicable areas of the United States Caribbean Sea adjacent to Puerto Rico and the U.S. Virgin Islands, effective January 1, 2014. Ocean-going vessels in these areas will be subject to stringent emissions controls and may cause us to incur additional costs. If other ECAs are approved by the IMO or other new or more stringent requirements relating to emissions from marine diesel engines or port operations by vessels are adopted by the EPA or the states where we operate, compliance with these regulations could entail significant capital expenditures or otherwise increase the costs of our operations.

As of January 1, 2013, MARPOL made mandatory certain measures relating to energy efficiency for ships. It makes the Energy Efficiency Design Index (EEDI) for new ships mandatory and the Ship Energy Efficiency Management Plan (SEEMP) apply to all ships.

Amended Annex VI also establishes new tiers of stringent nitrogen oxide emissions standards for new marine engines, depending on their date of installation. The U.S. Environmental Protection Agency promulgated equivalent (and in some senses stricter) emissions standards in late 2009.

Safety Management System Requirements

The IMO also adopted the International Convention for the Safety of Life at Sea, or SOLAS, and the International Convention on Load Lines, or the LL Convention, which impose a variety of standards that regulate the design and operational features of ships. The IMO periodically revises the SOLAS and LL Convention standards. The Convention on Limitation of Liability for Maritime Claims (LLMC) was recently amended and the amendments are expected to go into effect on June 8, 2015. The amendments alter the limits of liability for loss of life or personal injury claims and property claims against ship-owners.

The operation of our ships is also affected by the requirements set forth in Chapter IX of SOLAS, which sets forth the IMO's International Management Code for the Safe Operation of Ships and Pollution Prevention, or the ISM Code. The ISM Code requires ship owners and bareboat charterers to develop and maintain an extensive "Safety Management System" that includes the adoption of a safety and environmental protection policy setting forth instructions and procedures for safe operation and describing procedures for dealing with emergencies. We rely upon the safety management system that we and our technical manager have developed for compliance with the ISM Code. The failure of a ship owner or bareboat charterer to comply with the ISM Code may subject such party to increased liability, may decrease available insurance coverage for the affected vessels and may result in a denial of access to, or detention in, certain ports. As of the date of this filing, each of our vessels is ISM code-certified.

The ISM Code requires that vessel operators obtain a safety management certificate, or SMC, for each vessel they operate. This certificate evidences compliance by a vessel's operators with the ISM Code requirements for a safety management system, or SMS. No vessel can obtain an SMC under the ISM Code unless its manager has been awarded a document of compliance, or DOC, issued in most instances by the vessel's flag state. Our appointed ship managers have obtained documents of compliance for their offices and safety management certificates for all of our vessels for which the certificates are required by the IMO. The document of compliance, or the DOC, and ship management certificate, or the SMC, are renewed as required.

International Labor Organization

The International Labour Organization (ILO) is a specialized agency of the UN with headquarters in Geneva, Switzerland. The ILO has adopted the Maritime Labor Convention 2006 (MLC 2006). A Maritime Labor Certificate and a Declaration of Maritime Labor Compliance will be required to ensure compliance with the MLC 2006 for all ships above 500 gross tons in international trade. The MLC 2006 will enter into force one year after 30 countries with a minimum of 33% of the world's tonnage have ratified it. On August 20, 2012, the required number of countries met and MLC 2006 is expected to come into force on August 20, 2013. The ratification of MLC 2006 may require us to develop new procedures to ensure full compliance.

Pollution Control and Liability Requirements

The IMO has negotiated international conventions that impose liability for pollution in international waters and the territorial waters of the signatories to such conventions. For example, the IMO adopted the International Convention for the Control and Management of Ships' Ballast Water and Sediments, or the BWM Convention, in February 2004. The BWM Convention's implementing regulations call for a phased introduction of mandatory ballast water exchange requirements, to be replaced in time with mandatory concentration limits. The BWM Convention will not enter into force until 12 months after it has been adopted by 30 states, the combined merchant fleets of which represent not less than 35% of the gross tonnage of the world's merchant shipping tonnage. To date, there has not been sufficient adoption of this standard for it to take force. However, Panama may adopt this standard in the relatively near future, which would be sufficient for it to take force. Upon entry into force of the BWM Convention, mid-ocean ballast exchange would be mandatory for our vessels. The cost of compliance could increase for ocean carriers, and these costs may be material. Our vessels would be required to be equipped with a ballast water treatment system that meets mandatory concentration limits not later than the first intermediate or renewal survey, whichever occurs first, after the anniversary date of delivery of the vessel in 2014, for vessels with ballast water capacity of 1500-5000 cubic meters, or after such date in 2016, for vessels with ballast water capacity of greater than 5000 cubic meters. If mid-ocean ballast exchange or ballast water treatment requirements become mandatory, the cost of compliance could increase for ocean carriers. Although we do not believe the costs of compliance with mandatory mid-ocean ballast exchange would be material, it is difficult to predict the overall impact of such a requirement on our operations.

The IMO adopted the International Convention on Civil Liability for Bunker Oil Pollution Damage, or the Bunker Convention, to impose strict liability on ship owners for pollution damage in jurisdictional waters of ratifying states caused by discharges of bunker fuel. The Bunker Convention requires registered owners of ships over 1,000 gross tons to maintain insurance for pollution damage in an amount equal to the limits of liability under the applicable national or international limitation regime (but not exceeding the amount calculated in accordance with the Convention on Limitation of Liability for Maritime Claims of 1976, as amended). With respect to non-ratifying states, liability for spills or releases of oil carried as fuel in ship's bunkers typically is determined by the national or other domestic laws in the jurisdiction where the events or damages occur.

In March 2006, the IMO amended Annex I to MARPOL, including a new regulation relating to oil fuel tank protection, which became effective August 1, 2007. The new regulation applies to various ships delivered on or after August 1, 2010. It includes requirements for the protected location of the fuel tanks, performance standards for accidental oil fuel outflow, a tank capacity limit and certain other maintenance, inspection and engineering standards.

Noncompliance with the ISM Code or other IMO regulations may subject the ship owner or bareboat charterer to increased liability, lead to decreases in available insurance coverage for affected vessels or result in the denial of access to, or detention in, some ports. As of the date of this report, each of our vessels is ISM Code certified. However, there can be no assurance that such certificate will be maintained.

The IMO continues to review and introduce new regulations. It is impossible to predict what additional regulations, if any, may be passed by the IMO and what effect, if any, such regulations might have on our operations.

The U.S. Oil Pollution Act of 1990 and Comprehensive Environmental Response, Compensation and Liability Act

OPA established an extensive regulatory and liability regime for the protection and cleanup of the environment from oil spills. OPA affects all "owners and operators" whose vessels trade with the United States, its territories and possessions or whose vessels operate in United States waters, which includes the United States' territorial sea and its 200 nautical mile exclusive economic zone around the United States. The United States has also enacted the Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, which applies to the discharge of hazardous substances other than oil, whether on land or at sea. OPA and CERCLA both define "owner and operator" in the case of a vessel as any person owning, operating or chartering by demise, the vessel. Both OPA and CERCLA impact our operations.

Under OPA, vessel owners and operators are "responsible parties" and are jointly, severally and strictly liable (unless the spill results solely from the act or omission of a third party, an act of God or an act of war) for all containment and clean-up costs and other damages arising from discharges or threatened discharges of oil from their vessels. OPA defines these other damages broadly to include:

- (i) injury to, destruction of, or loss of use of, natural resources and related assessment costs;
- (ii) injury to, or economic losses resulting from, the destruction of real and personal property;

- (iii) net loss of taxes, royalties, rents, fees or net profit revenues resulting from injury, destruction or loss of real or personal property, or natural resources;
- (iv) loss of subsistence use of natural resources that are injured, destroyed or lost;
- (v) lost profits or impairment of earning capacity due to injury, destruction or loss of real or personal property or natural resources; and
- (vi) net cost of increased or additional public services necessitated by removal activities following a discharge of oil, such as protection from fire, safety or health hazards, and loss of subsistence use of natural resources.

OPA contains statutory caps on liability and damages; such caps do not apply to direct cleanup costs. Effective July 31, 2009, the U.S. Coast Guard adjusted the limits of OPA liability for non-tank vessels (e.g. drybulk) to the greater of \$1,000 per gross ton or \$854,400 (subject to periodic adjustment for inflation). These limits of liability do not apply if an incident was proximately caused by the violation of an applicable U.S. federal safety, construction or operating regulation by a responsible party (or its agent, employee or a person acting pursuant to a contractual relationship), or a responsible party's gross negligence or willful misconduct. The limitation on liability similarly does not apply if the responsible party fails or refuses to (i) report the incident where the responsibility party knows or has reason to know of the incident; (ii) reasonably cooperate and assist as requested in connection with oil removal activities; or (iii) without sufficient cause, comply with an order issued under the Federal Water Pollution Act (Section 311 (c), (e)) or the Intervention on the High Seas Act.

CERCLA contains a similar liability regime whereby owners and operators of vessels are liable for cleanup, removal and remedial costs, as well as damage for injury to, or destruction or loss of, natural resources, including the reasonable costs associated with assessing same, and health assessments or health effects studies. There is no liability if the discharge of a hazardous substance results solely from the act or omission of a third party, an act of God or an act of war. Liability under CERCLA is limited to the greater of \$300 per gross ton or \$5.0 million for vessels carrying a hazardous substance as cargo and the greater of \$300 per gross ton or \$500,000 for any other vessel. These limits do not apply (rendering the responsible person liable for the total cost of response and damages) if the release or threat of release of a hazardous substance resulted from willful misconduct or negligence, or the primary cause of the release was a violation of applicable safety, construction or operating standards or regulations. The limitation on liability also does not apply if the responsible person fails or refused to provide all reasonable cooperation and assistance as requested in connection with response activities where the vessel is subject to OPA.

OPA and CERCLA both require owners and operators of vessels to establish and maintain with the U.S. Coast Guard evidence of financial responsibility sufficient to meet the maximum amount of liability to which the particular responsible person may be subject. Vessel owners and operators may satisfy their financial responsibility obligations by providing a proof of insurance, a surety bond, qualification as a self-insurer or a guarantee.

The 2010 *Deepwater Horizon* oil spill in the Gulf of Mexico may also result in additional regulatory initiatives or statutes, including the raising of liability caps under OPA. Compliance with any new requirements of OPA may substantially impact our cost of operations or require us to incur additional expenses to comply with any new regulatory initiatives or statutes. For example, on August 15, 2012, the U.S. Bureau of Safety and Environment Enforcement (BSEE) issued a final drilling safety rule for offshore oil and gas operations that strengthens the requirements for safety equipment, well control systems, and blowout prevention practices. Additional legislation or regulations applicable to the operation of our vessels that may be implemented in the future could adversely affect our business.

We currently maintain pollution liability coverage insurance in the amount of \$1 billion per incident for each of our vessels. If the damages from a catastrophic spill were to exceed our insurance coverage it could have an adverse effect on our business and results of operation.

OPA specifically permits individual states to impose their own liability regimes with regard to oil pollution incidents occurring within their boundaries, provided they accept, at a minimum, the levels of liability established under OPA and some states have enacted legislation providing for unlimited liability for oil spills. In some cases, states which have enacted such legislation have not yet issued implementing regulations defining vessel owners' responsibilities under these laws. We intend to comply with all applicable state regulations in the ports where our vessels call. We believe that we are in substantial compliance with all applicable existing state requirements. In addition, we intend to comply with all future applicable state regulations in the ports where our vessels call.

Other Environmental Initiatives

The U.S. Clean Water Act, or CWA, prohibits the discharge of oil, hazardous substances and ballast water in U.S. navigable waters unless authorized by a duly-issued permit or exemption, and imposes strict liability in the form of penalties for any unauthorized discharges. The CWA also imposes substantial liability for the costs of removal, remediation and damages and complements the remedies available under OPA and CERCLA. Furthermore, many U.S. states that border a navigable waterway have enacted environmental pollution laws that impose strict liability on a person for removal costs and damages resulting from a discharge of oil or a release of a hazardous substance. These laws may be more stringent than U.S. federal law.

The EPA regulates the discharge of ballast water and other substances in U.S. waters under the CWA. EPA regulations require vessels 79 feet in length or longer (other than commercial fishing and recreational vessels) to comply with a Vessel General Permit authorizing ballast water discharges and other discharges incidental to the operation of vessels. The Vessel General Permit imposes technology and water-quality based effluent limits for certain types of discharges and establishes specific inspection, monitoring, recordkeeping and reporting requirements to ensure the effluent limits are met. The EPA has issued a 2013 Vessel General Permit that will go into effect, and replace the current Vessel General Permit upon its expiration, on December 19, 2013. This permit focuses on authorizing discharges incidental to operations of commercial vessels and the new version contains numeric ballast water discharge limits for most vessels to reduce the risk of invasive species in US waters, more stringent requirements for exhaust gas scrubbers and the use of environmentally acceptable lubricants.

U.S. Coast Guard regulations adopted under the U.S. National Invasive Species Act, or NISA, also impose mandatory ballast water management practices for all vessels equipped with ballast water tanks entering or operating in U.S. waters. As of June 21, 2012, the U.S. Coast Guard implemented revised regulations on ballast water management by establishing standards on the allowable concentration of living organisms in ballast water discharged from ships in U.S. waters. The revised ballast water standards are consistent with those adopted by the IMO in 2004. Compliance with the EPA and the U.S. Coast Guard regulations could require the installation of certain engineering equipment and water treatment systems to treat ballast water before it is discharged or the implementation of other port facility disposal arrangements or procedures at potentially substantial cost, or may otherwise restrict our vessels from entering U.S. waters.

The U.S. Clean Air Act of 1970 (including its amendments of 1977 and 1990) (the "CAA") requires the EPA to promulgate standards applicable to emissions of volatile organic compounds and other air contaminants. Our vessels are subject to vapor control and recovery requirements for certain cargoes when loading, unloading, ballasting, cleaning and conducting other operations in regulated port areas. Our vessels that operate in such port areas with restricted cargoes are equipped with vapor recovery systems that satisfy these requirements. The CAA also requires states to draft State Implementation Plans ("SIPs") designed to attain national health-based air quality standards in each state. Although state-specific, SIPs may include regulations concerning emissions resulting from vessel loading and unloading operations by requiring the installation of vapor control equipment. As indicated above, our vessels operating in covered port areas are already equipped with vapor recovery systems that satisfy these existing requirements.

European Union Regulations

In October 2009, the European Union amended a directive to impose criminal sanctions for illicit ship-source discharges of polluting substances, including minor discharges, if committed with intent, recklessly or with serious negligence and the discharges individually or in the aggregate result in deterioration of the quality of water. Aiding and abetting the discharge of a polluting substance may also lead to criminal penalties. Member States were required to enact laws or regulations to comply with the directive by the end of 2010. Criminal liability for pollution may result in substantial penalties or fines and increased civil liability claims. The directive applies to all types of vessels, irrespective of their flag, but certain exceptions apply to warships or where human safety or that of the ship is in danger.

The European Union has adopted several regulations and directives requiring, among other things, more frequent inspections of high-risk ships, as determined by type, age, and flag as well as the number of times the ship has been detained. The European Union also adopted and then extended a ban on substandard ships and enacted a minimum ban period and a definitive ban for repeated offenses. The regulation also provided the European Union with greater authority and control over classification societies, by imposing more requirements on classification societies and providing for fines or penalty payments for organizations that failed to comply.

With effect from January 1, 2010, the Directive 2005/33/EC of the European Parliament and of the Council of July 6, 2005, amending Directive 1999/32/EC came into force. The objective of the directive is to reduce emission of sulfur dioxide and particulate matter caused by the combustion of certain petroleum derived fuels. The directive imposes limits on the sulfur content of such fuels as a condition of their use within a Member State territory. The maximum sulfur content for marine fuels used by inland waterway vessels and ships at berth in ports in EU countries after January 1, 2010, is 0.10% by mass. As of January 1, 2015, all vessels operating within Emissions Control Areas (ECA) worldwide must comply with 0.1% sulfur requirements. Currently, the only grade of fuel meeting 0.1% sulfur content requirement is low sulfur marine gas oil (or LSMGO). As of July 1, 2010, the reduction of applicable sulfur content limits in the North Sea, the Baltic Sea and the English Channel Sulfur Control Areas will be 0.1%. We do not expect that we will be required to modify any of our drilling rigs to meet any of the foregoing low sulfur fuel requirements. On July 15, 2011, the European Commission also adopted a proposal for an amendment to Directive 1999/32/EC which would align requirements with those imposed by the revised MARPOL Annex VI which introduced stricter sulphur limits.

Greenhouse Gas Regulation

Currently, the emissions of greenhouse gases from international shipping are not subject to the Kyoto Protocol to the United Nations Framework Convention on Climate Change, which entered into force in 2005 and pursuant to which adopting countries have been required to implement national programs to reduce greenhouse gas emissions. However, in July 2011, MEPC adopted two new sets of mandatory requirements to address greenhouse gas emissions from ships that entered into force in January 2013. Currently operating ships will be required to develop Ship Energy Efficiency Management Plans, and minimum energy efficiency levels per capacity mile, outlined in the Energy Efficiency Design Index, will apply to new ships. These requirements could cause us to incur additional compliance costs. The IMO is also planning to implement market-based mechanisms to reduce greenhouse gas emissions from ships at an upcoming MEPC session. The European Union has indicated that it intends to propose an expansion of the existing European Union emissions trading scheme to include emissions of greenhouse gases from marine vessels, and in January 2012 the European Commission launched a public consultation on possible measures to reduce greenhouse gas emissions from ships. In the United States, the EPA has issued a finding that greenhouse gases endanger the public health and safety and has adopted regulations to limit greenhouse gas emissions from certain mobile sources and large stationary sources.

Although the mobile source emissions regulations do not apply to greenhouse gas emissions from vessels, such regulation of vessels is foreseeable, and the EPA has in recent years received petitions from the California Attorney General and various environmental groups seeking such regulation. Any passage of climate control legislation or other regulatory initiatives by the IMO, European Union, the U.S. or other countries where we operate, or any treaty adopted at the international level to succeed the Kyoto Protocol, that restrict emissions of greenhouse gases could require us to make significant financial expenditures which we cannot predict with certainty at this time.

Vessel Security Regulations

Since the terrorist attacks of September 11, 2001 in the United States, there have been a variety of initiatives intended to enhance vessel security such as the Maritime Transportation Security Act of 2002, or MTSA. To implement certain portions of the MTSA, in July 2003, the U.S. Coast Guard issued regulations requiring the implementation of certain security requirements aboard vessels operating in waters subject to the jurisdiction of the United States. The regulations also impose requirements on certain ports and facilities, some of which are regulated by the U.S. Environmental Protection Agency (EPA).

Similarly, in December 2002, amendments to SOLAS created a new chapter of the convention dealing specifically with maritime security. The new Chapter V became effective in July 2004 and imposes various detailed security obligations on vessels and port authorities, and mandates compliance with the International Ship and Port Facilities Security Code, or the ISPS Code. The ISPS Code is designed to enhance the security of ports and ships against terrorism. To trade internationally, a vessel must attain an International Ship Security Certificate, or ISSC, from a recognized security organization approved by the vessel's flag state. Among the various requirements are:

- on-board installation of automatic identification systems to provide a means for the automatic transmission of safety-related information from among similarly equipped ships and shore stations, including information on a ship's identity, position, course, speed and navigational status;
- on-board installation of ship security alert systems, which do not sound on the vessel but only alert the authorities on shore;
- the development of vessel security plans;
- ship identification number to be permanently marked on a vessel's hull;
- a continuous synopsis record kept onboard showing a vessel's history including the name of the ship, the state whose flag the ship is entitled to fly, the date on which the ship was registered with that state, the ship's identification number, the port at which the ship is registered and the name of the registered owner(s) and their registered address; and
- compliance with flag state security certification requirements.

Ships operating without a valid certificate may be detained at port until it obtains an ISSC, or it may be expelled from port, or refused entry at port.

Furthermore, additional security measures could be required in the future which could have a significant financial impact on us. The U.S. Coast Guard regulations, intended to be aligned with international maritime security standards, exempt non-U.S. vessels from MTSA vessel security measures, provided such vessels have on board a valid ISSC that attests to the vessel's compliance with SOLAS security requirements and the ISPS Code.

Our managers intend to implement the various security measures addressed by MTSA, SOLAS and the ISPS Code, and we intend that our fleet will comply with applicable security requirements. We have implemented the various security measures addressed by the MTSA, SOLAS and the ISPS Code.

Inspection by Classification Societies

Every oceangoing vessel must be "classed" by a classification society. The classification society certifies that the vessel is "in class," signifying that the vessel has been built and maintained in accordance with the rules of the classification society and complies with applicable rules and regulations of the vessel's country of registry and the international conventions of which that country is a member. In addition, where surveys are required by international conventions and corresponding laws and ordinances of a flag state, the classification society will undertake them on application or by official order, acting on behalf of the authorities concerned.

The classification society also undertakes on request other surveys and checks that are required by regulations and requirements of the flag state. These surveys are subject to agreements made in each individual case and/or to the regulations of the country concerned.

For maintenance of the class certification, regular and extraordinary surveys of hull, machinery, including the electrical plant, and any special equipment classed are required to be performed as follows:

- ***Annual Surveys:*** For seagoing ships, annual surveys are conducted for the hull and the machinery, including the electrical plant, and where applicable for special equipment classed, within three months before or after each anniversary date of the date of commencement of the class period indicated in the certificate.
- ***Intermediate Surveys:*** Extended annual surveys are referred to as intermediate surveys and typically are conducted two and one-half years after commissioning and each class renewal. Intermediate surveys are to be carried out at or between the occasion of the second or third annual survey.
- ***Class Renewal Surveys:*** Class renewal surveys, also known as special surveys, are carried out for the ship's hull, machinery, including the electrical plant, and for any special equipment classed, at the intervals indicated by the character of classification for the hull. At the special survey, the vessel is thoroughly examined, including audio-gauging to determine the thickness of the steel structures. Should the thickness be found to be less than class requirements, the classification society would prescribe steel renewals. The classification society may grant a one-year grace period for completion of the special survey. Substantial amounts of money may have to be spent for steel renewals to pass a special survey if the vessel experiences excessive wear and tear. In lieu of the special survey every four or five years, depending on whether a grace period was granted, a shipowner has the option of arranging with the classification society for the vessel's hull or machinery to be on a continuous survey cycle, in which every part of the vessel would be surveyed within a five-year cycle. Upon a shipowner's request, the surveys required for class renewal may be split according to an agreed schedule to extend over the entire period of class. This process is referred to as continuous class renewal.

All areas subject to survey as defined by the classification society are required to be surveyed at least once per class period, unless shorter intervals between surveys are prescribed elsewhere. The period between two subsequent surveys of each area must not exceed five years.

Most vessels are also drydocked every 30 to 36 months for inspection of the underwater parts and for repairs related to inspections. If any defects are found, the classification surveyor will issue a recommendation which must be rectified by the ship owner within prescribed time limits .

Most insurance underwriters make it a condition for insurance coverage that a vessel be certified as "in class" by a classification society which is a member of the International Association of Classification Societies. All our vessels are certified as being "in class" either by Lloyd's Register of Shipping, American Bureau of Shipping, Germanischer Lloyd or Bureau Veritas or Class NK. All new and second hand vessels that we purchase must be certified prior to their delivery under our standard purchase contracts and memorandum of agreement. For the second hand vessels same is verified by a Class Maintenance Certificate issued within 72 hours prior to delivery. If the vessel is not certified on the date of closing, we have the option to cancel the agreement due to Seller's default and not take delivery of the vessel.

Risk of Loss and Liability Insurance

General

The operation of any dry bulk vessel includes risks such as mechanical failure, collision, property loss, cargo loss or damage, and business interruption due to political circumstances in foreign countries, hostilities and labor strikes. In addition, there is always an inherent possibility of marine disaster, including oil spills and other environmental mishaps, and the liabilities arising from owning and operating vessels in international trade. OPA, which imposes virtually unlimited liability upon owners, operators and demise charterers of vessels trading in the United States exclusive economic zone for certain oil pollution accidents in the United States, has made liability insurance more expensive for ship owners and operators trading in the United States market.

While we maintain hull and machinery insurance, war risks insurance, protection and indemnity cover and freight, demurrage and defense cover for our operating fleet in amounts that we believe to be prudent to cover normal risks in our operations, we may not be able to achieve or maintain this level of coverage throughout a vessel's useful life. Furthermore, while we believe that our present insurance coverage is adequate, not all risks can be insured, and there can be no guarantee that any specific claim will be paid, or that we will always be able to obtain adequate insurance coverage at reasonable rates.

Hull & Machinery and War Risks Insurance

We maintain marine hull and machinery and war risks insurance, which cover the risk of actual or constructive total loss, for all of our vessels. Our vessels are each covered up to at least fair market value with deductibles ranging to a maximum of \$100,000 per vessel per incident for Panamax, Kamsarmax and Post-Panamax vessels and \$150,000 per vessel per incident for Capesize and Newcastlemax vessels.

Protection and Indemnity Insurance

Protection and indemnity insurance is provided by mutual protection and indemnity associations, or P&I Associations, which insure our third party liabilities in connection with our shipping activities. This includes third-party liability and other related expenses resulting from the injury or death of crew, passengers and other third parties, the loss or damage to cargo, claims arising from collisions with other vessels, damage to other third-party property, pollution arising from oil or other substances and salvage, towing and other related costs, including wreck removal. Protection and indemnity insurance is a form of mutual indemnity insurance, extended by protection and indemnity mutual associations, or "clubs."

Our current protection and indemnity insurance coverage for pollution is \$1 billion per vessel per incident. The 13 P&I Associations that comprise the International Group insure approximately 90% of the world's commercial tonnage and have entered into a pooling agreement to reinsure each association's liabilities. As a member of a P&I Association, which is a member of the International Group, we are subject to calls payable to the associations based on the group's claim records as well as the claim records of all other members of the individual associations and members of the pool of P&I Associations comprising the International Group. Our vessels may be subject to supplemental calls which are based on estimates of premium income and anticipated and paid claims. Such estimates are adjusted each year by the Board of Directors of the P&I Association until the closing of the relevant policy year, which generally occurs within three years from the end of the policy year. Supplemental calls, if any, are expensed when they are announced and according to the period they relate to. We are not aware of any supplemental calls in respect of any policy year that have not been recorded in our consolidated financial statements.

C. *Organizational structure*

Diana Shipping Inc. is the sole owner of all of the issued and outstanding shares of the subsidiaries listed in Note 1 of our consolidated financial statements under Item 18 and in exhibit 8.1 to this annual report.

D. *Property, plants and equipment*

On October 8, 2010, we acquired 100% of the issued and outstanding shares of Universal Shipping and Real Estates Inc., or Universal, and Diana Shipping Agencies S.A., or DSA, for \$21.5 million. Universal and DSA together owned the real property which we were leasing as our principal executive offices in Athens, Greece from Poinsettia Management Ltd., an entity affiliated with our CEO and Chairman and with other executives. The transaction was approved by a committee consisting of the independent members of the Board of Directors. On October 21, 2010 the real property owned by Universal and DSA was transferred to DSS, and Universal and DSA were subsequently dissolved.

Other than this interest in real property, our only material properties are the vessels in our fleet.

Item 4A. *Unresolved Staff Comments*

None.

Item 5. *Operating and Financial Review and Prospects*

The following management's discussion and analysis should be read in conjunction with our historical consolidated financial statements and their notes included elsewhere in this annual report. This discussion contains forward-looking statements that reflect our current views with respect to future events and financial performance. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, such as those set forth in the section entitled "Risk Factors" and elsewhere in this annual report.

A. *Operating results*

We charter our vessels to customers primarily pursuant to short-term and long-term time charters. Currently, 31 of our vessels are employed on long-term time charters ranging in duration from 17 to 62 months. Under our time charters, the charterer typically pays us a fixed daily charter hire rate and bears all voyage expenses, including the cost of bunkers (fuel oil) and port and canal charges. We remain responsible for paying the chartered vessel's operating expenses, including the cost of crewing, insuring, repairing and maintaining the vessel, the costs of spares and consumable stores, tonnage taxes and other miscellaneous expenses, and we also pay commissions to one or more unaffiliated ship brokers and to in-house brokers associated with the charterer for the arrangement of the relevant charter.

Factors Affecting Our Results of Operations

We believe that the important measures for analyzing trends in our results of operations consist of the following:

- *Ownership days.* We define ownership days as the aggregate number of days in a period during which each vessel in our fleet has been owned by us. Ownership days are an indicator of the size of our fleet over a period and affect both the amount of revenues and the amount of expenses that we record during a period.
- *Available days.* We define available days as the number of our ownership days less the aggregate number of days that our vessels are off-hire due to scheduled repairs or repairs under guarantee, vessel upgrades or special surveys and the aggregate amount of time that we spend positioning our vessels for such events. The shipping industry uses available days to measure the number of days in a period during which vessels should be capable of generating revenues.
- *Operating days.* We define operating days as the number of our available days in a period less the aggregate number of days that our vessels are off-hire due to any reason, including unforeseen circumstances. The shipping industry uses operating days to measure the aggregate number of days in a period during which vessels actually generate revenues.
- *Fleet utilization.* We calculate fleet utilization by dividing the number of our operating days during a period by the number of our available days during the period. The shipping industry uses fleet utilization to measure a company's efficiency in finding suitable employment for its vessels and minimizing the amount of days that its vessels are off-hire for reasons other than scheduled repairs or repairs under guarantee, vessel upgrades, special surveys or vessel positioning for such events.
- *TCE rates.* We define TCE rates as our time charter revenues less voyage expenses during a period divided by the number of our available days during the period, which is consistent with industry standards. TCE rate is a non-GAAP measure and is a standard shipping industry performance measure used primarily to compare daily earnings generated by vessels on time charters with daily earnings generated by vessels on voyage charters, because charter hire rates for vessels on voyage charters are generally not expressed in per day amounts while charter hire rates for vessels on time charters generally are expressed in such amounts.

The following table reflects our ownership days, available days, operating days, fleet utilization and TCE rates for the periods indicated.

	Year Ended December 31,		
	2012	2011	2010
Ownership days	10,119	8,609	8,348
Available days	9,998	8,474	8,208
Operating days	9,865	8,418	8,180
Fleet utilization	98.7%	99.3%	99.7%
Time charter equivalent (TCE) rate (1)	\$ 21,255	\$ 28,920	\$ 32,049

(1) Please see Item 3.A for a reconciliation of TCE to GAAP measures.

Time Charter Revenues

Our revenues are driven primarily by the number of vessels in our fleet, the number of days during which our vessels operate and the amount of daily charter hire rates that our vessels earn under charters, which, in turn, are affected by a number of factors, including:

- the duration of our charters;
- our decisions relating to vessel acquisitions and disposals;
- the amount of time that we spend positioning our vessels;
- the amount of time that our vessels spend in drydock undergoing repairs;
- maintenance and upgrade work;
- the age, condition and specifications of our vessels;
- levels of supply and demand in the dry bulk shipping industry; and
- other factors affecting spot market charter rates for dry bulk carriers.

Vessels operating on time charters for a certain period of time provide more predictable cash flows over that period of time, but can yield lower profit margins than vessels operating in the spot charter market during periods characterized by favorable market conditions. Vessels operating in the spot charter market generate revenues that are less predictable but may enable their owners to capture increased profit margins during periods of improvements in charter rates although their owners would be exposed to the risk of declining charter rates, which may have a materially adverse impact on financial performance. As we employ vessels on period charters, future spot charter rates may be higher or lower than the rates at which we have employed our vessels on period charters. Currently, all vessels in our fleet are employed on time charters. Our time charter agreements subject us to counterparty risk. In depressed market conditions, charterers may seek to renegotiate the terms of their existing charter parties or avoid their obligations under those contracts. Should a counterparty fail to honor their obligations under agreements with us, we could sustain significant losses which could have a material adverse effect on our business, financial condition, results of operations and cash flows. Since 2009, our revenues decrease due to the decrease in the charter rates, with the exception of 2010 that Diana Containerships was consolidated to our financial statements. For 2013, we expect our revenues to decrease further if rates remain at current levels, despite of the enlargement of our fleet.

Voyage Expenses

We incur voyage expenses that include port and canal charges, bunker (fuel oil) expenses and commissions. Port and canal charges and bunker expenses primarily increase in periods during which vessels are employed on voyage charters because these expenses are for the account of the owner of the vessels. Port and canal charges and bunker expenses currently represent a relatively small portion of our vessels' overall expenses because all of our vessels are employed under time charters that require the charterer to bear all of those expenses.

As is common in the shipping industry, we have historically paid commissions ranging from 0% to 6.25% of the total daily charter hire rate of each charter to unaffiliated ship brokers and in-house brokers associated with the charterers, depending on the number of brokers involved with arranging the charter. In addition to commissions paid to third parties, we have historically paid our fleet manager a commission that is equal to 2% of our revenues in exchange for providing us with technical and commercial management services in connection with the employment of our fleet. However, this commission is eliminated from our consolidated financial statements as an intercompany transaction. During 2010 and until January 18, 2011, Diana Containerships also paid our fleet manager a commission of 1%, which was eliminated from our consolidated financial statements as an intercompany transaction. After its partial spin-off in January 2011 and until March 1, 2013 when the management agreements between DSS and Diana Containerships were terminated, the 1% commission paid by Diana Containerships constituted revenue of DSS.

For 2013, we expect that the amount of our total commissions to decrease due to decreased charter hire rates and revenues.

Vessel Operating Expenses

Vessel operating expenses include crew wages and related costs, the cost of insurance, expenses relating to repairs and maintenance, the cost of spares and consumable stores, tonnage taxes and other miscellaneous expenses. Our vessel operating expenses, which generally represent fixed costs, have historically increased as a result of the enlargement of our fleet. For 2013, we expect these expenses to increase due to the enlargement of our fleet. There may also be other factors beyond our control, some of which may affect the shipping industry in general, including, for instance, developments relating to market prices for insurance and crew wages that may cause these expenses to increase.

Vessel Depreciation

The cost of our vessels is depreciated on a straight-line basis over the estimated useful life of each vessel. Depreciation is based on the cost of the vessel less its estimated salvage value. We estimate the useful life of our dry bulk vessels to be 25 years from the date of initial delivery from the shipyard, which we believe is common in the dry bulk shipping industry. Furthermore, we estimate the salvage values of our vessels based on historical average prices of the cost of the light-weight ton of vessels being scrapped. Our depreciation charges have increased in recent periods due to the enlargement of our fleet. We expect that these charges will increase in 2013 due to the enlargement of our fleet.

General and Administrative Expenses

We incur general and administrative expenses which include our onshore related expenses such as legal and professional expenses and other general vessel expenses. Our general and administrative expenses also include payroll expenses of employees, executive officers and consultants, compensation cost of restricted stock awarded to senior management and non-executive directors, traveling, promotional and other expenses of the public company. For 2013, we expect such costs to remain about the same.

Interest and Finance Costs

We have historically incurred interest expense and financing costs in connection with the vessel-specific debt. As of December 31, 2012 and 2011, we had \$460.9 million and \$374.3 million of indebtedness outstanding, respectively. We incur interest expense and financing costs relating to our outstanding debt. Currently, our debt amounts to \$457.1 million and we expect to incur additional debt to finance part of the cost of our two vessels under construction. We may incur additional debt to finance future acquisitions or constructions. We expect to manage any exposure in interest rates through our regular operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments.

Lack of Historical Operating Data for Vessels before Their Acquisition

Although vessels are generally acquired free of charter, we have acquired (and may in the future acquire) some vessels with time charters. Where a vessel has been under a voyage charter, the vessel is usually delivered to the buyer free of charter. It is rare in the shipping industry for the last charterer of the vessel in the hands of the seller to continue as the first charterer of the vessel in the hands of the buyer. In most cases, when a vessel is under time charter and the buyer wishes to assume that charter, the vessel cannot be acquired without the charterer's consent and the buyer entering into a separate direct agreement (called a "novation agreement") with the charterer to assume the charter. The purchase of a vessel itself does not transfer the charter because it is a separate service agreement between the vessel owner and the charterer.

Where we identify any intangible assets or liabilities associated with the acquisition of a vessel, we record all identified assets or liabilities at fair value. Fair value is determined by reference to market data. We value any asset or liability arising from the market value of the time charters assumed when a vessel is acquired. The amount to be recorded as an asset or liability at the date of vessel delivery is based on the difference between the current fair market value of the charter and the net present value of future contractual cash flows. When the present value of the time charter assumed is greater than the current fair market value of such charter, the difference is recorded as prepaid charter revenue. When the opposite situation occurs, any difference, capped to the vessel's fair value on a charter free basis, is recorded as deferred revenue. Such assets and liabilities, respectively, are amortized as a reduction of, or an increase in, revenue over the period of the time charter assumed.

We entered into agreements to purchase vessels with time charters assumed for the *Thetis*, the *Salt Lake City*, the *Norfolk* and the *Houston*. Accordingly, we evaluated the charters of those vessels and recognized an asset in the case of the *Thetis* and the *Houston* with a corresponding decrease of the vessel's value, and a liability in the case of the *Salt Lake City*, with a corresponding increase of the vessel's value and the actual cost for the *Norfolk*. The asset recognized for the *Thetis* was fully amortized to revenue in 2007 and for *Houston* will be fully amortized in 2014. The liability recognized for the *Salt Lake City* was fully amortized in 2012.

When we purchase a vessel and assume or renegotiate a related time charter, we must take the following steps before the vessel will be ready to commence operations:

- obtain the charterer's consent to us as the new owner;
- obtain the charterer's consent to a new technical manager;
- in some cases, obtain the charterer's consent to a new flag for the vessel;
- arrange for a new crew for the vessel, and where the vessel is on charter, in some cases, the crew must be approved by the charterer;
- replace all hired equipment on board, such as gas cylinders and communication equipment;
- negotiate and enter into new insurance contracts for the vessel through our own insurance brokers;
- register the vessel under a flag state and perform the related inspections in order to obtain new trading certificates from the flag state;
- implement a new planned maintenance program for the vessel; and
- ensure that the new technical manager obtains new certificates for compliance with the safety and vessel security regulations of the flag state.

When we charter a vessel pursuant to a long-term time charter agreement with varying rates, we recognize revenue on a straight line basis, equal to the average revenue during the term of the charter. We had such varying rates pursuant to our time charter agreements for the *Sideris GS*, which expired in October 2010, the *Aliki*, which expired in March 2011 and the *Semirio*, which expired in May 2011.

The following discussion is intended to help you understand how acquisitions of vessels affect our business and results of operations.

Our business is comprised of the following main elements:

- employment and operation of our vessels; and
- management of the financial, general and administrative elements involved in the conduct of our business and ownership of our vessels.

The employment and operation of our vessels require the following main components:

- vessel maintenance and repair;
- crew selection and training;
- vessel spares and stores supply;
- contingency response planning;
- onboard safety procedures auditing;
- accounting;
- vessel insurance arrangement;
- vessel chartering;
- vessel security training and security response plans (ISPS);
- obtaining of ISM certification and audit for each vessel within the six months of taking over a vessel;
- vessel hiring management;
- vessel surveying; and
- vessel performance monitoring.

The management of financial, general and administrative elements involved in the conduct of our business and ownership of our vessels requires the following main components:

- management of our financial resources, including banking relationships, i.e., administration of bank loans and bank accounts;
- management of our accounting system and records and financial reporting;
- administration of the legal and regulatory requirements affecting our business and assets; and
- management of the relationships with our service providers and customers.

The principal factors that affect our profitability, cash flows and shareholders' return on investment include:

- rates and periods of charter hire;
- levels of vessel operating expenses;
- depreciation expenses;
- financing costs; and
- fluctuations in foreign exchange rates.

Our Fleet – Illustrative Comparison of Possible Excess of Carrying Value Over Estimated Charter-Free Market Value of Certain Vessels

In Critical Accounting Policies – Impairment of long-lived assets," we discuss our policy for impairing the carrying values of our vessels. Historically, the market values of vessels have experienced volatility, which from time to time may be substantial. As a result, the charter-free market value of certain of our vessels may have declined below those vessels' carrying value, even though we would not impair those vessels' carrying value under our accounting impairment policy.

Based on: (i) the carrying value of each of our vessels as of December 31, 2012 and 2011, and (ii) what we believe the charter-free market value of each of our vessels was as of December 31, 2012 and 2011, the aggregate carrying value of 28 and 15 of the vessels in our fleet as of December 31, 2012 and 2011, respectively, exceeded their aggregate charter-free market value by approximately \$587 million and \$442 million, respectively, as noted in the table below. This aggregate difference represents the approximate analysis of the amount by which we believe we would have to reduce our net income if we sold all of such vessels at December 31, 2012 and 2011, on charter free basis, on industry standard terms, in cash transactions, and to a willing buyer where we were not under any compulsion to sell, and where the buyer was not under any compulsion to buy. For purposes of this calculation, we have assumed that these 28 and 15 vessels would be sold at a price that reflects our estimate of their charter-free market values as of December 31, 2012 and 2011, respectively. As of December 31, 2012 and as of the date of this annual report, we were not and are not holding any of our vessels for sale.

Our estimates of charter-free market value assume that our vessels were all in good and seaworthy condition without need for repair and if inspected would be certified in class without notations of any kind. Our estimates are based on information available from various industry sources, including:

- reports by industry analysts and data providers that focus on our industry and related dynamics affecting vessel values;
- news and industry reports of similar vessel sales;
- news and industry reports of sales of vessels that are not similar to our vessels where we have made certain adjustments in an attempt to derive information that can be used as part of our estimates;
- approximate market values for our vessels or similar vessels that we have received from shipbrokers, whether solicited or unsolicited, or that shipbrokers have generally disseminated;
- offers that we may have received from potential purchasers of our vessels; and

- vessel sale prices and values of which we are aware through both formal and informal communications with shipowners, shipbrokers, industry analysts and various other shipping industry participants and observers.

As we obtain information from various industry and other sources, our estimates of charter-free market value are inherently uncertain. In addition, vessel values are highly volatile; as such, our estimates may not be indicative of the current or future charter-free market value of our vessels or prices that we could achieve if we were to sell them. We also refer you to the risk factors entitled "*The market values of our vessels have decreased, which could limit the amount of funds that we can borrow under our credit facilities*", "*The market values of our vessels have decreased, which could cause us to breach covenants in our credit facilities and adversely affect our operating results*" and the discussion herein under the heading Item 4.B. Business overview – Vessel Prices.

Vessel	Dwt	Year Built	Carrying Value (in millions of US dollars)	
			2012	2011
1 Nirefs	75,311	2001	11.6 *	12.3
2 Alcyon	75,247	2001	11.6 *	12.3
3 Triton	75,336	2001	11.7 *	12.5
4 Oceanis	75,211	2001	11.8 *	12.5
5 Dione	75,172	2001	13.4 *	14.3
6 Danae	75,106	2001	13.6 *	14.4
7 Protefs	73,630	2004	14.8 *	15.5
8 Calipso	73,691	2005	15.1 *	15.8
9 Clio	73,691	2005	15.5 *	16.3
10 Thetis	73,583	2004	27.8 *	29.4 *
11 Erato	74,444	2004	28.0 *	29.5 *
12 Coronis	74,381	2006	31.0 *	32.6 *
13 Naias	73,546	2006	29.9 *	31.5 *
14 Sideris GS	174,186	2006	69.8 *	73.3 *
15 Aliki	180,235	2005	83.7 *	88.3 *
16 Semirio	174,261	2007	77.2 *	81.0 *
17 Boston	177,828	2007	88.4 *	92.7 *
18 Salt Lake City	171,810	2005	129.5 *	136.6 *
19 Norfolk	164,218	2002	102.5 *	109.3 *
20 Houston	177,729	2009	55.3 *	57.7 *
21 Melite	76,436	2004	30.1 *	31.8 *
22 New York	177,773	2010	56.2 *	58.6 *
23 Alcmena	93,193	2010	37.5 *	39.1 *
24 Arethusa	73,593	2007	28.1 *	29.4 *
25 Leto	81,297	2010	31.1 *	
26 Los Angeles	206,104	2012	57.9 *	
27 Philadelphia	206,040	2012	58.7 *	
28 Melia	76,225	2005	20.0 *	
29 Amphitrite	98,697	2012	24.7	
30 Polymnia	98,704	2012	24.6	
Total	3,376,678		1,211.1	1,046.7

*Indicates dry bulk vessels for which we believe, as of December 31, 2012 and 2011, the charter-free market value was lower than the vessel's carrying value. We believe that the aggregate carrying value of these vessels exceeded their aggregate charter-free market value by approximately \$587 million and \$442 million, respectively.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of those financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses and related disclosure of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions and conditions.

Critical accounting policies are those that reflect significant judgments of uncertainties and potentially result in materially different results under different assumptions and conditions. We have described below what we believe are our most critical accounting policies, because they generally involve a comparatively higher degree of judgment in their application. For a description of all our significant accounting policies, see Note 2 to our consolidated financial statements included in this annual report.

Accounts Receivable, Trade

Accounts receivable, trade, at each balance sheet date, include receivables from charterers for hire net of a provision for doubtful accounts. At each balance sheet date, all potentially uncollectible accounts are assessed individually for purposes of determining the appropriate provision for doubtful accounts.

Accounting for Revenues and Expenses

Revenues are generated from time charter agreements and are usually paid 15 days in advance. Time charter agreements with the same charterer are accounted for as separate agreements according to the terms and conditions of each agreement. Time charter revenues are recorded over the term of the charter as service is provided when they become fixed and determinable. Revenues from time charter agreements providing for varying annual rates over their term are accounted for on a straight line basis. Income representing ballast bonus payments by the charterer to the vessel owner is recognized in the period earned. Deferred revenue includes cash received prior to the balance sheet date for which all criteria for recognition as revenue have not been met, including any deferred revenue resulting from charter agreements providing for varying annual rates, which are accounted for on a straight line basis. Deferred revenue also includes the unamortized balance of the liability associated with the acquisition of second-hand vessels with time charters attached which were acquired at values below fair market value at the date the acquisition agreement is consummated.

Voyage expenses, primarily consisting of commissions, port, canal and bunker expenses that are unique to a particular charter, are paid for by the charterer under time charter arrangements or by the Company under voyage charter arrangements, except for commissions, which are always paid for by the Company, regardless of charter type. All voyage and vessel operating expenses are expensed as incurred, except for commissions. Commissions are deferred over the related voyage charter period to the extent revenue has been deferred since commissions are due as the Company's revenues are earned.

Prepaid/Deferred Charter Revenue

The Company records identified assets or liabilities associated with the acquisition of a vessel at fair value, determined by reference to market data. The Company values any asset or liability arising from the market value of the time charters assumed when a vessel is acquired. The amount to be recorded as an asset or liability at the date of vessel delivery is based on the difference between the current fair market value of the charter and the net present value of future contractual cash flows. When the present value of the contractual cash flows of the time charter assumed is greater than its current fair value, the difference is recorded as prepaid charter revenue. When the opposite situation occurs, any difference, capped to the vessel's fair value on a charter free basis, is recorded as deferred revenue. Such assets and liabilities, respectively, are amortized as a reduction of, or an increase in, revenue over the period of the time charter assumed. We test such assets for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

Vessel Depreciation

We record the value of our vessels at their cost less accumulated depreciation. We depreciate our dry bulk vessels on a straight-line basis over their estimated useful lives, estimated to be 25 years from the date of initial delivery from the shipyard which we believe is common in the dry bulk shipping industry. Second hand vessels are depreciated from the date of their acquisition through their remaining estimated useful life. Depreciation is based on cost less the estimated salvage value. Furthermore, we estimate the salvage values of our vessels based on historical average prices, which we believe is common in the dry bulk shipping industry. A decrease in the useful life of a vessel or in its salvage value would have the effect of increasing the annual depreciation charge. When regulations place limitations on the ability of a vessel to trade on a worldwide basis, the vessel's useful life is adjusted at the date such regulations are adopted.

Deferred Drydock Cost

Our vessels are required to be drydocked approximately every 30 to 36 months for major repairs and maintenance that cannot be performed while the vessels are operating. We capitalize the costs associated with drydockings as they occur and amortize these costs on a straight-line basis over the period between drydockings. Unamortized drydocking costs of vessels that are sold are written off and included in the calculation of the resulting gain or loss in the year of the vessel's sale. Costs capitalized as part of the drydocking include actual costs incurred at the yard and parts used in the drydocking. We believe that these criteria are consistent with industry practice and that our policy of capitalization reflects the economics and market values of the vessels.

Impairment of Long-lived Assets

We evaluate the carrying amounts and periods over which long-lived assets are depreciated to determine if events have occurred which would require modification to their carrying values or useful lives. When the estimate of undiscounted projected net operating cash flows, excluding interest charges, expected to be generated by the use of the asset is less than its carrying amount, we should evaluate the asset for an impairment loss. Measurement of the impairment loss is based on the fair value of the asset. We determine the fair value of our assets based on management estimates and assumptions and by making use of available market data and taking into consideration third party valuations. In evaluating useful lives and carrying values of long-lived assets, management reviews certain indicators of potential impairment, such as undiscounted projected operating cash flows, vessel sales and purchases, business plans and overall market conditions. The current conditions in the dry bulk market with decreased charter rates and decreased vessel market values are conditions that the Company considers indicators of a potential impairment.

We determine undiscounted projected net operating cash flows for each vessel and compare it to the vessel's carrying value. The projected net operating cash flows are determined by considering the charter revenues from existing time charters for the fixed fleet days and an estimated daily time charter equivalent for the unfixed days (based on the most recent ten-year blended (for modern and older vessels) average historical one-year time charter rates available for each type of vessel) over the remaining estimated life of each vessel, net of brokerage commissions, expected outflows for scheduled vessels' maintenance and vessel operating expenses assuming an average annual inflation rate of 3%. Historical ten-year blended average one-year time charter rates used in our impairment test exercise are in line with our overall chartering strategy, especially in periods/years of depressed charter rates; they reflect the full operating history of vessels of the same type and particulars with our operating fleet (Panamax/Post-Panamax and Capesize/Newcastlemax vessels) and they cover at least a full business cycle. The average annual inflation rate applied on vessels' maintenance and operating costs approximates current projections for global inflation rate for the remaining useful life of our vessels. Effective fleet utilization is assumed at 98%, taking into account the period(s) each vessel is expected to undergo her scheduled maintenance (drydocking and special surveys), as well as an estimate of 1% off hire days each year, assumptions in line with the Company's historical performance and our expectations for future fleet utilization under our current fleet deployment strategy.

A comparison of the average estimated daily time charter equivalent rate used in our impairment analysis with the average "break even rate" for each major class of vessels is presented below:

	Average estimated daily time charter equivalent rate used	Average break even rate
Panamax/Post-Panamax	\$ 27,462	\$ 13,475
Capesize/Newcastlemax	\$ 50,346	\$ 20,369

Our impairment test exercise is highly sensitive to variances in the time charter rates and fleet effective utilization. Our current analysis, which also involved a sensitivity analysis by assigning possible alternative values to these two significant inputs, indicated a reduction of approximately 38% in the time charter rates or a 37% of off hire days to result to an impairment of individual long lived assets. However, there can be no assurance as to how long charter rates and vessel values will remain at their currently low levels or whether they will improve by any significant degree. Charter rates may remain at depressed levels for some time which could adversely affect our revenue and profitability, and future assessments of vessel impairment.

For the purpose of presenting our investors with additional information to determine how the Company's future results of operations may be impacted in the event that daily time charter rates do not improve from their current levels in future periods, we set forth below an analysis that shows the 1-year, 3-year and 5-year average blended rates and the effect of the use of each of these rates would have on the Company's impairment analysis.

	Impairment charge		Impairment charge		Impairment charge	
	1-year (period)	(in USD million)	3-year (period)	(in USD million)	5-year (period)	(in USD million)
Panamax/Post-Panamax	\$ 9,706	123.6	\$ 16,309	-	\$ 24,543	-
Capesize/Newcastlemax	\$ 13,685	423.2	\$ 21,197	304.6	\$ 41,679	-

Derivatives

The Company is exposed to interest rate fluctuations associated with its variable rate borrowings and its objective is to manage the impact of such fluctuations on earnings and cash flows of its borrowings. We currently have one collar agreement which is considered an economic, and not accounting, hedge, as it does not meet the hedge accounting criteria. The fair value of the collar agreement determined through Level 2 inputs of the fair value hierarchy is derived principally from or corroborated by observable market data. Inputs include interest rates, yield curves and other items that allow value to be determined.

Results of Operations

Year ended December 31, 2012 compared to the year ended December 31, 2011

Time Charter Revenues. Time charter revenues decreased by \$34.9 million, or 14%, to \$220.8 million for 2012, compared to \$255.7 million for 2011. The decrease was due to a 27% decrease of our average charter rates in 2012 compared to 2011. Time charter revenues of the Diana Containerships' fleet amounted to \$0.6 million in 2011 (before its deconsolidation in January 2011). The decrease was partly off-set by a 18% increase of our ownership days resulting from the delivery of new vessels to our fleet following our acquisition of the vessels *Leto*, delivered in January 2012; *Los Angeles*, delivered in February 2012; *Philadelphia* and *Melia*, delivered in May 2012; *Amphitrite*, delivered in August 2012; *Polyminia*, delivered in November 2012 and *Arethusa* delivered in July 2011. In 2012 we had total operating days of 9,865 and fleet utilization of 98.7%, compared to 8,418 total operating days and a fleet utilization of 99.3% in 2011.

Other Revenues. Other revenues increased by \$1.3 million, to \$2.4 million for 2012, compared to \$1.1 million for 2011 and consist of the income derived from the management and administrative agreements between DSS and Diana Containerships since its deconsolidation on January 18, 2011. The increase in 2012 was due to the increase in the fleet of Diana Containerships compared to 2011.

Voyage Expenses. Voyage expenses decreased by \$2.3 million, or 22%, to \$8.3 million in 2012 compared to \$10.6 million in 2011. This decrease in voyage expenses is primarily attributable to the decrease in commissions paid to unaffiliated ship brokers and in-house ship brokers associated with charterers, but also due to deconsolidation of Diana Containerships. Voyage expenses relating to Diana Containerships' fleet before its deconsolidation on January 18, 2011 amounted to \$21,570. Commissions are a percentage of time charter revenues and as such they follow the same trend with time charter revenues. The decrease in voyage expenses was also due to an increase in the gains from bunkers amounting to \$2.1 million in 2012 compared to \$1.7 million in 2011. These gains are the result of the different prices of bunkers at the delivery and redelivery of our vessels for the fixtures that were renewed during the year.

Vessel Operating Expenses. Vessel operating expenses increased by \$10.9 million, or 20%, to \$66.3 million in 2012 compared to \$55.4 million in 2011. The increase in operating expenses is primarily attributable to the 18% increase in ownership days resulting from the delivery of six new vessels to our fleet in 2012 and one vessel in mid-2011. This increase was also due to increased daily crew costs, stores and spares in 2012 compared to 2011, mainly due to the fact that the new vessels added in the fleet incurred increased crew travelling expenses and initial supplies, and was partly offset by on average decreases in insurances and repairs and maintenance costs. Vessel operating expenses relating to Diana Containerships in 2011 (before its deconsolidation in January 2011) amounted to \$0.2 million. Daily operating expenses were \$6,551 in 2012 compared to \$6,432 in 2011, representing a 2% increase.

Depreciation and Amortization of Deferred Charges. Depreciation and amortization of deferred charges increased by \$6.7 million, or 12%, to \$62.0 million for 2012, compared to \$55.3 million for 2011. This increase was mainly the result of both the enlargement of our fleet which resulted in increased depreciation in 2012 compared to 2011 and the increase in amortization of deferred drydocking costs, due to eight vessels being under drydock in 2012. Depreciation charges relating to Diana Containerships' fleet in 2011 (before its deconsolidation in January 2011) amounted to \$0.1 million.

General and Administrative Expenses. General and Administrative Expenses for 2012 decreased by \$0.2 million, or 1%, to \$24.9 million compared to \$25.1 million in 2011. The decrease is mainly attributable to the deconsolidation of Diana Containerships and also to reduced legal fees and document printing expenses due to less company activity, directors and officers insurance and board of directors' fees and expenses and was partly offset by increases in compensation cost on restricted stock awards to executive management and non-executive directors and company promotion expenses. General and Administrative Expenses for Diana Containerships, amounted to \$0.3 million in 2011 (before its deconsolidation in January 2011).

Interest and Finance Costs. Interest and finance costs increased by \$2.7 million, or 55%, to \$7.6 million in 2012 compared to \$4.9 million in 2011. The increase is primarily attributable to higher average interest rates on increased average long term debt outstanding during 2012 compared to 2011, and also due to increased loan costs due to additional loan agreements made in 2012. Interest and finance costs of Diana Containerships, before its deconsolidation on January 18, 2011, amounted to \$46,663. Interest costs in 2012 amounted to \$7.0 million compared to \$4.5 million in 2011.

Interest Income. Interest income increased by \$0.4 million, or 40%, to \$1.4 million in 2012 compared to \$1.0 million in 2011. The increase is attributable to increased levels of cash on hand during the year.

Loss from Derivative Instruments. Loss from derivative instruments decreased by \$0.2 million, or 29%, to \$0.5 million in 2012 compared to \$0.7 million in 2011 and includes both realized and unrealized losses. The decrease is due to the unrealized gains of \$36,495 in 2012 compared to loss of \$39,410 in 2011 and also due to decreased realized losses which in 2012 amounted to \$0.6 million compared to \$0.7 million and 2011.

Income / (loss) from Investment in Diana Containerships Inc. Loss from our investment in Diana Containerships Inc. amounted to \$1.8 million in 2012 and was due to our dilution following a follow on offering of Diana Containerships in 2012 causing the reduction of our ownership from 14.5% to 10.4%. This compared to a gain of \$1.2 million in 2011 which derived from the valuation of the investment under the equity method after the deconsolidation of Diana Containerships in January 2011.

Year ended December 31, 2011 compared to the year ended December 31, 2010

Time Charter Revenues. Time charter revenues decreased by \$19.7 million, or 7%, to \$255.7 million for 2011, compared to \$275.4 million for 2010. The decrease was due to a 10% decrease of our average charter rates in 2011 compared to 2010 and also the deconsolidation of Diana Containerships in January 2011. Time charter revenues of the Diana Containerships' fleet amounted to \$0.6 million in 2011 (before its deconsolidation in January 2011) and \$5.7 million in 2010. The decrease was partly off-set by a 3% increase of our ownership days resulting from the delivery of new vessels to our fleet following our acquisition of the *Arethusa* in July 2011 and also the *Melite*, the *New York* and the *Alcmene* in January, March and November 2010, respectively. In 2011 we had total operating days of 8,418 and fleet utilization of 99.3%, compared to 8,180 total operating days and a fleet utilization of 99.7% in 2010.

Other Revenues. Other revenues amounted to \$1.1 million, and consist of the income derived from the management and administrative agreements between DSS and Diana Containerships since its deconsolidation on January 18, 2011.

Voyage Expenses. Voyage expenses decreased by \$1.8 million, or 15%, to \$10.6 million in 2011 compared to \$12.4 million in 2010. This decrease in voyage expenses is primarily attributable to the decrease in commissions paid to unaffiliated ship brokers and in-house ship brokers associated with charterers, but also due to deconsolidation of Diana Containerships. Voyage expenses relating to Diana Containerships' fleet in 2010 amounted to \$0.3 million while in 2011 Diana Containerships' fleet voyage expenses before its deconsolidation on January 18, 2011 amounted to \$21,570. Commissions are a percentage of time charter revenues and as such they follow the same trend with time charter revenues. The decrease in voyage expenses was also due to an increase in the gains from bunkers amounting to \$1.7 million in 2011 compared to gains in bunkers of \$0.7 million in 2010. These gains are the result of the different prices of bunkers at the delivery and redelivery of our vessels for which fixtures were renewed during the year.

Vessel Operating Expenses. Vessel operating expenses increased by \$2.8 million, or 5%, to \$55.4 million in 2011 compared to \$52.6 million in 2010. The increase in operating expenses is primarily attributable to the 3% increase in ownership days resulting from the delivery of our new vessels to our fleet, the *Arethusa* in July 2011 and the *Melite*, the *New York* and the *Alcmene*, in January, March and November 2010, respectively, partly offset by the days lost due to the deconsolidation of Diana Containerships. This increase was also due to increased daily crew costs in 2011 compared to 2010 and was partly offset by decreases in all other categories of operating expenses and the deconsolidation of Diana Containerships. Vessel operating expenses relating to Diana Containerships in 2011 (before its deconsolidation in January 2011) amounted to \$0.2 million compared to \$2.9 million in 2010. Daily operating expenses were \$6,432 in 2011 compared to \$6,299 in 2010, representing a 2% increase.

Depreciation and Amortization of Deferred Charges. Depreciation and amortization of deferred charges increased by \$2.2 million, or 4%, to \$55.3 million for 2011, compared to \$53.1 million for 2010. This increase was mainly the result of both the enlargement of our dry bulk fleet which resulted in increased depreciation in 2011 compared to 2010 and the increase in amortization of deferred drydocking costs. The increase was partly offset by reduced depreciation costs due to the deconsolidation of Diana Containerships. Depreciation charges relating to Diana Containerships' fleet in 2011 (before its deconsolidation in January 2011) amounted to \$0.1 million compared to \$1.5 million in 2010.

General and Administrative Expenses. General and Administrative Expenses for 2011 decreased by \$0.2 million, or 1%, to \$25.1 million compared to \$25.3 million in 2010. The decrease is mainly attributable to the deconsolidation of Diana Containerships, office rent and taxes relating to the acquisition of the building in 2010 and legal fees and was partly offset by increases in salaries and compensation cost on restricted stock awards to executive management and non-executive directors. General and Administrative Expenses for Diana Containerships, amounted to \$0.3 million in 2011 (before its deconsolidation in January 2011) compared to \$3.5 million in 2010.

Interest and Finance Costs. Interest and finance costs decreased by \$0.3 million, or 6%, to \$4.9 million in 2011 compared to \$5.2 million in 2010. The decrease is primarily attributable to lower average interest rates and the deconsolidation of Diana Containerships and was partly offset by higher average long term debt outstanding during 2011 compared to 2010. Interest and finance costs relating to Diana Containerships in 2010 amounted to \$0.5 million, of which \$0.3 million related to interest costs. Interest and finance costs relating to Diana Containerships its deconsolidation on January 18, 2011 amounted to \$46,663. Interest costs in 2011 amounted to \$4.5 million compared to \$4.6 million in 2010.

Interest Income. Interest income increased by \$0.1 million, or 11%, to \$1.0 million in 2011 compared to \$0.9 million in 2010. The increase is attributable to increased levels of cash on hand during the year despite the deconsolidation of Diana Containerships. Interest income relating to Diana Containerships in 2010 amounted to \$0.1 million.

Loss from Derivative Instruments. Loss from derivative instruments decreased by \$0.8 million, or 53%, to \$0.7 million in 2011 compared to \$1.5 million in 2010 and includes both realized and unrealized losses. The decrease is due to the unrealized losses which decreased to \$39,410 in 2011 compared to \$0.8 million in 2010.

Income from Investment in Diana Containerships Inc. Income from our investment in Diana Containerships Inc. amounted to \$1.2 million in 2011 and derives from the valuation of the investment under the equity method after the deconsolidation of Diana Containerships in January 2011. In 2010 there was no such amount as Diana Containerships was consolidated with our financial statements.

Inflation

Inflation has only a moderate effect on our expenses given current economic conditions. In the event that significant global inflationary pressures appear, these pressures would increase our operating, voyage, administrative and financing costs.

B. Liquidity and Capital Resources

In 2013, we have taken delivery of two vessels, the *Myrto* and the *Maia*, which we paid with cash on hand, but intend to enter into a loan agreement with Deutsche Bank for an amount of \$18.0 million to finance part of their acquisition cost. We have historically financed our capital requirements with cash flow from operations, equity contributions from shareholders and long-term bank debt. Our main uses of funds have been capital expenditures for the acquisition of new vessels, expenditures incurred in connection with ensuring that our vessels comply with international and regulatory standards, repayments of bank loans and payments of dividends. We will require capital to fund ongoing operations, the construction of our new vessels and debt service. Working capital, which is current assets minus current liabilities, including the current portion of long-term debt, amounted to \$405.5 million at December 31, 2012 and \$384.6 million at December 31, 2011.

We anticipate that internally generated cash flow will be sufficient to fund the operations of our fleet, including our working capital requirements. As of December 31, 2012, we had \$446.6 million of Cash and cash equivalents. We expect to fund the construction cost of our two vessels under construction with cash from operations and with additional debt.

Cash Flow

Cash and cash equivalents increased to \$446.6 million as of December 31, 2012 compared to \$416.7 million as of December 31, 2011. We consider highly liquid investments such as time deposits and certificates of deposit with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents are primarily held in U.S. dollars. Cash and cash equivalents may also include compensating cash balances kept against the Company's loan facilities that are not deemed to be sufficiently material to require segregation on the balance sheet. Such balances at December 31, 2012 amounted to \$15.0 million in the aggregate and consisted of minimum cash deposits required to be maintained at all times under the Company's loan facilities.

Net Cash Provided By Operating Activities

Net cash provided by operating activities decreased by \$34.3 million, or 22%, to \$119.9 million in 2012 compared to \$154.2 million in 2011. The decrease was primarily attributable to the decrease in revenues.

Net cash provided by operating activities decreased by \$24.1 million, or 14%, to \$154.2 million in 2011 compared to \$178.3 million in 2010. The decrease was primarily attributable to the decrease in revenues, an increase in trade receivables and the increase of expenses, which caused an increase in current liabilities.

Net Cash Used In Investing Activities

Net cash used in investing activities was \$169.9 million in 2012, which consists of \$171.2 million paid for the acquisition of six vessels during the year, the payment of a 10% advance for the acquisition of the *Myrto* and two predelivery installments for the construction of our two Panamax vessels; \$2.8 million of dividends received from Diana Containerships during the year and \$1.6 million relating to property additions and purchases of furniture, equipment and software development costs.

Net cash used in investing activities was \$90.4 million in 2011, which consists of \$58.3 million paid for our two vessels under construction, the advance for the vessel *Leto* delivered to us in January 2012; and the payment for the acquisition during the year of the vessel *Arethusa*; \$12.0 million of cash disposed-off upon the partial spin-off of Diana Containerships; \$20.0 million paid to participate in Diana Containerships' public offering in June 2011; \$0.1 million of dividends received from Diana Containerships during the year and \$0.2 million relating to purchases of furniture, equipment and software development costs.

Net cash used in investing activities was \$252.3 million in 2010, which consists of \$238.2 million paid for advances for our vessels under construction and for vessel acquisitions; \$21.8 million for the acquisition of the real estate property which we were leasing as our principal executive offices in Athens and purchases of furniture, equipment and software development costs; \$7.7 million of investments in time deposits transferred to cash and cash equivalents.

Net Cash Provided By Financing Activities

Net cash provided by financing activities was \$80.0 million in 2012, which consists of \$118.6 million of proceeds drawn under our loan facilities and \$32.0 million of indebtedness that we repaid; \$6.0 million that we paid to repurchase and retire our common stock pursuant to the relevant plan; and \$0.6 million that we paid in financing costs relating to our new loan agreements.

Net cash provided by financing activities was \$7.5 million in 2011, which consists of \$15.0 million of proceeds drawn under our loan facilities and \$6.3 million of indebtedness that we repaid; and \$1.2 million that we paid to repurchase and retire our common stock pursuant to the relevant plan.

Net cash provided by financing activities was \$137.0 million in 2010, which consists of \$138.5 million of proceeds drawn under our loan facilities and \$35.8 million of indebtedness that we repaid; \$35.2 million of contributions received by Diana Containerships from third parties (non-controlling interests) in a private offering in April 2010; \$0.1 million proceeds received under our dividend reinvestment plan; and \$1.0 million that we paid in financing costs relating to our new loan agreements.

Loan Facilities

The Royal Bank of Scotland Plc. ("RBS"): In February 2005, we entered into a \$230.0 million secured revolving credit facility with RBS, which was amended on May 24, 2006, to increase the facility amount to \$300.0 million. Our credit facility permits us to borrow up to \$50.0 million for working capital. In January 2007, we entered into a supplemental agreement with The Royal Bank of Scotland Plc. for a 364-day standby credit facility of up to \$200.0 million that expired in March 2008. We draw funds under our \$300.0 million credit facility to fund vessel acquisitions.

The \$300.0 million revolving credit facility has a term of ten years from May 24, 2006, which we refer to as the availability date, and we are permitted to borrow up to the facility limit, provided that conditions to drawdown are satisfied and that borrowings do not exceed 75% of the aggregate market value of the mortgaged vessels. The amended facility was available in full until May 24, 2012. Since that date the available amount is reducing in semiannual amounts of \$15.0 million with a final reduction of \$165.0 million together with the last semi-annual reduction on May 24, 2016.

The credit facility has commitment fees of 0.25% per annum on the undrawn part of the facility, payable quarterly in arrears. Interest on amounts drawn are payable at a rate ranging from 0.75% to 0.85% per annum over LIBOR.

As of December 31, 2012 and as of the date of this annual report, we had \$270.0 million of principal balance outstanding under our \$300.0 million revolving credit facility.

The credit facility contains financial and other covenants requiring us, among other things, to ensure that the aggregate market value of the vessels in our fleet that secure our obligations under the credit facility at all times exceeds 120% of the aggregate principal amount of debt outstanding under the facility and the notional or actual cost of terminating any relating hedging arrangements; our total assets minus our debt will not at any time be less than \$150 million and at all times will exceed 25% of our total assets; we maintain \$0.40 million of liquid funds per vessel in the fleet financed or mortgaged through the credit facility.

For the purposes of the credit facility, our "total assets" are defined to include our tangible fixed assets and our current assets, as set forth in our consolidated financial statements.

The credit facility contains general covenants that require us to maintain adequate insurance coverage and to obtain the lender's consent before we acquire new vessels, change the flag, class or management of our vessels, enter into time charters or consecutive voyage charters that have a term that exceeds, or which by virtue of any optional extensions may exceed a certain period, or enter into a new line of business. In addition, the credit facility includes customary events of default, including those relating to a failure to pay principal or interest, a breach of covenants, representation and warranty, a cross-default to other indebtedness and non-compliance with security documents. Our obligations under our credit facility are secured by a first priority or preferred ship mortgage on certain vessels in our fleet and such other vessels that we may from time to time include with the approval of our lenders; and a first assignment of all freights, earnings, insurances and requisition compensation; corporate guarantees; and pledges of the outstanding stock of our subsidiaries. We may grant additional security from time to time in the future. Our credit facility does not prohibit us from paying dividends as long as an event of default has not occurred.

Bremer Landesbank ("Bremer"): In October 2009, we, through Gala Properties Inc., entered into a loan agreement with Bremer to partly finance or, as the case may be, refinance the contract price of the *Houston* for an amount of \$40.0 million. The loan has a term of ten years and is repayable in 40 quarterly installments of \$0.9 million plus one balloon installment of \$4.0 million to be paid together with the last installment. The loan bears interest at Libor plus a margin of 2.15% per annum for the first two years, or the Initial Margin Application Period. Upon expiration of the Initial Margin Application Period, Bremer did not propose a new margin for the remaining security period or part thereof, for agreement by Gala Properties Inc, so the margin of 2.15% remains current. We drew down the loan amount of \$40.0 million in November 2009 after the delivery of the *Houston* in October 2009.

The loan is secured by a first preferred ship mortgage on the vessel, a first priority assignment of all earnings, insurances, and requisition compensation and a corporate guarantee. The lenders may also require additional security in the future in the event we breach certain covenants under the loan agreement and includes restrictions as to changes in management and ownership of the vessel, additional indebtedness, substitute charters in the case the vessel's current charter is prematurely terminated, as well as minimum requirements regarding hull cover ratio (vessel's market value of at least 120% of the outstanding balance of the loan). Furthermore, we are not permitted to pay any dividends if an event of default has occurred and for the duration of the loan we are required to maintain sufficient funds to meet the next repayment installment and interest due at monthly intervals, any other outstanding indebtedness that becomes due with the bank and sufficient funds to cover the anticipated cost of the next special survey of the vessel accumulated at least 12 months prior to such a survey.

As of December 31, 2012 and as of the date of this annual report, we had \$29.2 million and \$28.3 million, respectively, of principal balance outstanding under our \$40.0 million loan facility with Bremer Landesbank.

Deutsche Bank AG ("Deutsche"): In October 2009, we, through Bikini Shipping Company Inc., entered into a loan agreement with Deutsche to partly finance or, as the case may be, refinance the contract price of the *New York* for an amount of \$40.0 million but not exceeding 80% of the fair value of the vessel. The loan has a term of five years and is repayable in 19 quarterly installments of \$0.6 million, or the 1.50% of the loan amount and a 20th installment equal to the remaining outstanding balance of the loan. The loan bears interest at Libor plus a margin of 2.40% per annum. We drew down the loan amount of \$40.0 million in March 2010 on the delivery of the *New York*.

The loan is secured by a first preferred ship mortgage on the vessel, a first priority assignment of all earnings, insurances, and requisition compensation and a corporate guarantee. The lenders may also require additional security in the future in the event we breach certain covenants including restrictions as to changes in management and ownership of the vessel, additional indebtedness, as well as minimum requirements regarding hull cover ratio (vessel's market value of at least 125% of the outstanding balance of the loan), minimum liquidity of \$0.4 million, average cash balance of \$10.0 million, and other financial covenants. Furthermore, we are not permitted to pay any dividends which would result in a breach of financial covenants or if an event of default has occurred and is continuing. As at December 31, 2012, we were not in compliance with the hull cover ratio requirement of the loan for which in January 2013, we obtained a waiver of the covenant breach until April 5, 2013, at which time we expect to be able to comply with this covenant by providing additional security.

As of December 31, 2012 and as of the date of this annual report, we had \$33.4 million and \$32.8 million, respectively, of principal balance outstanding under our \$40.0 million loan facility with Deutsche Bank.

On March 19, 2013, we also signed a commitment letter with Deutsche Bank, for a loan of \$18.0 million to partly finance the acquisition cost of the *Myrto* and *Maia*, delivered to us in January and February 2013, respectively. Both vessels will be cross-collateralized with *New York*.

DnB NOR Bank ASA ("DnB NOR"): In July 2010, Diana Containerships through its subsidiaries Likiep Shipping Company Inc. and Orangina Inc., entered into a loan agreement with DnB NOR to finance part of the acquisition cost of the vessels *Sagitta* and *Centaurus* for an amount of up to \$40.0 million in two advances for each vessel with each advance not exceeding the lower of \$10.0 million and the 25% of the market value of the vessel relevant to it.

The repayment of the loan was in 24 quarterly installments of \$165,000 for each advance and a balloon of \$6.0 million payable together with the last installment. The loan bore interest at LIBOR plus a margin of 2.40% per annum. An arrangement fee of \$0.4 million was paid on signing the facility agreement. The loan bore commitment fees of 0.96%, on the undrawn part of the loan.

Diana Containerships and its subsidiaries are no longer consolidated to our consolidated financial statements, after its partial spin-off in January 2011.

Export-Import Bank of China and DnB NOR Bank ASA ("CEXIM and DnB"): In October 2010, we, through our wholly owned subsidiaries, Lae Shipping Company Inc. ("Lae") and Namu Shipping Company Inc., ("Namu") entered into a loan agreement with CEXIM and DnB NOR to finance part of the acquisition cost of the *Los Angeles*, and the *Philadelphia*, for an amount of up to \$82.6 million.

On February 15, and May 18, 2012, Lae and Namu drew down an aggregate of \$72.1 million of the loan, which represents 70% of the vessels' market value on delivery.

The Lae advance is repayable in 40 quarterly installments of \$627,945 and a balloon of \$ 12.3 million payable together with the last installment on February 15, 2022 and the Namu advance is repayable in 40 quarterly installments of \$580,996 and a balloon of \$ 11.4 million payable together with the last installment on May 18, 2022. Each Bank has the right to demand repayment of the outstanding balance of any advance 72 months after the respective advance drawdown. Such demand shall be subject to written notification to be made no earlier than 54 months and not later than 60 months after the respective drawdown date for that advance. The loan bears interest at LIBOR plus a margin of 2.50% per annum and an agency fee of \$10,000 is paid annually until its full repayment.

The loan is secured by a first preferred ship mortgage on the vessels, general assignments, charter assignments, operating account assignments, a corporate guarantee from Diana Shipping Inc. and manager's undertakings. The lender may also require additional security, if at any time the market value of the ships becomes less than the 125% of the aggregate of (a) the Loan and (b) the Swap Exposure. Additionally, the borrowers are required to maintain minimum liquidity of \$0.4 million at each operating account, and the guarantor is required to maintain net worth of not less than \$150.0 million and at least 25% of the total assets and an average cash balance of \$10.0 million.

As of December 31, 2012 and as of the date of this annual report, we had \$69.1 million and \$67.8 million, respectively, of principal balance outstanding under our loan facility with Cexim and DnB.

Emporiki Bank of Greece S.A. ("Emporiki") replaced by Credit Agricole Corporate and Investment Bank ("Credit Agricole"): On September 13, 2011, Bikar entered into a loan agreement with Emporiki for a loan of up to \$15.0 million to refinance part of the acquisition cost of the *Arethusa*. On December 13, 2012, Bikar, the Company, DSS and Credit Agricole, entered into a supplemental loan agreement to set out amendments of the loan agreement to which the parties entered into in a supplemental agreement on December 11, 2012, to provide applicability of the English law and exclusive jurisdiction of English courts and to a deed of novation to transfer the outstanding loan balance, the ISDA master swap agreement and the existing security documents from Emporiki to Credit Agricole.

The loan is repayable in 20 equal semiannual installments of \$0.5 million each and a balloon payment of \$5.0 million to be paid together with the last installment on September 15, 2021. The loan bears interest at LIBOR plus a margin of 2.5% per annum, or 1% for such loan amount that is equivalently secured by cash pledge in favor of the bank.

The loan, which is secured by an equivalent amount of cash collateral, is secured with a first priority mortgage on the *Arethusa*, charter assignment on all charters exceeding 12 months, first priority general assignment of all earnings, insurances and requisition compensation on the vessel, a corporate guarantee from DSI, manager's undertaking and a first priority pledge on the earnings account and the cash collateral account. The lender may also require additional security, if at any time the market value of the vessel and the cash standing in a pledged account with the bank becomes less than the 120% of the aggregate of (a) the Loan and (b) the Swap Exposure, if any. The loan also has other non-financial and financial covenants, including minimum net worth, minimum cash of \$10.0 million to be held by DSI and \$0.5 million to be held by Bikar and/or the guarantor and maximum leverage.

As of December 31, 2012 and as of the date of this annual report, we had \$14.0 million and \$13.5 million, respectively, of principal balance outstanding under our \$15.0 million loan facility with Credit Agricole.

Nordea Bank Finland Plc. ("Nordea"): On February 7, 2012, Jemo Shipping Company Inc., (the "Borrower" or "Jemo") entered into an agreement with Nordea Bank Finland Plc, London Branch, for a secured term loan facility in the principal amount of \$16.1 million drawn down in February 2012, to partly finance the acquisition cost of the *Leto*. The loan has a term of five years and is repayable in 20 consecutive equal quarterly installments of \$252,000 and a balloon payment of \$11.1 million payable together with the final quarterly installment on February 7, 2017. On June 21, 2012, the agreement between Jemo and Nordea Bank Finland Plc, was restated and amended by a supplemental agreement in order to include Mandaringina as a new borrower and increase the loan amount to up to \$26.5 million for the purpose of financing part of the acquisition cost of the *Melia*. The additional advance for Mandaringina of \$10.3 million drawn down in June 2012 is repayable in 20 consecutive equal quarterly installments of \$234,660 and a balloon of \$5.6 million payable together with the last installment on May 7, 2017. The loan bears interest at LIBOR plus a margin of 2.5%.

On December 20, 2012, Palau Shipping Company Inc. and Guam Shipping Company Inc., entered into a new loan agreement with Nordea for an amount of \$20.0 million, drawn down on December 21, 2012, to finance part of the acquisition cost of the *Amphitrite* and the *Polymnia*. The loan is repayable in 20 consecutive quarterly installments of \$312,500 and a balloon installment of \$13.8 million payable together with the last installment on December 21, 2017. The loan bears interest at LIBOR plus a margin of 2.9%.

The loans are secured with a corporate guarantee from DSI, a first priority or first preferred mortgage on the vessels, first priority assignment of earnings, first priority pledge of the earnings account, first priority assignment of the vessels' current time charters and any subsequent charter contracts with a duration of 12 months or more, first priority assignment of insurances, first priority pledge over the shares of the borrowers and manager's letter of subordination of rights. The loan also has financial covenants such as minimum liquidity of \$0.5 million per vessel owned by the guarantor, minimum market-adjusted equity ratio of 25%, minimum market-adjusted net worth of \$150 million and minimum hull value of 125% of the outstanding principal amount. Finally, we are not permitted to pay any dividends that would result in an event of default or if an event of default has occurred and is continuing.

As of December 31, 2012 and as of the date of this annual report, we had \$25.2 million and \$24.7 million, respectively, of principal balance outstanding under our amended and restated \$26.5 million loan facility with Nordea Bank Finland Plc. dated on June 21, 2012

As of December 31, 2012 and as of the date of this annual report, we had \$20.0 million of principal balance outstanding under our \$20 million loan facility with Nordea Bank Finland Plc. dated on December 20, 2012

Currently, all of our vessels, except for five, have been provided as collateral to secure our credit facilities.

Currently, we believe we are in compliance with all covenants relating to our loan facilities.

As of December 31, 2012, 2011 and 2010 and as of the date of this annual report, we did not and have not designated any financial instruments as accounting hedging instruments. In May 2009, we entered into a five-year zero cost collar agreement, novated in March 2012, with a floor at 1% and a cap at 7.8% of a notional amount of \$100.0 million to manage our exposure to interest rate changes related to our borrowings. The collar agreement is considered as an economic hedge agreement as it does not meet the criteria of hedge accounting; therefore, the change in its fair value is recognized in earnings. As of December 31, 2012 and 2011 the fair value of the swap was \$1.0 million. Also we incurred unrealized gain of \$36,495 in 2012, unrealized loss of \$39,410 in 2011 and unrealized loss of \$0.8 million in 2010. Realized loss was \$0.6 million for 2012, and \$0.7 million for 2011 and 2010.

Capital Expenditures

We make capital expenditures from time to time in connection with our vessel acquisitions which we finance with cash from operations, debt under loan facilities that provide necessary funds at terms acceptable to us, or with funds from equity issuances. Currently, we have contractual obligations relating to the construction of our two ice class Panamax dry bulk vessels, amounting to \$45.0 million which we expect to fund with cash on hand and debt.

We incur additional capital expenditures when our vessels undergo surveys. This process of recertification may require us to reposition these vessels from a discharging port to shipyard facilities, which will reduce our operating days during the period. The loss of earnings associated with the decrease in operating days, together with the capital needs for repairs and upgrades results in increased cash flow needs which we fund with cash on hand.

C. Research and development, patents and licenses

We incur from time to time expenditures relating to inspections for acquiring new vessels that meet our standards. Such expenditures are insignificant and they are expensed as they incur.

D. Trend information

Our results of operations depend primarily on the charter hire rates that we are able to realize, and the demand for drybulk vessel services. After reaching historical highs in mid-2008, charter hire rates for Panamax and Capesize drybulk vessels reached near historically low levels. For example, the Baltic Drybulk Index, or "BDI," declined from a high of 11,793 in May 2008 to a low of 663 in December 2008, which represents a decline of 94% within a single calendar year. During 2011, the BDI remained volatile, reaching a low of 1,043 on February 4, 2011 and a high of 2,173 on October 14,

2011. On February 3, 2012, the BDI reached a 26 year low of 647, due to a combination of weak demand and further growth in vessel supply. In 2012 fall from 1624 to 647 and as of March 19, 2013, the BDI stood at 912.

The decline and volatility in charter rates in the drybulk market reflects in part the fact that the supply of drybulk vessels in the market has been increasing, and the number of newbuild drybulk vessels on order is near historic highs. Demand for drybulk vessel services is influenced by global financial conditions. The recovery in China and India positively influenced the charter rates; however, global financial conditions remain volatile and demand for drybulk services may decrease in the future. The combination of increasing drybulk capacity (both current and expected) and decreasing demand or demand which is not offset by the increase in drybulk capacity is likely to result in reductions in charter hire rates and, as a consequence, adversely affect our operating results.

Additionally, we believe we have structured our capital expenditure requirements, debt commitments and liquidity resources in a way that will provide us with financial flexibility (see "Item 5. Operating and Financial Review and Prospects — B. Liquidity and Capital Resources" for more information).

E. Off-balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations, in thousands of U.S. dollars, and their maturity dates as of December 31, 2012, as adjusted to reflect: (i) the delivery of the *Myrto* in January 2013; (ii) the payment in March 2013, of one additional predelivery installment for the construction for hull *H2528*, amounting to \$4.4 million; and (iii) the new Brokerage Services Agreement between DSS and Diana Enterprises, dated March 15, 2013, but with effect from March 1, 2013.

Contractual Obligations	Payments due by period				
	Total Amount	Less than 1 year		2-3 years	4-5 years
		(in thousands of US dollars)			
Loan Agreements (1)	\$ 460,878	\$ 45,032	\$ 116,265	\$ 234,506	\$ 65,075
Estimated Interest Payments on Loan Agreements (1)	31,340	\$ 7,917	\$ 12,931	\$ 5,766	\$ 4,726
Construction contracts (2)	44,950	44,950	-	-	-
Broker services agreement (3)	3,106	2,481	625	-	-
Total	\$ 540,274	\$ 100,380	\$ 129,821	\$ 240,272	\$ 69,801

(1) As of December 31, 2012 we had an aggregate principal of \$460.9 million of indebtedness outstanding under our loan facilities. Estimated interest payments represent projected interest payments on our long term debt, which are based on the weighted average LIBOR rate plus the margin of our loan agreements during 2012.

- (2) As of December 31, 2012, we had paid one predelivery installment for the construction of each of our two Panamax dry bulk carriers, amounting to \$8.7 million and in March 2013, we paid one additional predelivery installment of \$4.4 million for hull *H2528*. We expect to take delivery of both vessels in the fourth quarter of 2013.
- (3) On February 22, 2012, DSS entered into an agreement with Diana Enterprises, a related party company, for the provision of brokerage services for an annual fee of \$2.4 million effective from January 1, 2012. The agreement had a term of five years and the fee was paid quarterly in advance. This agreement was terminated on March 15, 2013 and was replaced with an agreement for the provision of brokerage services for a monthly fee of \$0.2 million effective from March 1, 2013. The agreement has a term of thirteen months until March 31, 2014 and the fee is payable quarterly in advance.

G. Safe Harbor

See section "forward looking statements" at the beginning of this annual report.

A. Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

Set forth below are the names, ages and positions of our directors and executive officers. Our board of directors is elected annually on a staggered basis, and each director elected holds office for a three year term. Officers are appointed from time to time by our board of directors and hold office until a successor is appointed or their employment is terminated.

Name	Age	Position
Simeon Palios	71	Class I Director, Chief Executive Officer and Chairman
Anastasios Margaronis	57	Class I Director and President
Ioannis Zafirakis	41	Class I Director, Executive Vice President and Secretary
Andreas Michalopoulos	41	Chief Financial Officer and Treasurer
Maria Dede	40	Chief Accounting Officer
William (Bill) Lawes	69	Class II Director
Konstantinos Psaltis	74	Class II Director
Boris Nachamkin	79	Class III Director
Apostolos Kontoyannis	64	Class III Director

The term of our Class I directors expires in 2015, the term of our Class II directors expires in 2013 and the term of our Class III directors expires in 2014.

The business address of each officer and director is the address of our principal executive offices, which are located at Pendelis 16, 175 64 Palaio Faliro, Athens, Greece.

Biographical information with respect to each of our directors and executive officers is set forth below.

Simeon P. Palios has served as our Chief Executive Officer and Chairman since February 21, 2005 and as a Director since March 9, 1999 and has served as the Chief Executive Officer and Chairman of Diana Containerships Inc. since January 13, 2010. Mr. Palios also serves as an employee of Diana Shipping Services S.A. Prior to November 12, 2004, Mr. Palios was the Managing Director of Diana Shipping Agencies S.A. and performed on our behalf the services he now performs as Chief Executive Officer. Since 1972, when he formed Diana Shipping Agencies, Mr. Palios has had the overall responsibility of our activities. Mr. Palios has experience in the shipping industry since 1969 and expertise in technical and operational issues. He has served as an ensign in the Greek Navy for the inspection of passenger boats on behalf of Ministry of Merchant Marine and is qualified as a naval architect and engineer. Mr. Palios is a member of various leading classification societies worldwide and he is a member of the board of directors of the United Kingdom Freight Demurrage and Defense Association Limited. He holds a bachelor's degree in Marine Engineering from Durham University.

Anastasios C. Margaronis has served as our President and as a Director since February 21, 2005 and has served as the Director and President of Diana Containerships Inc. since January 13, 2010. Mr. Margaronis also serves as an employee of Diana Shipping Services S.A. Prior to February 21, 2005, Mr. Margaronis was employed by Diana Shipping Agencies S.A. and performed on our behalf the services he now performs as President. He joined Diana Shipping Agencies S.A. in 1979 and has been responsible for overseeing our insurance matters, including hull and machinery, protection and indemnity and war risks cover. Mr. Margaronis has experience in the shipping industry, including in ship finance and insurance, since 1980. He is a member of the Greek National Committee of the American Bureau of Shipping and a member of the board of directors of the United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited. He holds a bachelor's degree in Economics from the University of Warwick and a master's of science degree in Maritime Law from the Wales Institute of Science and Technology.

Ioannis G. Zafirakis has served as our Executive Vice President and Secretary since February 14, 2008, as our Vice President and Secretary since February 21, 2005 and as a Director since March 9, 1999 and has served as the Director, Chief Operating Officer and Secretary of Diana Containerships Inc. since January 13, 2010. Mr. Zafirakis also serves as an employee of Diana Shipping Services S.A. Prior to February 21, 2005, Mr. Zafirakis was employed by Diana Shipping Agencies S.A. and performed on our behalf the services he now performs as Executive Vice President. He joined Diana Shipping Agencies S.A. in 1997 where he held a number of positions in its finance and accounting department. Mr Zafirakis is also a member of the Business Advisory Committee of the MSc in International Shipping and Finance at ICMA Centre, Henley Business School, University of Reading. He holds a bachelor's degree in Business Studies from City University Business School in London and a master's degree in International Transport from the University of Wales in Cardiff.

Andreas Michalopoulos has served as our Chief Financial Officer and Treasurer since March 8, 2006 and has served in these positions with Diana Containerships Inc. since January 13, 2010. Mr. Michalopoulos started his career in 1993 when he joined Merrill Lynch Private Banking in Paris. In 1995, he became an International Corporate Auditor with Nestle SA based in Vevey, Switzerland and moved in 1998 to the position of Trade Marketing and Merchandising Manager. From 2000 to 2002, he worked for McKinsey and Company in Paris, France as an Associate Generalist Consultant before joining a major Greek Pharmaceutical Group with U.S. R&D activity as a Vice President of International Business Development and Member of the Executive Committee in 2002 where he remained until 2005. From 2005 to 2006, he joined Diana Shipping Agencies S.A. as a Project Manager. Mr. Michalopoulos graduated from Paris IX Dauphine University with Honors in 1993 obtaining an MSc in Economics and a master's degree in Management Sciences specialized in Finance. In 1995, he also obtained a master's degree in Business Administration from Imperial College, University of London. Mr. Andreas Michalopoulos is married to the youngest daughter of Mr. Simeon Palios.

Maria Dede has served as our Chief Accounting Officer since September 1, 2005 during which time she has been responsible for all financial reporting requirements. Mrs. Dede has also served as an employee of Diana Shipping Services S.A since March 2005. In 2000, Mrs. Dede joined the Athens branch of Arthur Andersen, which merged with Ernst and Young (Hellas) in 2002, where she served as an external auditor of shipping companies until 2005. From 1996 to 2000, Mrs. Dede was employed by Venus Enterprises SA, a ship-management company, where she held a number of positions primarily in accounting and supplies. Mrs. Dede holds a bachelor's degree in Maritime Studies from the University of Piraeus and a master's degree in business administration from ALBA.

William (Bill) Lawes has served as a Director and the Chairman of our Audit Committee since March 2005. Mr. Lawes served as a Managing Director and a member of the Regional Senior Management Board of JPMorgan Chase (London) from 1987 until 2002. Prior to joining JPMorgan Chase, he was Global Head of Shipping Finance at Grindlays Bank. Since December 2007, he serves as an independent member of the Board of Directors and Chairman of the Audit Committee of Teekay Tankers Ltd. Mr. Lawes is qualified as a member of the Institute of Chartered Accountants of Scotland.

Konstantinos Psaltis has served as a Director since March 2005. Since 1981, Mr. Psaltis has served as Managing Director of Ormos Compania Naviera S.A., a company that specializes in operating and managing multipurpose container vessels. Prior to joining Ormos Compania Naviera S.A., Mr. Psaltis simultaneously served as a technical manager in the textile manufacturing industry and as a shareholder of shipping companies managed by M.J. Lemos. From 1961 to 1964, he served as ensign in the Royal Hellenic Navy. Mr. Psaltis is a member of the Germanischer Lloyds Hellas Committee. He holds a degree in Mechanical Engineering from Technische Hochschule Reutlingen & Wuppertal and a bachelor's degree in Business Administration from Tübingen University in Germany.

Boris Nachamkin has served as a Director and as a member of our Compensation Committee since March 2005. Mr. Nachamkin was with Bankers Trust Company, New York, for 37 years, from 1956 to 1993 and was posted to London in 1968. Upon retirement in 1993, he acted as Managing Director and Global Head of Shipping at Bankers Trust. Mr. Nachamkin was also the UK Representative of Deutsche Bank Shipping from 1996 to 1998 and Senior Executive and Head of Shipping for Credit Agricole Indosuez, based in Paris, between 1998 and 2000. Previously, he was a Director of Mercur Tankers, a company which was listed on the Oslo Stock Exchange, and Ugland International, a shipping company. He also serves as Managing Director of Seatrust Shipping Services Ltd., a private consulting firm and as a U.K. Director of Marine Money, a U.S. - based ship finance publication.

Apostolos Kontoyannis has served as a Director and as the Chairman of our Compensation Committee and a member of our Audit Committee effective since March 2005. Since 1987, Mr. Kontoyannis has been the Chairman of Investments and Finance Ltd., a financial consultancy firm he founded, that specializes in financial and structuring issues relating to the Greek maritime industry, with offices in Piraeus and London. He was employed by Chase Manhattan Bank N.A. in Frankfurt (Corporate Bank), London (Head of Shipping Finance South Western European Region) and Piraeus (Manager, Ship Finance Group) from 1975 to 1987. He is an independent member of the Board of Directors of Excel Maritime Carriers Ltd. Mr. Kontoyannis holds a bachelor's degree in Finance and Marketing and a master's degree in business administration in Finance from Boston University.

B. Compensation

The aggregate executives' compensation (including Diana Enterprises) for 2012, 2011 and 2010 was \$4.4 million, \$3.7 million and \$4.2 million, respectively. Since June 1, 2010, DSS entered into two Broker Services Agreements with Diana Enterprises, a related party, to provide brokerage services to us and Diana Containerships. Under these agreements, which are described in Item 7B. "Related Party Transactions", we paid an annual fee of \$1.7 million until December 31, 2011, increased to \$2.4 million as of January 1, 2012, and will pay \$0.2 million per month effective March 1, 2013. Diana Containerships paid during 2010 and until January 18, 2011 that was consolidated in our financial statements annual fees of \$1.04 million. We consider that fees paid under those agreements to be part of our executive compensation due to the affiliation with Diana Enterprises.

Non-employee directors receive annual fees in the amount of \$52,000 plus reimbursement of their out-of-pocket expenses, since January 1, 2009. Until then their annual fees amounted to \$40,000. In addition, each non-executive serving as chairman or member of the committees receives annual fees of \$26,000 and \$13,000, respectively, plus reimbursement of his/her out-of-pocket expenses, since January 1, 2009 compared to \$20,000 and \$10,000, respectively, plus reimbursement of his/her out-of-pocket expenses until 2008. For 2012, 2011 and 2010 fees and expenses of our non-executive directors amounted to \$0.3 million, \$0.4 million and \$0.4 million, respectively.

Since 2008 and until the date of this annual report, our board of directors has awarded an aggregate amount of 3,451,241 shares of restricted common stock, of which 2,800,657 shares to senior management and 650,584 shares to non-employee directors. All restricted shares vest ratably over three years, except for 600,000 shares awarded in 2008 which vest ratably over a period of six years. The restricted shares are subject to forfeiture until they become vested. Unless they forfeit their shares, grantees have the right to vote, to receive and retain all dividends paid and to exercise all other rights, powers and privileges of a holder of shares.

In 2012, 2011 and 2010, compensation cost relating to the aggregate amount of restricted stock awards amounted to \$8.6 million, \$8.1 million and \$7.5 million, respectively. Of this compensation cost, an amount of \$39,353 in 2011 and \$1.3 million in 2010 related to shares awarded by Diana Containerships to members of its senior management.

We do not have a retirement plan for our officers or directors.

Equity Incentive Plan

In February 2005, we adopted an equity incentive plan (the "Plan") for 2,800,000 common shares, which was amended and restated on October 21, 2008 and terminated in 2012 as all shares reserved had been issued. On May 2, 2011, our board of directors approved the Diana Shipping Inc. 2011 Equity Incentive Plan (the "2011 Plan"), with substantially the same terms and provisions as the amended and restated 2005 Plan. Under the 2011 Plan, an aggregate of 5,000,000 common shares are reserved for issuance, of which 4,348,759 shares of common stock are currently available for issuance.

The plan entitles the Company's employees, officers and directors to receive options to acquire the Company's common stock and is administered by the Compensation Committee of the Company's Board Directors or such other committee of the Board as may be designated by the Board to administer the Plan. Under the terms of the 2011 Plan, the Company's Board of Directors is able to grant a) incentive stock options, b) non-qualified stock options, c) stock appreciation rights, d) dividend equivalent rights, e) restricted stock, f) unrestricted stock, g) restricted stock units, and h) performance shares. No options, stock appreciation rights or restricted stock units can be exercisable prior to the first anniversary or subsequent to the tenth anniversary of the date on which such award was granted. The 2011 Plan will expire 10 years from its adoption by the Board of Directors. Under the 2011 Plan, the Administrator may waive or modify the application of forfeiture of awards of restricted stock and performance shares in connection with cessation of service with the Company.

C. Board Practices

We have established an Audit Committee, comprised of two board members, which is responsible for reviewing our accounting controls, recommending to the board of directors the engagement of our independent auditors, and pre-approving audit and audit-related services and fees. Each member is an independent director. As directed by its written charter, the Audit Committee is responsible for appointing, and overseeing the work of the independent auditors, including reviewing and approving their engagement letter and all fees paid to our auditors, reviewing the adequacy and effectiveness of the Company's accounting and internal control procedures and reading and discussing with management and the independent auditors the annual audited financial statements.

In addition, we have established a Compensation Committee comprised of two members, which is responsible for establishing executive officers' compensation and benefits. The members of the Audit Committee are Mr. William Lawes (Chairman and financial expert) and Mr. Apostolos Kontoyannis (member and financial expert) and the members of the Compensation Committee are Mr. Apostolos Kontoyannis (Chairman) and Mr. Boris Nachamkin (member).

We have established an Executive Committee comprised of the three executive directors, Mr. Simeon Palios, Mr. Anastasios Margaronis and Mr. Ioannis Zafirakis. The Executive Committee has, to the extent permitted by law, the powers of the Board of Directors in the management of the business and affairs of the Company.

We also maintain directors' and officers' insurance, pursuant to which we provide insurance coverage against certain liabilities to which our directors and officers may be subject, including liability incurred under U.S. securities law. Our executive directors have employment agreements, which, if terminated without cause, entitle them to continue receiving their basic salary through the date of the agreement's expiration.

D. Crewing and Shore Employees

We crew our vessels primarily with Greek officers and Filipino officers and seamen. We are responsible for identifying our Greek officers, which are hired by our vessel owning subsidiaries. Our Filipino officers and seamen are referred to us by Crossworld Marine Services Inc., an independent crewing agency. The crewing agency handles each seaman's training, travel and payroll. We ensure that all our seamen have the qualifications and licenses required to comply with international regulations and shipping conventions. Additionally, our seafaring employees perform most commissioning work and supervise work at shipyards and drydock facilities. We typically man our vessels with more crew members than are required by the country of the vessel's flag in order to allow for the performance of routine maintenance duties.

The following table presents the number of shoreside personnel employed by our fleet manager and the average number of seafaring personnel employed by our vessel owning subsidiaries during the periods indicated.

	Year Ended December 31,		
	2012	2011	2010
Shoreside	82	68	58
Seafaring	558	558	577
Total	640	626	635

E. Share Ownership

With respect to the total amount of common stock owned by all of our officers and directors, individually and as a group, see Item 7 "Major Shareholders and Related Party Transactions".

Item 7.**Major Shareholders and Related Party Transactions****A. Major Shareholders**

The following table sets forth current information regarding (i) the owners of more than five percent of our common stock that we are aware of and (ii) the total amount of common stock owned by all of our officers and directors, individually and as a group. All of the shareholders, including the shareholders listed in this table, are entitled to one vote for each share of common stock held.

Title of Class	Identity of Person or Group	Number of Shares Owned	Percent of Class
Common Stock, par value \$0.01	Simeon Palios (1)	15,278,977	18.4%
	Seizert Capital Partners, LLC (2)	5,228,578	6.3%
	B. Manning & Napier Advisors, LLC (3)	5,918,951	7.1%
	Massachusetts Financial Services Company (4)	6,497,810	7.8%
	All officers and directors as a group (5)	16,909,086	20.4%

- (1) Currently, Mr. Simeon Palios beneficially owns 992,437 restricted common shares granted through the Company's Equity Incentive Plan and 14,286,540 shares indirectly through Corozal Compania Naviera S.A. ("Corozal") and Ironwood Trading Corp. ("Ironwood") over which Mr. Simeon Palios exercises sole voting and dispositive power. As of December 31, 2010, 2011, 2012 and currently, Mr. Simeon Palios owned indirectly through Corozal and Ironwood 17.4%, 17.3%, 17.4% and 17.2%, respectively, of our outstanding common stock.
- (2) Seizert Capital Partners, LLC is an investment adviser that has filed a Schedule 13G/A on February 4, 2013 reporting their ownership of 6.3% of our outstanding common stock as of December 31, 2012.
- (3) Manning & Napier Advisors, LLC has filed a Schedule 13G on January 23, 2013 reporting their ownership of 7.2% of our outstanding common stock as of December 31, 2012.
- (4) Massachusetts Financial Services Company ("MFS") has filed a Schedule 13G on March 14, 2013 reporting their ownership of 7.8% of our outstanding common stock as of December 31, 2012.
- (5) Mr. Simeon Palios is our only director or officer that beneficially owns 5% or more of our outstanding common stock. Mr. Anastasios Margaronis, our President and a member of our board of directors, and Mr. Ioannis Zafirakis, our Executive Vice President and a member of our board of directors, are indirect shareholders through ownership of stock held in Corozal Compania Naviera S.A., which is the registered owner of some of our common stock. Mr. Margaronis and Mr. Zafirakis do not have dispositive or voting power with regard to shares held by Corozal Compania S.A. and, accordingly, are not considered to be beneficial owners of our common shares held through Corozal Compania Naviera S.A. Messrs. Lawes, Psaltis, Nachamkin and Kontoyannis, each a non-executive director of ours, and Messrs. Margaronis, Zafirakis and Michalopoulos, each executive officers of ours, each own less than 1% of our outstanding common stock.

As of March 20, 2013, we had 161 shareholders of record, 146 of which were located in the United States and held an aggregate of 65,820,605 of our common shares, representing 80% of our outstanding common shares. However, one of the U.S. shareholders of record is CEDE & CO., a nominee of The Depository Trust Company, which held 65,786,143 of our common shares as of March 20, 2013. Accordingly, we believe that the shares held by CEDE & CO. include common shares beneficially owned by both holders in the United States and non-U.S. beneficial owners. We are not aware of any arrangements the operation of which may at a subsequent date result in our change of control.

B. Related Party Transactions

Diana Enterprises Inc.

On June 1, 2010, DSS entered into two agreements with Diana Enterprises, a company controlled by our Chairman and Chief Executive Officer, Mr. Simeon Palios, to provide brokerage services. The first agreement was made on behalf of Diana Shipping Inc. for an annual fee of \$1.7 million and the second agreement was made on behalf of Diana Containerships, for an annual fee of \$1.04 million. In February 2012, the agreement between Diana Enterprises and DSS was terminated and replaced with a new agreement under which Diana Enterprises provides brokerage services for an annual fee of \$2.4 million to be applied retroactively from January 1, 2012. Our agreement with Diana Enterprises had a term of five years and the fees were paid quarterly in advance. Effective January 19, 2011 after the partial spin-off of Diana Containerships, the fees relating to Diana Containerships were reimbursed to us by Diana Containerships and did not constitute part of our expenses, until March 1, 2013, when the agreement was terminated. During 2012, 2011 and 2010 brokerage fees amounted to \$2.4 million, \$1.7 million and \$1.6 million, respectively. In March 2013, the agreement between DSS and Diana Enterprises, for the services provided to us, was also terminated and it was replaced by a new agreement with effect from March 1, 2013 until March 31, 2014 and for a monthly fee of \$0.2 million payable quarterly in advance.

Altair Travel Agency S.A.

Altair Travel Agency S.A., or Altair, an affiliated entity that is controlled by our Chairman and Chief Executive Officer, Mr. Simeon Palios, provides us with travel related services. Travel related expenses in 2012, 2011 and 2010 amounted to \$3.0 million, \$1.8 million and \$1.6 million, respectively. We believe that the fees that we pay to Altair Travel Agency S.A. are no greater than fees we would pay to an unrelated third party for comparable services in an arm's length transaction. Until September 30, 2010, we were also paying rent to Altair for the lease of office and parking space, which for 2010 amounted to about \$76,000, and was classified in General and administrative expenses. On September 30, 2010, Altair sold its property to Universal Shipping and Real Estates Inc. and as of that date our lease agreement with Altair was terminated.

Administrative Services Agreement

On April 6, 2010, Diana Containerships entered into an Administrative Services Agreement with DSS, whereby DSS provided to it accounting, administrative, financial reporting and other services necessary for the operation of its business. Diana Containerships paid DSS a monthly fee of \$10,000 for these administrative services. The initial term of the agreement was for a period of one year and automatically renewed for successive twelve month periods until its termination on March 1, 2013.

Prior to the partial spin-off of Diana Containerships on January 18, 2011 and its consequent de-consolidation from our financial statements, such administrative services fees received by DSS were eliminated from our consolidated financial statements as intercompany transactions. After the de-consolidation of Diana Containerships and until March 1, 2013, such fees constituted part of our revenues and have been included in Other revenues. For 2012 and 2011, Other revenues amounted to of \$2.4 million and of \$1.1 million, respectively.

Vessel Management Agreements

DSS also provided commercial and technical management services for Diana Containerships' vessels under separate vessel management agreements with Diana Containerships' vessel owning subsidiaries. The vessel management agreements were terminated on March 1, 2013. Commercial management included, among other things, negotiating charters for vessels, monitoring the performance of vessels under charter, and managing Diana Containerships' relationships with charterers, obtaining insurance coverage for Diana Containerships' vessels, as well as supervision of the technical management of the vessels. Technical management included managing day-to-day vessel operations, performing general vessel maintenance, ensuring regulatory and classification society compliance, supervising the maintenance and general efficiency of vessels, arranging the hire of qualified officers and crew, arranging and supervising drydocking and repairs, arranging for the purchase of supplies, spare parts and new equipment for vessels, appointing supervisors and technical consultants and providing technical support. Pursuant to each vessel management agreement, DSS received a commission of 1% of the gross hire and freight earned by each vessel and a technical management fee of \$15,000 per vessel per month for vessels in operation.

Prior to the partial spin-off of Diana Containerships on January 18, 2011 and its consequent de-consolidation from our financial statements, such management fees received by DSS were eliminated from our consolidated financial statements as intercompany transactions. After the de-consolidation of Diana Containerships and until March 1, 2013, such fees constituted part of our revenues and have been included in Other revenues. For 2012 and 2011, Other revenues amounted to of \$2.4 million and of \$1.1 million, respectively.

C. Interests of Experts and Counsel

Not Applicable.

Item 8. Financial information

A. Consolidated statements and other financial information

See Item 18.

Legal Proceedings

DSS was indicted on March 20, 2013 by a federal grand jury in Norfolk, Virginia for alleged violations of law concerning maintenance of books and records and the handling of waste oils on the *Thetis*. The chief engineer and second assistant engineer of the vessel were also named as co-defendants in the indictment.

DSS has cooperated with the Department of Justice since notice of the alleged violations was received in September 2012, and intends to continue to cooperate with the Department of Justice as appropriate. If this matter results in a trial, DSS intends to defend any charges vigorously. We do not expect that these charges will have any material effect on our ongoing business, our relationships with its charterers or our other contractual arrangements. We remain committed to maintaining the highest level of operational standards on board our vessels.

Except as described above, we have not been involved in any legal proceedings which may have, or have had, a significant effect on our business, financial position, results of operations or liquidity, nor are we aware of any proceedings that are pending or threatened which may have a significant effect on our business, financial position, results of operations or liquidity. From time to time, we may be subject to legal proceedings and claims in the ordinary course of business, principally personal injury and property casualty claims. We expect that these claims would be covered by insurance, subject to customary deductibles. Those claims, even if lacking merit, could result in the expenditure of significant financial and managerial resources.

Dividend Policy

Our board of directors reviews and amends our dividend policy from time to time in light of our plans for future growth and other factors. As a result of market conditions in the international shipping industry and in line with our dividend policy, as of November 2008, our board of directors has suspended the payment of dividends. We believe that this suspension enhances our flexibility by permitting cash flow that would have been devoted to dividends to be used for opportunities that may arise in the current marketplace, such as funding our operations, acquiring vessels or servicing our debt. In December 2010, we distributed 2,667,015 shares of Diana Containerships, or 80% of our interest, as a stock dividend to all shareholders on a pro-rata basis and on January 3, 2011, Diana Containerships started to trade in the Nasdaq Global Market on a "when issued" basis and on January 19, 2011, on a "regular way" basis. As a result of this partial spin-off, Diana Containerships, effective January 19, 2011, is no longer consolidated to our consolidated financial statements.

Marshall Islands law generally prohibits the payment of dividends other than from surplus or when a company is insolvent or if the payment of the dividend would render the company insolvent. Also our credit facilities prohibit the payment of dividends should an event of default arise.

We believe that, under current law, any dividends that we have paid and may pay in the future from earnings and profits constitute "qualified dividend income" and as such are generally subject to a 15% United States federal income tax rate with respect to non-corporate United States shareholders. Distributions in excess of our earnings and profits will be treated first as a non-taxable return of capital to the extent of a United States shareholder's tax basis in its common stock on a dollar-for-dollar basis and thereafter as capital gain. We note that legislation was previously introduced in the United States Congress, which, if enacted in its present form, would preclude dividends received after the date of enactment from qualifying as "qualified dividend income." Please see the section of this annual report entitled "Taxation" under Item 10.E for additional information relating to the tax treatment of our dividend payments.

B. Significant Changes

There have been no significant changes since the date of the annual consolidated financial statements included in this annual report.

Item 9. The Offer and Listing

The trading market for shares of our common stock is the New York Stock Exchange, on which our shares trade under the symbol "DSX". The following table sets forth the required disclosure with respect to the high and low closing prices for shares of our common stock, as reported by the New York Stock Exchange:

Period	2013		2012		2011		2010		2009		2008	
	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low
Annual			\$ 9.87	\$ 6.31	\$ 12.64	\$ 6.93	\$ 16.27	\$ 11.19	\$ 18.52	\$ 10.15	\$ 31.66	\$ 7.24
1st quarter			\$ 9.87	\$ 7.80	\$ 12.64	\$ 11.50						
2nd quarter			8.90	7.07	12.13	10.70						
3rd quarter			8.09	6.31	11.13	7.42						
4th quarter			7.64	6.53	8.54	6.93						
September			\$ 7.24	\$ 6.46								
October			7.24	6.53								
November			7.64	7.06								
December			7.50	7.20								
January	\$ 9.01	\$ 7.47										
February	9.05	8.44										
March*	9.24	8.35										

* For the period from March 1, 2013 until March 20, 2013.

Item 10. Additional Information

A. Share Capital

Not Applicable.

B. Memorandum and articles of association

Our current amended and restated articles of incorporation have been filed as exhibit 1 to our Form 6-K filed with the Securities and Exchange Commission on May 29, 2008 with file number 001-32458, and our current amended and restated bylaws have been filed as exhibit 1.2 to our Form 6-K filed with the Securities and Exchange Commission on December 4, 2007 with file number 001-32458. The information contained in these exhibits is incorporated by reference herein.

Information regarding the rights, preferences and restrictions attaching to each class of the shares is described in section "Description of Capital Stock" in our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on November 23, 2005 with file number 333-129726, provided that since the date of that Registration Statement, the number of our outstanding shares of common stock has increased to 82,841,370. We have also filed with the Securities and Exchange Commission our amended and restated stockholders rights agreement as exhibit 4.5 to our Form 8-A12B/A filed on October 7, 2008 and amended on October 10, 2008, with file number 001-32458.

C. Material Contracts

Attached as exhibits to this annual report are the contracts we consider to be both material and not entered into in the ordinary course of business. Other than these agreements, we have no material contracts, other than contracts entered into in the ordinary course of business, to which the Company or any member of the group is a party. A description of these is included in our description of our agreements generally: we refer you to Item 5.B for a discussion of our loan facilities, and item 7.B for a discussion of our agreements with companies controlled by our Chairman and Chief Executive Officer, Mr. Simeon Palios and by Diana Containerships.

D. Exchange Controls

Under Marshall Islands, Panamanian, Cypriot and Greek law, there are currently no restrictions on the export or import of capital, including foreign exchange controls or restrictions that affect the remittance of dividends, interest or other payments to non-resident holders of our common stock.

E. Taxation

United States Taxation

The following discussion is based upon the provisions of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), existing and proposed U.S. Treasury Department regulations, (the "Treasury Regulations"), administrative rulings, pronouncements and judicial decisions, all as of the date of this Annual Report. This discussion assumes that we do not have an office or other fixed place of business in the United States. Unless the context otherwise requires, the reference to Company below shall be meant to refer to both the Company and its vessel owning and operating subsidiaries.

Taxation of the Company's Shipping Income

In General

The Company anticipates that it will derive substantially all of its gross income from the use and operation of vessels in international commerce and that this income will principally consist of freights from the transportation of cargoes, hire or lease from time or voyage charters and the performance of services directly related thereto, which the Company refers to as "Shipping Income."

Shipping Income that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States will be considered to be 50% derived from sources within the United States. Shipping Income attributable to transportation that both begins and ends in the United States will be considered to be 100% derived from sources within the United States. The Company is not permitted by law to engage in transportation that gives rise to 100% U.S. source Shipping Income. Shipping Income attributable to transportation exclusively between non-U.S. ports will be considered to be 100% derived from sources outside the United States. Shipping Income derived from sources outside the United States will not be subject to U.S. federal income tax.

Based upon the Company's anticipated shipping operations, the Company's vessels will operate in various parts of the world, including to or from U.S. ports. Unless exempt from U.S. federal income taxation under Section 883 of the Code, the Company will be subject to U.S. federal income taxation, in the manner discussed below, to the extent its Shipping Income is considered derived from sources within the United States.

In the year ended December 31, 2012, approximately 6.5% of the Company's shipping income was attributable to the transportation of cargoes either to or from a U.S. port. Accordingly, 3.3% of the Company's shipping income would be treated as derived from U.S. sources for the year ended December 31, 2012. In the absence of exemption from U.S. federal income tax under Section 883 of the Code, the Company would have been subject to a 4% tax on its gross U.S. source Shipping Income, equal to approximately \$289 thousand for the year ended December 31, 2012.

Application of Exemption under Section 883 of the Code

Under the relevant provisions of Section 883 of the Code and the final Treasury Regulations promulgated thereunder, a foreign corporation will be exempt from U.S. federal income taxation on its U.S. source Shipping Income if:

- (1) It is organized in a qualified foreign country which, as defined, is one that grants an equivalent exemption from tax to corporations organized in the United States in respect of the Shipping Income for which exemption is being claimed under Section 883 of the Code, or the "Country of Organization Requirement"; and
- (2) It can satisfy any one of the following two stock ownership requirements:
 - more than 50% of its stock, in terms of value, is beneficially owned by qualified shareholders which, as defined, includes individuals who are residents of a qualified foreign country, or the "50% Ownership Test"; or
 - its stock is "primarily and regularly" traded on an established securities market located in the United States or a qualified foreign country, or the "Publicly Traded Test".

The U.S. Treasury Department has recognized the Marshall Islands, Panama and Cyprus the countries of incorporation of each of the Company and its subsidiaries that earns Shipping Income, as a qualified foreign country. Accordingly, the Company and each of the subsidiaries satisfy the Country of Organization Requirement.

For the 2012 taxable year, the Company believes that it is unlikely that the 50% Ownership Test was satisfied. Therefore, the eligibility of the Company and each subsidiary to qualify for exemption under Section 883 of the Code is wholly dependent upon the Company's ability to satisfy the Publicly Traded Test.

Under the Treasury Regulations, stock of a foreign corporation is considered "primarily traded" on an established securities market in a country if the number of shares of each class of stock that is traded during the taxable year on all established securities markets in that country exceeds the number of shares in each such class that is traded during that year on established securities markets in any other single country. The Company's common stock, which is the sole class of issued and outstanding stock, was "primarily traded" on the New York Stock Exchange, or "NYSE", during the 2012 taxable year.

Under the Treasury Regulations, the Company's common stock will be considered to be "regularly traded" on the NYSE if: (1) more than 50% of its common stock, by voting power and total value, is listed on the NYSE, referred to as the "Listing Threshold", (2) its common stock is traded on the NYSE, other than in minimal quantities, on at least 60 days during the taxable year (or one-sixth of the days during a short taxable year), which is referred to as the "Trading Frequency Test"; and (3) the aggregate number of shares of its common stock traded on the NYSE during the taxable year is at least 10% of the average number of shares of its common stock outstanding during such taxable year (as appropriately adjusted in the case of a short taxable year), which is referred to as the "Trading Volume Test". The Trading Frequency Test and Trading Volume Test are deemed to be satisfied under the Treasury Regulations if the Company's common stock is regularly quoted by dealers making a market in the common stock.

The Company believes that its common stock has satisfied the Listing Threshold, as well as the Trading Frequency Test and Trading Volume Tests, during the 2012 taxable year.

Notwithstanding the foregoing, the Treasury Regulations provide, in pertinent part, that stock of a foreign corporation will not be considered to be "regularly traded" on an established securities market for any taxable year during which 50% or more of such stock is owned, actually or constructively under specified stock attribution rules, on more than half the days during the taxable year by persons, or "5% Shareholders", who each own 5% or more of the value of such stock, or the "5% Override Rule." For purposes of determining the persons who are 5% Shareholders, a foreign corporation may rely on Schedules 13D and 13G filings with the U.S. Securities and Exchange Commission.

During the 2012 taxable year, only 39.7% of the Company's common stock was owned by 5% Shareholders. Therefore, the Company is not subject to the 5% Override Rule, and therefore the Company believes that it has satisfied the Publicly Traded Test for the 2012 taxable year. However, there is no assurance that the Company will continue to satisfy the Publicly Traded Test in future taxable years. For example, the Company could be subject to the 5% Override Rule if another 5% Shareholder in combination with the Company's existing 5% Shareholders were to own 50% or more of the Company's common stock. In such a case, the Company would be subject to the 5% Override Rule unless it could establish that, among the shares of the common stock owned by the 5% Shareholders, sufficient shares are owned by qualified shareholders, for purposes of Section 883 of the Code, to preclude non-qualified shareholders from owning 50% or more of the Company's common stock for more than half the number of days during the taxable year. The requirements of establishing this exception to the 5% Override Rule are onerous and there is no assurance the Company will be able to satisfy them.

Based on the foregoing, the Company believes that it satisfied the Publicly Traded Test and therefore believes that it was exempt from U.S. federal income tax under Section 883 of the Code, during the 2012 taxable year, and intends to take this position on its 2012 U.S. federal income tax returns.

Taxation in Absence of Exemption Under Section 883 of the Code

To the extent the benefits of Section 883 of the Code are unavailable with respect to any item of U.S. source Shipping Income, the Company and each of its subsidiaries would be subject to a 4% tax imposed on such income by Section 887 of the Code on a gross basis, without the benefit of deductions, which is referred to as the "4% Gross Basis Tax Regime". Since under the sourcing rules described above, no more than 50% of the Company's Shipping Income would be treated as being derived from U.S. sources, the maximum effective rate of U.S. federal income tax on the Company's Shipping Income would never exceed 2% under the 4% Gross Basis Tax Regime.

Based on its U.S. source Shipping Income for the 2012 taxable year and in the absence of exemption under Section 883 of the Code, the Company would be subject to approximately \$289 thousand of U.S. federal income tax under the 4% Gross Basis Tax Regime.

The 4% Gross Basis Tax Regime would not apply to U.S. source Shipping Income to the extent considered to be "effectively connected" with the conduct of a U.S. trade or business. In the absence of exemption under Section 883 of the Code, such "effectively connected" U.S. source Shipping Income, net of applicable deductions, would be subject to U.S. federal income tax currently imposed at corporate rates of up to 35%. In addition, earnings "effectively connected" with the conduct of such U.S. trade or business, as determined after allowance for certain adjustments, and certain interest paid or deemed paid attributable to the conduct of the U.S. trade or business may be subject to U.S. federal branch profits tax imposed at a rate of 30%. The Company's U.S. source Shipping Income would be considered "effectively connected" with the conduct of a U.S. trade or business only if: (1) the Company has, or is considered to have, a fixed place or business in the United States involved in the earning of Shipping Income; and (2) substantially all of the Company's U.S. source Shipping Income is attributable to regularly scheduled transportation, such as the operation of a vessel that followed a published schedule with repeated sailings at regular intervals between the same points for voyages that begin or end in the United States, or, in the case of income from the chartering of a vessel, is attributable to a fixed place of business in the United States. We do not intend to have, or permit circumstances that would result in having a vessel operating to the United States on a regularly scheduled basis. Based on the foregoing and on the expected mode of our shipping operations and other activities, we believe that none of our U.S. source Shipping Income will be effectively connected with the conduct of a U.S. trade or business.

Gain on Sale of Vessels

Regardless of whether we qualify for exemption under Section 883 of the Code, we will not be subject to U.S. federal income taxation with respect to gain realized on a sale of a vessel, provided the sale is considered to occur outside of the United States under U.S. federal income tax principles. In general, a sale of a vessel will be considered to occur outside of the United States for this purpose if title to the vessel, and risk of loss with respect to the vessel, pass to the buyer outside of the United States. It is expected that any sale of a vessel by us will be considered to occur outside of the United States.

Taxation of U.S. Holders

The following is a discussion of the material U.S. federal income tax considerations relevant to an investment decision by a U.S. Holder, as defined below, with respect to our common stock. This discussion does not purport to deal with the tax consequences of owning our common stock to all categories of investors, some of which may be subject to special rules. You are encouraged to consult your own tax advisors concerning the overall tax consequences arising in your own particular situation under U.S. federal, state, local or foreign law of the ownership of our common stock.

As used herein, the term "U.S. Holder" means a beneficial owner of our common stock that (i) is a U.S. citizen or resident, a U.S. corporation or other U.S. entity taxable as a corporation, an estate, the income of which is subject to U.S. federal income taxation regardless of its source, or a trust if a court within the United States is able to exercise primary jurisdiction over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust and (ii) owns the common stock as a capital asset, generally, for investment purposes.

If a partnership holds our common stock, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. If you are a partner in a partnership holding our common stock, you are encouraged to consult your own tax advisor on this issue.

Distributions

Subject to the discussion of passive foreign investment companies below, any distributions made by the Company with respect to its common stock to a U.S. Holder will generally constitute dividends, which may be taxable as ordinary income or "qualified dividend income" as described in more detail below, to the extent of the Company's current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Distributions in excess of the Company's earnings and profits will be treated first as a non-taxable return of capital to the extent of the U.S. Holder's tax basis in his common stock on a dollar-for-dollar basis and thereafter as capital gain. Because the Company is not a U.S. corporation, U.S. Holders that are corporations will not be entitled to claim a dividends-received deduction with respect to any distributions they receive from the Company.

Dividends paid to a U.S. Holder which is an individual, trust, or estate, referred to herein as a "U.S. Non-Corporate Holder," will generally be treated as "qualified dividend income" that is taxable to Holders at preferential U.S. federal income tax rates, provided that (1) the common stock is readily tradable on an established securities market in the United States (such as the NYSE on which the common stock is listed); (2) the Company is not a passive foreign investment company for the taxable year during which the dividend is paid or the immediately preceding taxable year (which the Company does not believe it is, has been or will be); (3) the U.S. Non-Corporate Holder has owned the common stock for more than 60 days in the 121-day period beginning 60 days before the date on which the common stock becomes ex-dividend; and (4) the U.S. Non-Corporate Holder is not under an obligation (whether pursuant to a short sale or otherwise) to make payments with respect to positions in substantially similar or related property. There is no assurance that any dividends paid on our common stock will be eligible for these preferential rates in the hands of a U.S. Non-Corporate Holder. Legislation has been previously introduced in the U.S. Congress which, if enacted in its present form, would preclude the dividends paid by the Company from qualifying for such preferential rates prospectively from the date of the enactment. Any dividends paid by the Company which are not eligible for these preferential rates will be taxed as ordinary income to a U.S. Non-Corporate Holder.

Sale, Exchange or other Disposition of Common Stock

Assuming the Company does not constitute a passive foreign investment company for any taxable year, a U.S. Holder generally will recognize taxable gain or loss upon a sale, exchange or other disposition of the Company's common stock in an amount equal to the difference between the amount realized by the U.S. Holder from such sale, exchange or other disposition and the U.S. Holder's tax basis in such stock. Such gain or loss will be treated as long-term capital gain or loss if the U.S. Holder's holding period in the common stock is greater than one year at the time of the sale, exchange or other disposition. Long-term capital gain of a U.S. Non-Corporate Holder are taxable at preferential U.S. Federal income tax rates. A U.S. Holder's ability to deduct capital losses is subject to certain limitations.

3.8% Tax on Net Investment Income

For taxable years beginning after December 31, 2012, a U.S. Holder that is an individual, estate, or, in certain cases, a trust, will generally be subject to a 3.8% tax on the lesser of (1) the U.S. Holder's net investment income for the taxable year and (2) the excess of the U.S. Holder's modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals is between \$125,000 and \$250,000). A U.S. Holder's net investment income will generally include distributions made by the Company which constitute a dividend for U.S. federal income tax purposes and gain realized from the sale, exchange or other disposition of our common stock. This tax is in addition to any income taxes due on such investment income.

If you are a U.S. Holder that is an individual, estate or trust, you are encouraged to consult your tax advisors regarding the applicability of the 3.8% tax on net investment income to the ownership and disposition of our common stock.

Passive Foreign Investment Company Status and Significant Tax Consequences

Special U.S. federal income tax rules apply to a U.S. Holder that holds stock in a foreign corporation classified as a passive foreign investment company, or a "PFIC", for U.S. federal income tax purposes. In general, the Company will be treated as a PFIC with respect to a U.S. Holder if, for any taxable year in which such Holder held the Company's common stock, either:

- at least 75% of the Company's gross income for such taxable year consists of passive income (e.g., dividends, interest, capital gains and rents derived other than in the active conduct of a rental business), or
- at least 50% of the average value of the assets held by the corporation during such taxable year produce, or are held for the production of, such passive income.

For purposes of determining whether the Company is a PFIC, the Company will be treated as earning and owning its proportionate share of the income and assets, respectively, of any of its subsidiary corporations in which it owns at least 25% of the value of the subsidiary's stock. Income earned, or deemed earned, by the Company in connection with the performance of services would not constitute passive income. By contrast, rental income would generally constitute passive income unless the Company is treated under specific rules as deriving its rental income in the active conduct of a trade or business.

Based on the Company's current operations and future projections, the Company does not believe that it is, nor does it expect to become, a PFIC with respect to any taxable year. Although there is no legal authority directly on point, the Company's belief is based principally on the position that, for purposes of determining whether the Company is a PFIC, the gross income the Company derives or is deemed to derive from the time chartering and voyage chartering activities of its wholly-owned subsidiaries should constitute services income, rather than rental income. Correspondingly, the Company believes that such income does not constitute passive income, and the assets that the Company or its wholly-owned subsidiaries own and operate in connection with the production of such income, in particular, the vessels, do not constitute assets that produce or are held for the production of passive income for purposes of determining whether the Company is a PFIC. The Company believes there is substantial legal authority supporting its position consisting of case law and Internal Revenue Service, or the "IRS", pronouncements concerning the characterization of income derived from time charters and voyage charters as services income for other tax purposes. However, there is also authority which characterizes time charter income as rental income rather than services income for other tax purposes. It should be noted that in the absence of any legal authority specifically relating to the statutory provisions governing PFICs, the IRS or a court could disagree with this position. In addition, although the Company intends to conduct its affairs in a manner to avoid being classified as a PFIC with respect to any taxable year, there can be no assurance that the nature of its operations will not change in the future.

As discussed more fully below, if the Company were to be treated as a PFIC for any taxable year, a U.S. Holder would be subject to different U.S. federal income taxation rules depending on whether the U.S. Holder makes an election to treat the Company as a "Qualified Electing Fund," which election is referred to as a "QEF Election." As discussed below, as an alternative to making a QEF Election, a U.S. Holder should be able to make a "mark-to-market" election with respect to the common stock, which election is referred to as a "Mark-to-Market Election". In addition, if the Company were to be treated as a PFIC, a U.S. Holder would be required to make an informational return filing in respect of his common stock.

Taxation of U.S. Holders Making a Timely QEF Election

If a U.S. Holder makes a timely QEF Election, which U.S. Holder is referred to as an "Electing Holder", the Electing Holder must report each year for U.S. federal income tax purposes his pro rata share of the Company's ordinary earnings and net capital gain, if any, for the Company's taxable year that ends with or within the taxable year of the Electing Holder, regardless of whether or not distributions were received by the Electing Holder from the Company. The Electing Holder's adjusted tax basis in the common stock will be increased to reflect amounts included in the Electing Holder's income. Distributions received by an Electing Holder that had been previously taxed will result in a corresponding reduction in the adjusted tax basis in the common stock and will not be taxed again once distributed. An Electing Holder would generally recognize capital gain or loss on the sale, exchange or other disposition of the common stock.

Taxation of U.S. Holders Making a Mark-to-Market Election

Alternatively, if the Company were to be treated as a PFIC for any taxable year and, as anticipated, the common stock is treated as "marketable stock," a U.S. Holder would be allowed to make a Mark-to-Market Election with respect to the Company's common stock. If that election is made, the U.S. Holder generally would include as ordinary income in each taxable year the excess, if any, of the fair market value of the common stock at the end of the taxable year over such Holder's adjusted tax basis in the common stock. The U.S. Holder would also be permitted an ordinary loss in respect of the excess, if any, of the U.S. Holder's adjusted tax basis in the common stock over its fair market value at the end of the taxable year, but only to the extent of the net amount previously included in income as a result of the Mark-to-Market Election. A U.S. Holder's tax basis in his common stock would be adjusted to reflect any such income or loss amount. Gain realized on the sale, exchange or other disposition of the common stock would be treated as ordinary income, and any loss realized on the sale, exchange or other disposition of the common stock would be treated as ordinary loss to the extent that such loss does not exceed the net mark-to-market gains previously included by the U.S. Holder.

Taxation of U.S. Holders Not Making a Timely QEF Election or Mark-to-Market Election

Finally, if the Company were to be treated as a PFIC for any taxable year, a U.S. Holder who does not make either a QEF Election or a Mark-to-Market Election for that year, whom is referred to as a "Non-Electing Holder", would be subject to special U.S. federal income tax rules with respect to (1) any excess distribution (i.e., the portion of any distributions received by the Non-Electing Holder on the common stock in a taxable year in excess of 125% of the average annual distributions received by the Non-Electing Holder in the three (3) preceding taxable years, or, if shorter, the Non-Electing Holder's holding period for the common stock), and (2) any gain realized on the sale, exchange or other disposition of the common stock. Under these special rules:

- the excess distribution or gain would be allocated ratably over the Non-Electing Holder's aggregate holding period for the common stock;
- the amount allocated to the current taxable year and any taxable years before the Company became a PFIC would be taxed as ordinary income; and
- the amount allocated to each of the other taxable years would be subject to tax at the highest rate of tax in effect for the applicable class of taxpayer for that year, and an interest charge for the deemed tax deferral benefit would be imposed with respect to the resulting tax attributable to each such other taxable year.

These penalties would not apply to a pension or profit sharing trust or other tax-exempt organization that did not borrow funds or otherwise utilize leverage in connection with its acquisition of the common stock. If a Non-Electing Holder who is an individual dies while owning the common stock, such Holder's successor generally would not receive a step-up in tax basis with respect to such stock.

U.S. Federal Income Taxation of "Non-U.S. Holders"

A beneficial owner of our common stock that is not a U.S. Holder (other than a partnership) is referred to herein as a "Non-U.S. Holder."

Dividends on Common Stock

Non-U.S. Holders generally will not be subject to U.S. federal income or withholding tax on dividends received from us with respect to our common stock, unless that income is effectively connected with the Non-U.S. Holder's conduct of a trade or business in the United States. If the Non-U.S. Holder is entitled to the benefits of a U.S. income tax treaty with respect to those dividends, that income is taxable in the United States only if attributable to a permanent establishment maintained by the Non-U.S. Holder in the United States.

Sale, Exchange or Other Disposition of Common Stock

Non-U.S. Holders generally will not be subject to U.S. federal income or withholding tax on any gain realized upon the sale, exchange or other disposition of our common stock, unless:

- the gain is effectively connected with the Non-U.S. Holder's conduct of a trade or business in the United States. If the Non-U.S. Holder is entitled to the benefits of a U.S. income tax treaty with respect to that gain, the gain is taxable in the United States only if attributable to a permanent establishment maintained by the Non-U.S. Holder in the United States; or
- the Non-U.S. Holder is an individual who is present in the United States for 183 days or more during the taxable year of disposition and other conditions are met.

If the Non-U.S. Holder is engaged in a U.S. trade or business for U.S. federal income tax purposes, the income from our common stock, including dividends and the gain from the sale, exchange or other disposition of the common stock, that is effectively connected with the conduct of that U.S. trade or business will generally be subject to U.S. federal income tax in the same manner as discussed in the previous section relating to the taxation of U.S. Holders. In addition, in the case of a corporate Non-U.S. Holder, such Holder's earnings and profits that are attributable to the effectively connected income, subject to certain adjustments, may be subject to an additional U.S. federal branch profits tax at a rate of 30%, or at a lower rate as may be specified by an applicable U.S. income tax treaty.

Backup Withholding and Information Reporting

In general, dividend payments, or other taxable distributions, made within the United States to a holder will be subject to U.S. federal information reporting requirements. Such payments will also be subject to U.S. federal "backup withholding" if paid to a non-corporate U.S. holder who:

- fails to provide an accurate taxpayer identification number;
- is notified by the IRS that he has failed to report all interest or dividends required to be shown on his U.S. federal income tax returns; or
- in certain circumstances, fails to comply with applicable certification requirements.

If a holder sells his common stock to or through a U.S. office of a broker, the payment of the proceeds is subject to both backup withholding and information reporting unless the holder establishes an exemption. If a holder sells his common stock through a non-U.S. office of a non-U.S. broker and the sales proceeds are paid to the holder outside the United States, then information reporting and backup withholding generally will not apply to that payment. However, information reporting requirements, but not backup withholding, will apply to a payment of sales proceeds, including a payment made to a holder outside the United States, if the holder sells his common stock through a non-U.S. office of a broker that is a U.S. person or has some other contacts with the United States.

Backup withholding is not an additional tax. Rather, a taxpayer generally may obtain a refund of any amounts withheld under backup withholding rules that exceed the taxpayer's U.S. federal income tax liability by filing a refund claim with the IRS.

Pursuant to recently enacted legislation, U.S. Holders who are individuals (and to the extent specified in applicable Treasury Regulations, certain U.S. entities) who hold "specified foreign financial assets" (as defined in Section 6038D of the Code) are required to file IRS Form 8938 with information relating to the asset for each taxable year in which the aggregate value of all such assets exceeds \$75,000 at any time during the taxable year or \$50,000 on the last day of the taxable year (or such higher dollar amount as prescribed by applicable Treasury Regulations). Specified foreign financial assets would include, among other assets, our common stock, unless the common stock is held through an account maintained with a U.S. financial institution. Substantial penalties apply to any failure to timely file IRS Form 8938, unless the failure is shown to be due to reasonable cause and not due to willful neglect. Additionally, in the event a U.S. Holder who is an individual (and to the extent specified in applicable Treasury regulations, a U.S. entity) that is required to file IRS Form 8938 does not file such form, the statute of limitations on the assessment and collection of U.S. federal income taxes of such holder for the related tax year may not close until three (3) years after the date that the required information is filed.

Marshall Islands Tax Considerations

We are incorporated in the Marshall Islands. Under current Marshall Islands law, we are not subject to tax on income or capital gains, and no Marshall Islands withholding tax will be imposed upon payments of dividends by us to our shareholders.

F. Dividends and paying agents

Not Applicable.

G. Statement by experts

Not Applicable.

H. Documents on display

We file reports and other information with the SEC. These materials, including this annual report and the accompanying exhibits, may be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549, or from the SEC's website <http://www.sec.gov>. You may obtain information on the operation of the public reference room by calling 1 (800) SEC-0330 and you may obtain copies at prescribed rates.

I. Subsidiary information

Not Applicable.

Item 11. Quantitative and Qualitative Disclosures about Market Risk

Interest Rates

We are exposed to market risks associated with changes in interest rates relating to our loan facilities. At December 31, 2012, we had \$460.9 million of principal balance outstanding under our loan agreements as follows:

	Total	RBS	Bremer	Deutsche	C-exim / DnB	Credit Agricole	Nordea
Amounts in millions of U.S. Dollars							
Loan outstanding	\$ 460.9	\$ 270.0	\$ 29.2	\$ 33.4	\$ 69.1	\$ 14.0	\$ 45.2
Weighted average interest rate	1.6%	1.1%	2.6%	2.9%	2.9%	1.2%	2.7%
Interest rate range	1.1% to 3.1%	1.1% to 1.1%	2.5% to 2.7%	2.7% to 2.9%	2.8% to 3.0%	1.2% to 1.3%	2.7% to 3.1%
Total interest	\$ 7.3	\$ 3.2	\$ 0.8	\$ 1.0	\$ 1.6	\$ 0.2	\$ 0.5
Interest capitalized	\$ 0.3						
Interest expense given 1% increase on interest rates	\$ 11.8	\$ 6.1	\$ 1.1	\$ 1.4	\$ 2.1	\$ 0.3	\$ 0.8

Currently, we have \$270.0 million of the principal balance outstanding under our credit facility with the RBS; \$28.3 million outstanding under our facility with Bremer, \$32.8 million outstanding under our facility with Deutsche, \$67.8 million outstanding under our facility with China Export-Import Bank and DnB Bank, \$13.5 million outstanding under our facility with Credit Agricole and \$44.7 million outstanding under our facilities with Nordea.

We will continue to have debt outstanding, which could impact our results of operations and financial condition. We expect to manage any exposure in interest rates through our regular operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments.

In May 2009, we entered into a five-year zero cost collar agreement, novated in March 2012, with a floor at 1% and a cap at 7.8% of a notional amount of \$100.0 million to manage our exposure to interest rate changes related to our borrowings. The collar agreement is considered as an economic hedge agreement as it does not meet the criteria of hedge accounting; therefore, the changes in its fair value are recognized in earnings. As of December 31, 2012 and 2011 the fair value of the swap was \$1.0 million. Also we incurred unrealized gain of \$36,495 in 2012, unrealized loss of \$39,410 in 2011 and unrealized loss of \$0.8 million in 2010. Realized loss was \$0.6 million for 2012, and \$0.7 million for 2011 and 2010. Should LIBOR interest rates remain at levels below 1% which is our floor, we will continue to incur losses from this financial instrument.

Currency and Exchange Rates

We generate all of our revenues in U.S. dollars but currently incur about half of our operating expenses (around 46% in 2012) and a significant portion of our general and administrative expenses (around 38% in 2012) in currencies other than the U.S. dollar, primarily the Euro. For accounting purposes, including throughout this annual report, expenses incurred in Euros are converted into U.S. dollars at the exchange rate prevailing on the date of each transaction. Because a significant portion of our expenses are incurred in currencies other than the U.S. dollar, our expenses may from time to time increase relative to our revenues as a result of fluctuations in exchange rates, particularly between the U.S. dollar and the Euro, which could affect the amount of net income that we report in future periods.

While we historically have not mitigated the risk associated with exchange rate fluctuations through the use of financial derivatives, we may determine to employ such instruments from time to time in the future in order to minimize this risk. Our use of financial derivatives would involve certain risks, including the risk that losses on a hedged position could exceed the nominal amount invested in the instrument and the risk that the counterparty to the derivative transaction may be unable or unwilling to satisfy its contractual obligations, which could have an adverse effect on our results. Currently, we do not consider the risk from exchange rate fluctuations to be material for our results of operations and therefore, we are not engaged in extensive derivative instruments to hedge a considerable part of those expenses.

Item 12. Description of Securities Other than Equity Securities

Not Applicable.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

None.

Item 15. Controls and Procedures

a) Disclosure Controls and Procedures

Management, including our Chief Executive Officer and Chief Financial Officer, has conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this annual report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that it files or submits to the SEC under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

b) Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. The Company's internal control over financial reporting is a process designed under the supervision of the Company's Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States.

Management has conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on the framework established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2012 is effective.

The registered public accounting firm that audited the financial statements included in this annual report containing the disclosure required by this Item has issued an attestation report on management's assessment of our internal control over financial reporting.

c) Attestation Report of Independent Registered Public Accounting Firm

The attestation report on the Company's internal control over financial reporting issued by the registered public accounting firm that audited the consolidated financial statements, Ernst Young (Hellas) Certified Auditors Accountants S.A., appears under Item 18, and such report is incorporated herein by reference.

d) Changes in Internal Control over Financial Reporting

None.

Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and our Chief Financial Officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Item 16A. Audit Committee Financial Expert

Our Board of Directors has determined that both the members of our Audit Committee, Mr. William Lawes and Mr. Apostolos Kontoyannis, qualify as "Audit Committee financial experts" and they are both considered to be "independent" according to the SEC rules.

Item 16B. Code of Ethics

We have adopted a code of ethics that applies to officers and employees. Our code of ethics is posted in our website: <http://www.dianashippinginc.com>, under "Corporate Governance" and was filed as Exhibit 11.1 to the 2004 annual report on Form 20-F filed with the Securities and Exchange Commission on June 29, 2005 with number 001-32458. Copies of our Code of Ethics are available in print, free of charge, upon request to Diana Shipping Inc., Pendelis 16, 175 64 Palaio Faliro, Athens, Greece. We intend to satisfy any disclosure requirements regarding any amendment to, or waiver from, a provision of this Code of Ethics by posting such information on our website.

Item 16C. Principal Accountant Fees and Services

Our principal Accountants, Ernst and Young (Hellas), Certified Auditors Accountants S.A., have billed us for audit services.

Audit fees in 2012 and 2011 amounted to € 383,100 and € 367,500, or approximately \$523,150 and \$526,600, respectively, and relate to audit services provided in connection with timely SAS 100 reviews, the audit of our consolidated financial statements, the audit of internal control over financial reporting, as well as audit services for Company's filings with the SEC.

The Audit Committee is responsible for the appointment, replacement, compensation, evaluation and oversight of the work of the independent auditors. As part of this responsibility, the Audit Committee pre-approves the audit and non-audit services performed by the independent auditors in order to assure that they do not impair the auditor's independence from the Company. The Audit Committee has adopted a policy which sets forth the procedures and the conditions pursuant to which services proposed to be performed by the independent auditors may be pre-approved.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Our Audit Committee consists of two independent members of our Board of Directors. Otherwise, our Audit Committee conforms to each other requirement applicable to audit committees as required by the applicable listing standards of the New York Stock Exchange.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Issuer purchases of equity securities for the year ended December 31, 2012

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Amount in U.S. \$ that may Yet Be Expected on Share Repurchases Under Programs
January 2012	97,364	\$ 7.63	97,364	\$ 0
February 2012	-	-	-	-
June 2012	461,979	\$ 7.25	461,979	\$ 0
July 2012	43,188	\$ 7.28	43,188	\$ 0
August 2012	-	-	-	-
September 2012	24,203	\$ 6.53	24,203	\$ 0
October 2012	226,873	\$ 6.52	226,873	\$ 0
Total	853,607	\$ 7.08	853,607	\$ 0

In December 2011, the Company entered into an agreement with Goldman, Sachs & Co. (the "Broker") to repurchase its stock according to Rule 10b5-1(c)(1) and to the extend applicable to Rule 10b-18 under the Securities and Exchange Act of 1934. The agreement was terminated on February 29, 2012. On June 14 and August 2, 2012, the Company entered into two similar agreements which were terminated on July 11, and on October 15, 2012, respectively. The Company repurchased and retired 154,091 shares up to December 31, 2011 for an aggregate cost of \$1.2 million, and additional shares of 853,607 in 2012 for an additional cost of \$6.0 million.

Item 16F. Change in Registrant's Certifying Accountant

Not applicable.

Item 16G. Corporate Governance

Statement of Significant Differences between Diana Shipping Inc.'s Corporate Governance Practices and the New York Stock Exchange, Inc. (the "NYSE") Corporate Governance Standards

Overview

Pursuant to an exception for foreign private issuers, Diana Shipping Inc., a Marshall Islands company (the "Company") is not required to comply with the corporate governance practices followed by U.S. companies under the NYSE listing standards. However, pursuant to Section 303.A.11 of the NYSE Listed Company Manual, we are required to state any significant differences between our corporate governance practices and the practices required by the NYSE. We believe that our established practices in the area of corporate governance are in line with the spirit of the NYSE standards and provide adequate protection to our shareholders. In fact, we have voluntarily adopted NYSE required practices, such as (a) having a majority of independent directors, (b) establishing audit and compensation committees and (c) adopting a Code of Ethics. The significant differences between our corporate governance practices and the NYSE standards are set forth below.

Executive Sessions

The NYSE requires that non-management directors meet regularly in executive sessions without management. The NYSE also requires that all independent directors meet in an executive session at least once a year. As permitted under Marshall Islands law and our bylaws, our non-management directors do not regularly hold executive sessions without management and we do not expect them to do so in the future.

Nominating / Corporate Governance Committee

The NYSE requires that a listed company have a nominating/corporate governance committee of independent directors and a committee charter specifying the purpose, duties and evaluation procedures of the committee. As permitted under Marshall Islands law and our bylaws, we do not currently have a nominating or corporate governance committee.

Audit Committee

The NYSE requires, among other things, that a company have an audit committee with a minimum of three members. Our Audit Committee consists of two independent members of our Board of Directors. Our Audit Committee conforms to every other requirement applicable to audit committees set forth in the listing standards of the NYSE.

Shareholder Approval of Equity Compensation Plans

The NYSE requires listed companies to obtain prior shareholder approval to adopt or materially revise any equity compensation plan. As permitted under Marshall Islands law and our amended and restated bylaws, we do not need prior shareholder approval to adopt or revise equity compensation plans, including our equity incentive plan.

Corporate Governance Guidelines

The NYSE requires companies to adopt and disclose corporate governance guidelines. The guidelines must address, among other things: director qualification standards, director responsibilities, director access to management and independent advisers, director compensation, director orientation and continuing education, management succession and an annual performance evaluation. We are not required to adopt such guidelines under Marshall Islands law and we have not adopted such guidelines.

Item 16H. Mine Safety Disclosure

Not applicable.

PART III

Item 17. Financial Statements

See Item 18.

Item 18. Financial Statements

The following financial statements beginning on page F-1 are filed as a part of this annual report.

Item 19. Exhibits

Note:

Exhibit Number	Description
1.1	Amended and Restated Articles of Incorporation of Diana Shipping Inc. (originally known as Diana Shipping Investment Corp.) (1)
1.2	Amended and Restated By-laws of the Company (2)
2.1	Form of Share Certificate (10)
4.1	Second Amended and Restated Stockholders Rights Agreement dated October 7, 2008 (4)
4.2	Amended and Restated 2005 Stock Incentive Plan (6)
4.3	2011 Stock Incentive Plan (11)
4.4	Form of Technical Manager Purchase Option Agreement (5)
4.5	Form of Management Agreement (3)
4.6	Loan Agreement with Royal Bank of Scotland dated February 18, 2005 (5)
4.7	Amending and Restating Loan Agreement with Royal Bank of Scotland dated May 24, 2006 (8)
4.8	Supplemental Agreement with the Royal Bank of Scotland dated January 30, 2007 (7)
4.9	Sales Agency Financing Agreement dated April 23, 2008 (9)
4.10	Loan Agreement with Deutsche Bank dated October 8, 2009 (10)
4.11	Loan Agreement with Bremer Landesbank dated October 22, 2009 (10)
4.12	Loan Agreement with the Export-Import Bank of China and DnB Nor Bank ASA dated October 2, 2010 (10)
4.13	Loan Agreement with Emporiki Bank of Greece S.A. dated September 13, 2011 (11)
4.14	Loan Agreement with Nordea Bank Finland Plc dated February 7, 2012 (11)
4.15	Supplemental Loan Agreement with Nordea Bank Finland Plc dated June 21, 2012
4.16	Loan Agreement with Nordea Bank Finland Plc dated December 20, 2012
8.1	Subsidiaries of the Company
11.1	Code of Ethics (10)
12.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer
12.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer
13.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1	Consent of Independent Registered Public Accounting Firm
101	The following materials from the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2012, formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets as of December 31, 2011 and 2012; (ii) Consolidated Statements of Operations for the years ended December 31, 2010, 2011 and 2012; (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2010, 2011 and 2012; (iv) Consolidated Statements of Stockholders' Equity for the years ended December 31, 2010, 2011 and 2012; (v) Consolidated Statements of Cash Flows for the years ended December 31, 2010, 2011 and 2012; and (v) the Notes to Consolidated Financial Statements

(1) Filed as Exhibit 1 to the Company's Form 6-K filed on May 29, 2008.
(2) Filed as Exhibit 1 to the Company's Form 6-K filed on December 4, 2007.
(3) Filed as an Exhibit to the Company's Amended Registration Statement (File No. 123052) on March 15, 2005.
(4) Filed as Exhibit 4.5 to the Company's Form 8-A12B/A filed on October 7, 2008 and amended on October 10, 2008 (File No. 001-32458).
(5) Filed as an Exhibit to the Company's Registration Statement (File No. 123052) on March 1, 2005.
(6) Filed as Exhibit 1 to the Company's Form 6-K filed on October 27, 2008.
(7) Filed as Exhibit VI to the Company's Form 6-K filed on March 19, 2007.
(8) Filed as Exhibit 4.10 to the Company's 2007 Annual Report on Form 20-F (File No. 001-32458) on March 14, 2008.
(9) Filed as Exhibit 2 to the Company's Form 6-K filed on April 24, 2008.
(10) Filed as an Exhibit to the Company's Annual Report filed on Form 20-F on March 30, 2010.
(11) Filed as an Exhibit to the Company's Annual Report filed on Form 20-F on April 20, 2012.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and has duly caused and authorized the undersigned to sign this annual report on its behalf.

DIANA SHIPPING INC.

/s/ Andreas Michalopoulos

Andreas Michalopoulos
Chief Financial Officer
Dated: March 21, 2013

DIANA SHIPPING INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Diana Shipping Inc.

We have audited the accompanying consolidated balance sheets of Diana Shipping Inc. as of December 31, 2012 and 2011, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Diana Shipping Inc. at December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Diana Shipping Inc.'s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 21, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young (Hellas) Certified Auditors Accountants S.A.
Athens, Greece

March 21, 2013

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors and Stockholders of Diana Shipping Inc.

We have audited Diana Shipping Inc.'s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Diana Shipping Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting appearing under Item 15.b) in the Company's annual report on Form 20-F for the year ended December 31, 2012. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Diana Shipping Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Diana Shipping Inc. as of December 31, 2012 and 2011 and the related consolidated statements income and comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2012 and our report dated March 21, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young (Hellas) Certified Auditors Accountants S.A.
Athens, Greece
March 21, 2013

DIANA SHIPPING INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2012 and 2011
(Expressed in thousands of U.S. Dollars – except for share and per share data)

	2012	2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Note 2(e))	\$ 446,624	\$ 416,674
Accounts receivable, trade (Note 2(f))	6,590	5,568
Due from a related party (Note 4)	613	263
Inventories (Note 2(g))	5,275	4,808
Prepaid expenses and other assets	4,834	2,320
Prepaid charter revenue (Note 8)	3,050	3,058
Total current assets	466,986	432,691
FIXED ASSETS:		
Advances for vessels under construction and acquisitions and other vessel costs (Note 5)	11,502	63,440
Vessels (Note 6)	1,515,370	1,292,237
Accumulated depreciation (Note 6)	(304,232)	(245,518)
Vessels' net book value (Note 6)	1,211,138	1,046,719
Property and equipment, net (Note 7)	22,774	21,659
Total fixed assets	1,245,414	1,131,818
OTHER NON-CURRENT ASSETS:		
Deferred charges, net (Notes 2(n) and 2(o))	3,365	4,769
Prepaid charter revenue, non-current (Note 8)	2,303	5,351
Investment in Diana Containerships Inc. (Note 3)	24,734	29,842
Total assets	\$ 1,742,802	\$ 1,604,471
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt (Note 9)	\$ 45,032	\$ 27,700
Accounts payable, trade and other	6,993	7,127
Due to related parties (Note 4)	264	226
Accrued liabilities	5,284	4,751
Deferred revenue (Note 10)	2,827	8,136
Fair value of derivative instruments, current portion (Note 17)	994	-
Other current liabilities	83	155
Total current liabilities	61,477	48,095
Long-term debt, net of current portion and deferred financing costs (Note 9)	414,080	345,638
Other non-current liabilities	821	830
Fair value of derivative instruments, non-current portion (Note 17)	-	1,030
Commitments and contingencies (Note 11)	-	-
STOCKHOLDERS' EQUITY:		
Preferred stock, \$0.01 par value; 25,000,000 shares authorized, none issued	-	-
Common stock, \$0.01 par value; 200,000,000 shares authorized and 82,233,424 and 82,419,417 issued and outstanding at December 31, 2012 and 2011, respectively (Note 12)	822	824
Additional paid-in capital	918,007	915,404
Other comprehensive income / (loss) (Note 2(c))	194	(112)
Retained earnings	347,401	292,762
Total stockholders' equity	1,266,424	1,208,878
Total liabilities and stockholders' equity	\$ 1,742,802	\$ 1,604,471

The accompanying notes are an integral part of these consolidated financial statements.

DIANA SHIPPING INC.

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2012, 2011 and 2010

(Expressed in thousands of U.S. Dollars – except for share and per share data)

	2012	2011	2010
REVENUES:			
Time charter revenues	\$ 220,785	\$ 255,669	\$ 275,448
Other revenues (Note 4)	2,447	1,117	-
EXPENSES:			
Voyage expenses (Note 13)	8,274	10,597	12,392
Vessel operating expenses (Note 13)	66,293	55,375	52,585
Depreciation and amortization of deferred charges (Note 2)	62,010	55,278	53,083
General and administrative expenses	24,913	25,123	25,347
Foreign currency gains	(1,374)	(503)	(1,598)
Operating income	\$ 63,116	\$ 110,916	\$ 133,639
OTHER INCOME / (EXPENSES):			
Interest and finance costs (Note 14)	(7,618)	(4,924)	(5,213)
Interest income	1,432	1,033	920
Loss from derivative instruments (Note 17)	(518)	(737)	(1,477)
Income / (loss) from investment in Diana Containerships Inc. (Note 3)	(1,773)	1,207	-
Total other expenses, net	\$ (8,477)	\$ (3,421)	\$ (5,770)
Net income	\$ 54,639	\$ 107,495	\$ 127,869
Loss assumed by non-controlling interests	-	2	910
Net income attributed to Diana Shipping Inc.	\$ 54,639	\$ 107,497	\$ 128,779
Earnings per common share, basic (Note 15)	\$ 0.67	\$ 1.33	\$ 1.60
Earnings per common share, diluted (Note 15)	\$ 0.67	\$ 1.33	\$ 1.59
Weighted average number of common shares, basic (Note 15)	81,083,485	81,081,774	80,682,770
Weighted average number of common shares, diluted (Note 15)	81,083,485	81,124,348	80,808,232

The accompanying notes are an integral part of these consolidated financial statements.

DIANA SHIPPING INC.**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

For the years ended December 31, 2012, 2011 and 2010

(Expressed in thousands of U.S. Dollars)

	2012	2011	2010
Net income	\$ 54,639	\$ 107,495	\$ 127,869
Comprehensive loss assumed by non-controlling interests	-	2	910
Other comprehensive income / (loss) (Actuarial gain / (loss))	306	(96)	(82)
Comprehensive income attributed to Diana Shipping Inc.	\$ 54,945	\$ 107,401	\$ 128,697

The accompanying notes are an integral part of these consolidated financial statements.

DIANA SHIPPING INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the years ended December 31, 2012, 2011 and 2010

(Expressed in thousands of U.S. Dollars – except for share and per share data)

	Common Stock	Additional Paid-in Capital	Other Comprehensive Income / (Loss)	Retained Earnings	Diana Shipping Inc. Total Equity	Non Controlling Interests	Total Equity
	# of Shares	Par Value					
BALANCE, December 31, 2009	81,431,696	\$ 815	\$ 904,977	\$ 66	\$ 93,467	\$ 999,325	\$ -
Net Income / (loss)	-	\$ -	\$ -	\$ -	\$ 128,779	\$ 128,779	\$ (910)
Issuance of restricted and other common stock and compensation cost	524,117	5	6,202	-	-	6,207	-
Contributions from non- controlling interests	-	-	(2,712)	-	-	(2,712)	39,323
Actuarial loss	-	-	-	(82)	-	(82)	-
BALANCE, December 31, 2010	81,955,813	\$ 820	\$ 908,467	\$ (16)	\$ 222,246	\$ 1,131,517	\$ 38,413
Net Income / (loss)	-	\$ -	\$ -	\$ -	\$ 107,497	\$ 107,497	\$ (2)
Issuance of restricted and other common stock and compensation cost	617,695	6	8,141	-	-	8,147	8,147
Stock repurchased and retired	(154,091)	(2)	(1,185)	-	-	(1,187)	(1,187)
Spin-off of Diana Containerships Inc.	-	-	(19)	-	(36,981)	(37,000)	(38,411)
Actuarial loss	-	-	-	(96)	-	(96)	-
BALANCE, December 31, 2011	82,419,417	\$ 824	\$ 915,404	\$ (112)	\$ 292,762	\$ 1,208,878	\$ -
Net Income	-	\$ -	\$ -	\$ -	\$ 54,639	\$ 54,639	\$ 54,639
Issuance of restricted stock and compensation cost (Note 12)	667,614	7	8,638	-	-	8,645	-
Stock repurchased and retired (Note 12)	(853,607)	(9)	(6,035)	-	-	(6,044)	-
Actuarial gain	-	-	-	306	-	306	-
BALANCE, December 31, 2012	82,233,424	\$ 822	\$ 918,007	\$ 194	\$ 347,401	\$ 1,266,424	\$ -
							\$ 1,266,424

The accompanying notes are an integral part of these consolidated financial statements.

DIANA SHIPPING INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2012, 2011 and 2010

(Expressed in thousands of U.S. Dollars)

	2012	2011	2010
Cash Flows from Operating Activities:			
Net income	\$ 54,639	\$ 107,495	\$ 127,869
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of deferred charges	62,010	55,278	53,083
Amortization of financing costs	379	278	263
Amortization of free lubricants benefit	(180)	(115)	(171)
Compensation cost on restricted stock (Note 12)	8,645	8,095	7,482
Actuarial gain / (loss)	306	(96)	(82)
Change in fair value of derivative instruments	(36)	39	804
Loss / (income) from investment in Diana Containerships Inc., net of dividends receivable (Note 3)	2,273	(707)	-
(Increase) / Decrease in:			
Receivables	(1,022)	(5,982)	(284)
Due from related party	(350)	24	-
Inventories	(467)	(737)	(1,237)
Prepaid expenses and other assets	(2,514)	(1,404)	(686)
Prepaid charter revenue	3,056	3,050	3,048
Increase / (Decrease) in:			
Accounts payable	(134)	1,833	1,231
Due to related parties	38	(53)	70
Accrued liabilities	533	297	1,355
Deferred revenue	(5,309)	(9,489)	(11,474)
Other liabilities	99	(489)	402
Drydock costs	(2,080)	(3,087)	(3,381)
Net Cash provided by Operating Activities	119,886	154,230	178,292
Cash Flows used in Investing Activities:			
Payments for vessel acquisitions and construction (Notes 5 and 6)	(171,195)	(58,284)	(238,189)
Cash disposed off upon partial spin-off of Diana Containerships Inc.	-	(12,024)	-
Acquisition of additional interest in Diana Containerships Inc. (Note 3)	-	(20,000)	-
Cash dividends from investment in Diana Containerships Inc. (Note 3)	2,835	100	-
Investments in time deposits	-	-	7,690
Payments for property and equipment (Note 7)	(1,553)	(220)	(21,814)
Net Cash used in Investing Activities	(169,913)	(90,428)	(252,313)
Cash Flows from Financing Activities:			
Proceeds from long-term debt (Note 9)	118,550	15,000	138,510
Contributions from non-controlling shareholders	-	-	35,281
Proceeds from dividend reinvestment	-	20	56
Payments for repurchase of common stock (Note 12)	(6,044)	(1,187)	-
Financing costs	(557)	(45)	(1,020)
Loan payments (Note 9)	(31,972)	(6,330)	(35,830)
Net Cash provided by Financing Activities	79,977	7,458	136,997
Net increase in cash and cash equivalents	29,950	71,260	62,976
Cash and cash equivalents at beginning of the year	416,674	345,414	282,438
Cash and cash equivalents at end of the year	\$ 446,624	\$ 416,674	\$ 345,414

SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid during the year for:

Interest payments, net of amounts capitalized	\$ 6,709	\$ 4,630	\$ 4,673
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The accompanying notes are an integral part of these consolidated financial statements.

DIANA SHIPPING INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012

(Expressed in thousands of U.S. Dollars – except share and per share data, unless otherwise stated)

1. Basis of Presentation and General Information

The accompanying consolidated financial statements include the accounts of Diana Shipping Inc. ("Diana" or "DSI") and its wholly-owned and beneficially-owned subsidiaries (collectively, the "Company"). Diana was formed on March 8, 1999 as Diana Shipping Investment Corp. under the laws of the Republic of Liberia. In February 2005, the Company's articles of incorporation were amended. Under the amended articles of incorporation, the Company was renamed Diana Shipping Inc. and was redomiciled from the Republic of Liberia to the Republic of the Marshall Islands.

In January 2010, the Company established Diana Containerships Inc. ("Diana Containerships") for the purpose of acquiring containerships. On January 18, 2011, the Company spun-off part of its shareholding in Diana Containerships and as a result, Diana Containerships, effective January 19, 2011, is no longer consolidated to the consolidated financial statements of the Company (Note 3).

The Company is engaged in the ocean transportation of dry bulk cargoes worldwide through the ownership and operation of dry bulk carrier vessels. As at December 31, 2012, the following subsidiaries are included in the consolidation:

a/a	Company	Vessel	Flag	Dwt	Date Built	Date Acquired	Place of Incorporation
PANAMAX VESSELS							
1	Panama Compania Armadora SA	Oceanis	Bahamas	75,211	May 2001	May 2001	Panama
2	Husky Trading SA	Triton	Bahamas	75,336	Mar 2001	Mar 2001	Panama
3	Changame Compania Armadora SA	Thetis	Bahamas	73,583	Aug 2004	Nov 2005	Panama
4	Buenos Aires Compania Armadora SA	Alcyon	Bahamas	75,247	Feb 2001	Feb 2001	Panama
5	Skyvan Shipping Company SA	Nirefs	Bahamas	75,311	Jan 2001	Jan 2001	Panama
6	Cypres Enterprises Corp.	Protefs	Bahamas	73,630	Aug 2004	Aug 2004	Panama
7	Urbina Bay Trading SA	Erato	Bahamas	74,444	Aug 2004	Nov 2005	Panama
8	Chorrera Compania Armadora SA	Dione	Greek	75,172	Jan 2001	May 2003	Panama
9	Darien Compania Armadora SA	Calipso	Bahamas	73,691	Feb 2005	Feb 2005	Panama
10	Texford Maritime SA	Clio	Bahamas	73,691	May 2005	May 2005	Panama
11	Eaton Marine SA	Danae	Greek	75,106	Jan 2001	Jul 2003	Panama
12	Vesta Commercial SA	Coronis	Bahamas	74,381	Jan 2006	Jan 2006	Panama
13	Ailuk Shipping Company Inc.	Naias	Marshall Islands	73,546	Jun 2006	Aug 2006	Marshall Islands
14	Taka Shipping Company Inc.	Melite	Marshall Islands	76,436	Jun 2004	Jan 2010	Marshall Islands
15	Bikar Shipping Company Inc.	Arethusa	Greek	73,593	Jan 2007	Jul 2011	Marshall Islands
16	Mandaringina Inc.	Melia	Marshall Islands	76,225	Feb 2005	May 2012	Marshall Islands
17	Jemo Shipping Company Inc.	Leto	Bahamas	81,297	Feb 2010	Jan 2012	Marshall Islands
KAMSARMAX VESSELS							
18	Tuvalu Shipping Company Inc. (Notes 5 and 18)	Myrto	Marshall Islands	82,131	Jan 2013	Jan 2013	Marshall Islands
POST-PANAMAX VESSELS							
19	Majuro Shipping Company Inc.	Alcmene	Marshall Islands	93,193	Jan 2010	Nov 2010	Marshall Islands
20	Guam Shipping Company Inc.	Amphitrite	Marshall Islands	98,697	Aug 2012	Aug 2012	Marshall Islands
21	Palau Shipping Company Inc.	Polymnia	Marshall Islands	98,704	Nov 2012	Nov 2012	Marshall Islands
CAPESIZE VESSELS							
22	Jaluit Shipping Company Inc.	Sideris GS	Marshall Islands	174,186	Nov 2006	Nov 2006	Marshall Islands
23	Bikini Shipping Company Inc.	New York	Marshall Islands	177,773	Mar 2010	Mar 2010	Marshall Islands
24	Gala Properties Inc.	Houston	Marshall Islands	177,729	Oct 2009	Oct 2009	Marshall Islands
25	Kili Shipping Company Inc.	Semirio	Marshall Islands	174,261	Jun 2007	Jun 2007	Marshall Islands
26	Knox Shipping Company Inc.	Aliki	Marshall Islands	180,235	Mar 2005	Apr 2007	Marshall Islands
27	Lib Shipping Company Inc.	Boston	Marshall Islands	177,828	Nov 2007	Nov 2007	Marshall Islands
28	Marfort Navigation Company Ltd.	Salt Lake City	Cyprus	171,810	Sep 2005	Dec 2007	Cyprus
29	Silver Chandra Shipping Company Ltd.	Norfolk	Cyprus	164,218	Aug 2002	Feb 2008	Cyprus
NEWCASTLEMAX VESSELS							
30	Lae Shipping Company Inc.	Los Angeles	Marshall Islands	206,104	Feb 2012	Feb 2012	Marshall Islands
31	Namu Shipping Company Inc.	Philadelphia	Marshall Islands	206,040	May 2012	May 2012	Marshall Islands
VESSELS UNDER CONSTRUCTION							
32	Erikub Shipping Company Inc.	H2528		76,000			Marshall Islands
33	Wotho Shipping Company Inc.	H2529		76,000			Marshall Islands
OTHER SUBSIDIARIES							
34	Cerada International SA	Dormant					Panama
35	Diana Shipping Services SA	Manager					Panama
36	Bulk Carriers (USA) LLC	Company's representative in the US					Delaware - USA

Diana Shipping Services S.A. (the "Manager" or "DSS") provides the Company and its vessels with management services since November 12, 2004, pursuant to management agreements. Such costs are eliminated in consolidation. Since April 2010, DSS provides to Diana Containerships Inc. and its vessels, administrative services and since June 2010 technical and commercial services (Notes 4 and 18).

During 2012, 2011 and 2010, charterers that individually accounted for more than 10% of the Company's time charter revenues were as follows:

Charterer	2012	2011	2010
A	18%	18%	16%
B	12%	11%	10%
C	10%	-	-
D	-	12%	18%

2. Significant Accounting Policies

- (a) **Principles of Consolidation:** The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles, and include the accounts of Diana Shipping Inc. and its wholly-owned subsidiaries referred to in Note 1 above. All significant intercompany balances and transactions have been eliminated upon consolidation.
- (b) **Use of Estimates:** The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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(c) **Other Comprehensive Income / (Loss):** The Company follows the provisions of Financial Accounting Standards Board ("FASB") Accounting Standard Codification (ASC) 220, "Comprehensive Income", which requires separate presentation of certain transactions, which are recorded directly as components of stockholders' equity.

(d) **Foreign Currency Translation:** The functional currency of the Company is the U.S. Dollar because the Company's vessels operate in international shipping markets, and therefore primarily transact business in U.S. Dollars. The Company's books of accounts are maintained in U.S. Dollars. Transactions involving other currencies during the year are converted into U.S. Dollars using the exchange rates in effect at the time of the transactions. At the balance sheet dates, monetary assets and liabilities which are denominated in other currencies are translated into U.S. Dollars at the year-end exchange rates. Resulting gains or losses are reflected separately in the accompanying consolidated statements of income.

(e) **Cash and Cash Equivalents:** The Company considers highly liquid investments such as time deposits, certificates of deposit and their equivalents with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents may also include compensating cash balances kept against the Company's loan facilities that are not deemed to be sufficiently material to require segregation on the balance sheet. Such balances at December 31, 2012 amounted to \$15,000 in the aggregate and consisted of minimum cash deposits required to be maintained at all times under the Company's loan facilities (Note 9).

(f) **Accounts Receivable, Trade:** The amount shown as accounts receivable, trade, at each balance sheet date, includes receivables from charterers for hire, freight and demurrage billings, net of any provision for doubtful accounts. At each balance sheet date, all potentially uncollectible accounts are assessed individually for purposes of determining the appropriate provision for doubtful accounts. No provision for doubtful accounts was established as of December 31, 2012 and 2011.

(g) **Inventories:** Inventories consist of lubricants and victualling which are stated at the lower of cost or market. Cost is determined by the first in, first out method. Inventories may also consist of bunkers when on the balance sheet date a vessel has been redelivered by its previous charterers and has not yet been delivered to the new charterers, or remains idle. Bunkers are also stated at the lower of cost or market and cost is determined by the first in, first out method.

(h) **Vessel Cost:** Vessels are stated at cost which consists of the contract price and any material expenses incurred upon acquisition (initial repairs, improvements and delivery expenses, interest and on-site supervision costs incurred during the construction periods). Subsequent expenditures for conversions and major improvements are also capitalized when they appreciably extend the life, increase the earning capacity or improve the efficiency or safety of the vessels; otherwise these amounts are charged to expense as incurred. Interest cost incurred during the assets' construction periods that theoretically could have been avoided if expenditure for the assets had not been made is also capitalized. The capitalization rate, applied on accumulated expenditures for the vessel, is based on interest rates applicable to outstanding borrowings of the period.

(i) **Prepaid/Deferred Charter Revenue:** The Company records identified assets or liabilities associated with the acquisition of a vessel at fair value, determined by reference to market data. The Company values any asset or liability arising from the market value of the time charters assumed when a vessel is acquired. The amount to be recorded as an asset or liability at the date of vessel delivery is based on the difference between the current fair

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market value of the charter and the net present value of future contractual cash flows. When the present value of the contractual cash flows of the time charter assumed is greater than its current fair value, the difference, capped to the vessel's fair value on a charter free basis, is recorded as prepaid charter revenue. When the opposite situation occurs, any difference, capped to the vessel's fair value on a charter free basis, is recorded as deferred revenue. Such assets and liabilities, respectively, are amortized as a reduction of, or an increase in, revenue over the period of the time charter assumed.

(j) Impairment of Long-Lived Assets: The Company follows ASC 360-10-40 "Impairment or Disposal of Long-Lived Assets", which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The guidance requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. When the estimate of undiscounted projected net operating cash flows, excluding interest charges, expected to be generated by the use of the asset is less than its carrying amount, the Company should evaluate the asset for an impairment loss. Measurement of the impairment loss is based on the fair value of the asset. The Company determines the fair value of its assets based on management estimates and assumptions and by making use of available market data and taking into consideration third party valuations.

The Company evaluates the carrying amounts and periods over which long-lived assets are depreciated to determine if events have occurred which would require modification to their carrying values or useful lives. In evaluating useful lives and carrying values of long-lived assets, management reviews certain indicators of potential impairment, such as undiscounted projected operating cash flows, vessel sales and purchases, business plans and overall market conditions. The current conditions in the dry bulk market with decreased charter rates and decreased vessel market values are conditions that the Company considers indicators of a potential impairment for its vessels.

The Company determines undiscounted projected net operating cash flows for each vessel and compares it to the vessel's carrying value. The projected net operating cash flows are determined by considering the historical and estimated vessels' performance and utilization, the charter revenues from existing time charters for the fixed fleet days and an estimated daily time charter equivalent for the unfixed days (based on the most recent 10 year average historical 1 year time charter rates available for each type of vessel) over the remaining estimated life of each vessel, net of brokerage commissions, expected outflows for scheduled vessels' maintenance and vessel operating expenses assuming an average annual inflation rate of 3%. Effective fleet utilization is assumed to 98% in the Company's exercise, taking into account the period(s) each vessel is expected to undergo her scheduled maintenance (dry docking and special surveys), as well as an estimate of 1% off hire days each year, assumptions in line with the Company's historical performance. The Company concluded based on this exercise that step two of the impairment analysis was not required and no impairment of vessels existed at December 31, 2012 as the undiscounted projected cash flows exceeded their carrying value.

No impairment loss was identified or recorded for 2012, 2011 and 2010, and the Company has not identified any other facts or circumstances that would require the write down of vessel values in the near future.

(k) Assets held for sale: It is the Company's policy to dispose of vessels and other fixed assets when suitable opportunities occur and not necessarily to keep them until the end of their useful life. The Company classifies assets and disposal groups as being held for sale in accordance with ASC 360-10-45-9 "Long-Lived Assets Classified as Held for Sale", when the following criteria are met: (i) management possessing the necessary authority has

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committed to a plan to sell the asset (disposal group); (ii) the asset (disposal group) is immediately available for sale on an "as is" basis; (iii) an active program to find the buyer and other actions required to execute the plan to sell the asset (disposal group) have been initiated; (iv) the sale of the asset (disposal group) is probable, and transfer of the asset (disposal group) is expected to qualify for recognition as a completed sale within one year; and (v) the asset (disposal group) is being actively marketed for sale at a price that is reasonable in relation to its current fair value and actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. In case a long-lived asset is to be disposed of other than by sale (for example, by abandonment, in an exchange measured based on the recorded amount of the nonmonetary asset relinquished, or in a distribution to owners in a spinoff) the Company continues to classify it as held and used until its disposal date. Long-lived assets or disposal groups classified as held for sale are measured at the lower of their carrying amount or fair value less cost to sell. These assets are not depreciated once they meet the criteria to be held for sale.

- (l) **Reporting of discontinued operations:** The current and prior year periods' results of operations and cash flows of assets (disposal groups) classified as held for sale are reported as discontinued operations when it is determined that their operations and cash flows will be eliminated from the ongoing operations of the Company as a result of their disposal, and that the Company will not have continuing involvement in the operation of these assets after their disposal.
- (m) **Vessel Depreciation:** Depreciation is computed using the straight-line method over the estimated useful life of the vessels, after considering the estimated salvage (scrap) value. Each vessel's salvage value is equal to the product of its lightweight tonnage and estimated scrap rate. Management estimates the useful life of the Company's vessels to be 25 years from the date of initial delivery from the shipyard. Diana Containerships, consolidated in the financial statements for the year ended December 31, 2010, estimated the useful life of containerships to be 30 years from the date of initial delivery from the shipyard. Second hand vessels are depreciated from the date of their acquisition through their remaining estimated useful life. When regulations place limitations over the ability of a vessel to trade on a worldwide basis, its remaining useful life is adjusted at the date such regulations are adopted.
- (n) **Accounting for Dry-Docking Costs:** The Company follows the deferral method of accounting for dry-docking costs whereby actual costs incurred are deferred and are amortized on a straight-line basis over the period through the date the next dry-docking is scheduled to become due. Unamortized dry-docking costs of vessels that are sold are written off and included in the calculation of the resulting gain or loss in the year of the vessel's sale.
- (o) **Financing Costs:** Fees paid to lenders for obtaining new loans or refinancing existing ones are deferred and recorded as a contra to debt. Other fees paid for obtaining loan facilities not used at the balance sheet date are capitalized as deferred financing costs. Fees are amortized to interest and finance costs over the life of the related debt using the effective interest method and, for the loan facilities not used at the balance sheet date, according to their availability terms. Unamortized fees relating to loans repaid or refinanced as debt extinguishment are expensed as interest and finance costs in the period the repayment or extinguishment is made. Loan commitment fees are charged to expense in the period incurred.
- (p) **Property and equipment:** The Company acquired in 2010 the land and building where its offices are located. Land is presented in its fair value on the date of acquisition and it is not subject to depreciation, but it is reviewed for impairment. As at December 31, 2012, 2011 and 2010, no impairment loss was identified or recorded and the

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Company has not identified any other facts or circumstances that would require the write down of the value of its land or building in the near future. The building which consists of office space, a warehouse and parking spaces has an estimated useful life of 55 years with no residual value and depreciation is calculated on a straight-line basis. Equipment consists of office furniture and equipment, computer software and hardware and vehicles. The useful life of the office furniture, equipment and vehicles is 5 years; and the computer software and hardware is 3 years. Depreciation is calculated on a straight-line basis.

(q) **Concentration of Credit Risk:** Financial instruments, which potentially subject the Company to significant concentrations of credit risk, consist principally of cash and trade accounts receivable. The Company places its temporary cash investments, consisting mostly of deposits, with various qualified financial institutions and performs periodic evaluations of the relative credit standing of those financial institutions that are considered in the Company's investment strategy. The Company limits its credit risk with accounts receivable by performing ongoing credit evaluations of its customers' financial condition and generally does not require collateral for its accounts receivable and does not have any agreements to mitigate credit risk.

(r) **Accounting for Revenues and Expenses:** Revenues are generated from time charter agreements and are usually paid fifteen days in advance. Time charter agreements with the same charterer are accounted for as separate agreements according to the terms and conditions of each agreement. Time charter revenues are recorded over the term of the charter as service is provided. Revenues from time charter agreements providing for varying annual rates over their term are accounted for on a straight line basis. Deferred revenue includes cash received prior to the balance sheet date for which all criteria to recognize as revenue have not been met, including any deferred revenue resulting from charter agreements providing for varying annual rates, which are accounted for on a straight line basis. Deferred revenue also includes the unamortized balance of the liability associated with the acquisition of second-hand vessels with time charters attached which were acquired at values below fair market value at the date the acquisition agreement is consummated. Voyage expenses, primarily consisting of port, canal and bunker expenses that are unique to a particular charter, are paid for by the charterer under time charter arrangements or by the Company under voyage charter arrangements, except for commissions, which are always paid for by the Company, regardless of charter type. All voyage and vessel operating expenses are expensed as incurred, except for commissions. Commissions are deferred over the related voyage charter period to the extent revenue has been deferred since commissions are due as the Company's revenues are earned.

(s) **Repairs and Maintenance:** All repair and maintenance expenses including underwater inspection expenses are expensed in the year incurred. Such costs are included in vessel operating expenses in the accompanying consolidated statements of income.

(t) **Earnings per Common Share:** Basic earnings per common share are computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the year. Diluted earnings per common share, reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised.

(u) **Segmental Reporting:** The Company has determined that it operates under one reportable segment, relating to its operations of the dry-bulk vessels. The Company reports financial information and evaluates the operations of the segment by charter revenues and not by the length of ship employment for its customers, i.e. spot or time charters. The Company does not use discrete financial information to evaluate the operating results for each such type of charter. Although revenue can be identified for these types of charters, management cannot and does not

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identify expenses, profitability or other financial information for these charters. As a result, management, including the chief operating decision maker, reviews operating results solely by revenue per day and operating results of the fleet. Furthermore, when the Company charters a vessel to a charterer, the charterer is free to trade the vessel worldwide and, as a result, the disclosure of geographic information is impracticable.

(v) **Variable Interest Entities:** ASC 810-10, addresses the consolidation of business enterprises (variable interest entities) to which the usual condition (ownership of a majority voting interest) of consolidation does not apply. The guidance focuses on financial interests that indicate control. It concludes that in the absence of clear control through voting interests, a company's exposure (variable interest) to the economic risks and potential rewards from the variable interest entity's assets and activities are the best evidence of control. Variable interests are rights and obligations that convey economic gains or losses from changes in the value of the variable interest entity's assets and liabilities. Additionally, ASU 2009-17, Consolidations (Topic 810) "Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities" determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity's purpose and design and the reporting entity's ability to direct the activities of the other entity that most significantly impact the other entity's economic performance. ASU 2009-17 also requires a reporting entity to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to that involvement.

The Company evaluates financial instruments, service contracts, and other arrangements to determine if any variable interests relating to an entity exist, as the primary beneficiary would be required to include assets, liabilities, and the results of operations of the variable interest entity in its financial statements. As of December 31, 2012 and 2011, no such interests existed.

(w) **Fair Value Measurements:** ASC 820 "Fair Value Measurements and Disclosures", provides guidance for using fair value to measure assets and liabilities. The guidance also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. The guidance describes fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. The guidance clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, the guidance establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, the reporting entity's own data. Under the guidance, fair value measurements would be separately disclosed by level within the fair value hierarchy. Financial statements should include disclosures for transfers in and out of Level 1 and Level 2 fair value measurements and description for the reason for transfer, for inputs and valuation techniques for fair value measurements that fall in either Level 2 or Level 3 and for the level of disaggregation.

(x) **Share Based Payments:** ASC 718 "Compensation – Stock Compensation", requires the Company to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost is recognized over the period during which an employee is required to provide service in exchange for the award—the requisite service period (usually the vesting period). No compensation cost is recognized for equity instruments for which employees do not render the requisite

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service. Employee share purchase plans will not result in recognition of compensation cost if certain conditions are met. The Company initially measures the cost of employee services received in exchange for an award or liability instrument based on its current fair value; the fair value of that award or liability instrument is re-measured subsequently at each reporting date through the settlement date. Changes in fair value during the requisite service period are recognized as compensation cost over that period with the exception of awards granted in the form of restricted shares which are measured at their grant date fair value and are not subsequently re-measured. The grant-date fair value of employee share options and similar instruments are estimated using option-pricing models adjusted for the unique characteristics of those instruments (unless observable market prices for the same or similar instruments are available). If an equity award is modified after the grant date, incremental compensation cost will be recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately before the modification.

(y) **Derivatives:** The Company is exposed to interest rate fluctuations associated with its variable rate borrowings and its objective is to manage the impact of such fluctuations on earnings and cash flows of its borrowings. In this respect, in May 2009, the Company entered into a five-year zero cost collar agreement, novated in March 2012, with a floor at 1% and a cap at 7.8% of a notional amount of \$100,000 to manage its exposure to interest rate changes related to its borrowings. The collar agreement is considered as an economic hedge agreement as it does not meet the criteria of hedge accounting; therefore, the change in its fair value is recognized in earnings (Note 17).

(z) **Equity method investments:** Investments in common stock in entities over which the Company exercises significant influence, but does not exercise control are accounted for by the equity method of accounting. Under this method the Company records such an investment at cost, and adjusts the carrying amount for its share of the earnings or losses of the entity subsequent to the date of investment and reports the recognized earnings or losses in income. Dividends received reduce the carrying amount of the investment. When the Company's share of losses in an entity accounted for by the equity method equals or exceeds its interest in the entity, the Company does not recognize further losses, unless the Company has incurred obligations or made payments on behalf of the entity.

3. Investment in Diana Containerships Inc.

On January 18, 2011, the Company which owned 54.6% of the share capital of Diana Containerships, spun off 2,667,015 shares or 80% of its shares in Diana Containerships through a distribution of shares to its stockholders, recording a dividend amounting to \$36,981. Diana Containerships was de-consolidated from the Company's consolidated financial statements as its ownership decreased to about 11%. The Company, on the basis of the significant influence exercised over Diana Containerships through its shareholding, through Diana Shipping Services (Note 4(e)) and its common executive Board accounts for its investment in Diana Containerships under the equity method according to ASC 323 "Investments – Equity Method and Joint Ventures".

On June 15, 2011, Diana Containerships completed a public offering under the United States Securities Act at 1933, as amended, in which the Company participated with an amount of \$20,000 in a concurrent private offering, increasing its ownership percentage in the share capital of Diana Containerships to 14.5%.

Since August 10, 2012, the Company owns 10.4% of the share capital of Diana Containerships, after a follow-on offering completed by Diana Containerships on July 24, 2012 and an over-allotment option exercised by the underwriters on August 10, 2012.

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As at December 31, 2012 and 2011, the investment in Diana Containerships amounted to \$24,734 and \$29,842, respectively, and is separately reflected in Investment in Diana Containerships Inc. in the accompanying consolidated balance sheets. As at December 31, 2012, the market value of the investment was \$20,134 based on Diana Containerships closing price on Nasdaq of \$6.04.

For 2012 and 2011, the investment in Diana Containerships resulted in loss of \$1,773 and income of \$1,207, respectively, which are separately presented in Income/(loss) from investment in Diana Containerships Inc. in the accompanying consolidated statements of income. Also during 2012 and 2011, the Company received dividends from Diana Containerships amounting to \$2,835 and \$100, respectively. In addition, at December 31, 2012 and 2011, dividends declared but not received of \$1,000 as and \$500, respectively, are included in Prepaid expenses and other assets.

4. Transactions with Related Parties

- (a) ***Altair Travel Agency S.A. ("Altair"):*** The Company uses the services of an affiliated travel agent, Altair, which is controlled by the Company's CEO and Chairman. Travel expenses for 2012, 2011, and 2010 amounted to \$2,957, \$1,799, and \$1,628, respectively, and are included in Vessels, Advances for vessels construction and acquisitions and other vessel costs, Due from related parties, Vessel operating expenses and General and administrative expenses in the accompanying consolidated financial statements. The Company was also paying Altair rent for office space, parking space and a warehouse leased by DSS. The lease agreement between Altair and DSS was terminated on September 30, 2010, as Altair sold the office space, parking space and the warehouse to Universal Shipping and Real Estates Inc. Rent expense for 2010 amounted to \$76, and is included in General and administrative expenses in the accompanying consolidated statements of income. At December 31, 2012, and 2011, an amount of \$192 and \$153, respectively, was payable to Altair and is included in Due to related parties in the accompanying consolidated balance sheets.
- (b) ***Universal Shipping and Real Estates Inc. ("Universal"):*** Universal was acquired by the Company in October 2010. Until then Universal was a company controlled by the Company's CEO and Chairman from which the DSS was leasing office space, a warehouse and parking spaces. On October 21, 2010, Universal transferred all of its real property to DSS and the company was dissolved in November 2010. Rent expense for 2010 amounted to \$304, and is included in General and administrative expenses in the accompanying consolidated statements of income. At December 31, 2012 and 2011, there were no amounts due to or from Universal.
- (c) ***Diana Shipping Agencies S.A. ("DSA"):*** DSA was acquired by the Company in October 2010. Until then, DSA was a company controlled by the Company's CEO and Chairman, from which DSS was leasing office space, parking spaces and a warehouse. On October 21, 2010, DSA transferred all of its property to DSS and the company was dissolved in November 2010. Rent expense for 2010 amounted to \$283 and is included in General and administrative expenses in the accompanying consolidated statements of income. At December 31, 2012 and 2011, there were no amounts due to or from DSA.
- (d) ***Diana Enterprises Inc. ("Diana Enterprises"):*** Diana Enterprises is a company controlled by the Company's CEO and Chairman, and has entered into two agreements with DSS to provide brokerage services through DSS to DSI for an annual fee of \$2,384 in 2012 and \$1,652 in 2011, and to Diana Containerships for an annual fee of \$1,040 until January 18, 2011 when Diana Containerships was deconsolidated from the Company's financial statements. The agreement has a term of five years and fees are paid quarterly in advance. For 2012, 2011 and 2010, brokerage fees amounted to \$2,384, \$1,704 and \$1,570, respectively, and are included in General and

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administrative expenses in the accompanying consolidated statements of income. At December 31, 2012 and 2011 there were no amounts due to or from Diana Enterprises. (Note 18).

(e) **Diana Containerships Inc. ("Diana Containerships"):** DSS receives from Diana Containerships management fees of \$15 per month for each vessel in operation and \$20 per month for each laid-up vessel and 1% commissions on the gross hire and freight earned by each vessel, pursuant to management agreements between Diana Containerships vessel owning companies and DSS and \$10 per month administrative fees pursuant to an administrative services agreement between Diana Containerships and DSS. After the partial spin-off of Diana Containerships (Note 3), such fees are not eliminated. Therefore, for 2012 and for the period from January 19, to December 31, 2011, revenues derived from the agreements with Diana Containerships amounted to \$2,447 and \$1,117, respectively, and they are separately presented as Other revenues in the accompanying consolidated statements of income. As at December 31, 2012 and 2011, there was an amount of \$613 and \$263, respectively, due from Diana Containerships and its vessels and is included in Due from a related party in the accompanying consolidated balance sheets. On March 1, 2013 the agreements between DSS and Diana Containerships were terminated (Note 18).

(f) **Acquisition of affiliated entities:** On October 8, 2010, the Company entered into two transfer agreements with Poinsettia Management Ltd. ("Poinsettia"), an entity affiliated with the Company's CEO and Chairman and with other executives, for the acquisition of the issued and outstanding shares of Universal and DSA for a total consideration of \$21,500. The Company's Board of Directors appointed an independent committee consisting of the independent members of the Board of Directors to address any issues in connection with such acquisition and to evaluate the merits and fairness of the consideration of the transaction. The Independent Committee considered the Company's specific facts and circumstances and the developments in the domestic real estate market, obtained financial, legal and other advice as deemed appropriate and utilized multiple valuation approaches from different sources in its analysis, including but not limited to: i) independent market valuations for the entities' real property based on comparable real estate prices, ii) independent assessment of the physical condition of the real property, its fixtures and other infrastructure included within the real property and iii) discounted cash flow analyses (with reference also to the present value of the future lease outflows based upon the Company's then existing lease agreements for office space). Based upon the various inputs discussed above, the independent committee determined that the transaction was in the best interests of the Company and its stockholders and recommended the transaction to the Board. On October 21, 2010, the building and land were transferred to DSS.

5. Advances for Vessels under Construction and Acquisitions and Other Vessel Costs

The amounts in the accompanying consolidated balance sheets include payments to sellers of vessels or, in the case of vessels under construction, to the shipyards and other costs as analyzed below:

	2012	2011
Pre-delivery installments	\$ 8,700	\$ 58,000
Advances for vessel acquisitions	2,650	3,225
Capitalized interest and finance costs	100	1,516
Other related costs	52	699
Total	\$ 11,502	\$ 63,440

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The movement of the account, during 2012 and 2011 was as follows:

	2012	2011
Beginning balance	\$ 63,440	\$ 35,280
- Advances for vessels under construction and other vessel costs	68,549	24,919
- Advances for vessel acquisitions and other vessel costs	31,827	3,241
- Transferred to vessel cost (Note 6)	(152,314)	-
Ending balance	\$ 11,502	\$ 63,440

As at December 31, 2011, Advances for vessels under construction, acquisitions and other vessel costs consisted of the advances paid for the construction of the "Los Angeles" and the "Philadelphia", the advance paid for the acquisition of the "Leto" and additional costs capitalized with respect to those vessels (Note 6).

On March 28, 2012, Erikub and Wootho, each entered into one shipbuilding contract with China Shipbuilding Trading Company, Limited and Jiangnan Shipyard (Group) Co., Ltd for the construction of one ice class Panamax dry bulk carrier for each subsidiary for the contract price of \$29,000 each. The two vessels are expected to be delivered in the fourth quarter of 2013. During 2012, the Company had paid one predelivery installment for each vessel. As at December 31, 2012, the remaining contractual obligations amounted to \$24,650 for Erikub and \$24,650 for Wootho (Notes 11 and 18).

In December 2012, Tuvalu entered into a memorandum of agreement to purchase from an unaffiliated third party, a Kamsarmax dry bulk carrier, for the purchase price of \$26,500, of which a 10% advance was paid on December 28, 2012. The vessel, was renamed "Myrto" and was delivered to the Company on January 25, 2013 (Note 18). As at December 31, 2012, the remaining contractual obligations of Tuvalu amounted to \$23,850 (Notes 11 and 18).

6. Vessels

The amounts in the accompanying consolidated balance sheets are analyzed as follows:

	<u>Vessel Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Balance, December 31, 2010	\$ 1,355,644	\$ (194,794)	\$ 1,160,850
- Deconsolidation of Diana Containerships Inc. (Note 3)	(93,531)	1,599	(91,932)
- Acquisition and other vessel costs	30,124	-	30,124
- Depreciation for the year	-	(52,323)	(52,323)
Balance, December 31, 2011	\$ 1,292,237	\$ (245,518)	\$ 1,046,719
- Transfer from advances for vessels under construction and acquisition and other vessel costs (Note 5)	152,314	-	152,314
- Acquisition, improvements and other vessel costs	70,819	-	70,819
- Depreciation for the year	-	(58,714)	(58,714)
Balance, December 31, 2012	\$ 1,515,370	\$ (304,232)	\$ 1,211,138

In February 2012 and May 2012, Lae and Namu took delivery of the Newcastlemax dry bulk carriers "Los Angeles" and "Philadelphia", respectively, constructed by the China Shipbuilding Trading Company, Limited and Shanghai Jiangnan-Changxing Shipbuilding Co., Ltd for an aggregate cost of \$116,000. Expenses capitalized during the construction period for both vessels amounted to \$3,939.

In November 2011, Jemo entered into a memorandum of agreement to purchase from an unaffiliated third party, a Panamax dry bulk carrier, for the purchase price of \$32,250. The vessel was renamed "Leto" and was delivered to the Company by the sellers on January 16, 2012. Pre-delivery expenses amounted to \$125.

In March 2012, Mandaringina entered into a memorandum of agreement to purchase from an unaffiliated third party, a Panamax dry bulk carrier, for the purchase price of \$20,650. The vessel, was renamed "Melia" and was delivered to the Company by the sellers on May 1, 2012. Pre-delivery expenses amounted to \$112.

In July 2012, Guam entered into a memorandum of agreement to purchase from an unaffiliated third party, a Post-Panamax dry bulk carrier, for the purchase price of \$25,000. The vessel, was renamed "Amphitrite" and was delivered to the Company by the sellers on August 14, 2012. Pre-delivery expenses amounted to \$96.

In October 2012, Palau entered into a memorandum of agreement to purchase from an unaffiliated third party, a Post-Panamax dry bulk carrier, for the purchase price of \$24,600. The vessel, was renamed "Polymnia" and was delivered to the Company by the sellers on November 20, 2012. Pre-delivery expenses amounted to \$119.

As of December 31, 2012, part of the Company's fleet, having an aggregate carrying value of \$894,019 has been provided as collateral to secure the loan facilities discussed in Note 9.

7. Property and equipment, net

The amounts in the accompanying consolidated balance sheets are analyzed as follows:

	<u>Property and Equipment</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Balance, December 31, 2010	<u>\$ 22,332</u>	<u>\$ (490)</u>	<u>\$ 21,842</u>
- Additions in equipment and building improvements	220	-	220
- Depreciation for the year	-	(403)	(403)
Balance, December 31, 2011	<u>\$ 22,552</u>	<u>\$ (893)</u>	<u>\$ 21,659</u>
- Additions in equipment and building improvements	1,553	-	1,553
- Depreciation for the year	-	(438)	(438)
Balance, December 31, 2012	<u>\$ 24,105</u>	<u>\$ (1,331)</u>	<u>\$ 22,774</u>

8. Prepaid charter revenue, current and non-current

The amounts shown in the accompanying consolidated balance sheets reflect the unamortized balance of an

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asset recognized by the Company pursuant to the acquisition of Gala in May 2009 and the amount paid in excess of the predelivery installments for the construction of the vessel "Houston".

The amount recognized as prepaid charter revenue is amortized in revenues over the duration of the time charter contract beginning on the delivery of the vessel to the time charterers. The amounts in the consolidated financial statements are analyzed as follows:

	Amount	Accumulated Amortization	Net
Balance, December 31, 2010	\$ 15,000	\$ (3,541)	\$ 11,459
Amortization in the year	-	(3,050)	(3,050)
Balance, December 31, 2011	\$ 15,000	\$ (6,591)	\$ 8,409
Amortization in the year	-	(3,056)	(3,056)
Balance, December 31, 2012	\$ 15,000	\$ (9,647)	\$ 5,353

The amortization of prepaid charter revenue for 2012, 2011 and 2010 amounted to \$3,056, \$3,050 and \$3,048, respectively, and is included in Time charter revenues in the accompanying consolidated statements of income.

The estimated amortization expense for each of the succeeding years is as follows:

Period	Amount
January 1, 2013 to December 31, 2013	\$ 3,050
January 1, 2014 to October 3, 2014	2,303

9. Long-term debt, current and non-current

The amount of long-term debt shown in the accompanying consolidated balance sheets is analyzed as follows:

	2012	2011
Royal Bank of Scotland revolving credit facility	\$ 270,000	\$ 290,700
Bremer Landesbank loan facility	29,200	32,800
Deutsche Bank AG loan facility	33,400	35,800
Credit Agricole Corporate and Investment Bank (transfer from Emporiki Bank of Greece S.A.)	14,000	15,000
Export-Import Bank of China and DnB Bank ASA loan facility	69,054	-
Nordea Bank Finland Plc loan facilities	45,224	-
Total debt outstanding	\$ 460,878	\$ 374,300
Less related deferred financing costs	(1,766)	(962)
Total debt, net of deferred financing costs	\$ 459,112	\$ 373,338
Current portion of long term debt	\$ (45,032)	\$ (27,700)
Long-term debt, non current portion	\$ 414,080	\$ 345,638

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Royal Bank of Scotland ("RBS") revolving credit facility: On February 18, 2005, the Company entered into a secured revolving credit facility with the Royal Bank for \$230,000 which was increased to \$300,000 on May 24, 2006 with an amended agreement. The Company is permitted to borrow amounts up to the facility limit, but not exceed 75% of the aggregate market value of the mortgaged vessels. The interest rate on amounts drawn is at LIBOR plus a margin ranging from 0.75% to 0.85%. The loan bears commitment fees on the undrawn part of the facility, if any, of 0.25% per annum. The weighted average interest rate of the revolving credit facility as at December 31, 2012 and 2011 was 1.1% and 1.1%, respectively.

The amended facility was available in full until May 24, 2012. Since that date the available amount is reducing in semiannual amounts of \$15,000 with a final reduction of \$165,000 together with the last semi-annual reduction on May 24, 2016.

The credit facility is secured by a first priority or preferred ship mortgage on 16 vessels of the Company's fleet (Note 18), assignment of all freights, earnings, insurances and requisition compensation. The lenders may also require additional security in the event the Company breaches certain covenants under the credit facility, including a shortfall in the hull cover ratio, as described below.

The credit facility contains covenants including restrictions as to changes in management and ownership of the vessels, additional indebtedness, as well as minimum requirements regarding hull cover ratio, minimum liquidity of \$400 per each vessel in the fleet mortgaged under or financed through the credit facility and other financial covenants. As at December 31, 2012 and 2011, the minimum liquidity requirement amounted to \$6,800 and \$6,000, respectively. Furthermore, the Company is not permitted to pay any dividends that would result in a breach of the financial covenants of the facility.

Bremer Landesbank ("Bremer") loan facility: On October 22, 2009, Gala entered into a loan agreement with Bremer to partly finance, or, as the case may be, refinance, the contract price of the vessel "Houston" for an amount of \$40,000. The loan is repayable in 40 quarterly installments of \$900 plus one balloon installment of \$4,000 to be paid together with the last installment on November 12, 2019. The loan bears interest at LIBOR plus a margin of 2.15%. The weighted average interest rate of the loan facility as at December 31, 2012 and 2011 was 2.6% and 2.5%, respectively.

The loan is secured by a first preferred ship mortgage on the vessel "Houston", a first priority assignment of all earnings, insurances, and requisition compensation and a corporate guarantee. The lenders may also require additional security in the future in the event the Company breaches certain covenants under the loan agreement and includes restrictions as to changes in management and ownership of the vessel, additional indebtedness, substitute charters in the case the vessel's current charter is prematurely terminated, as well as minimum requirements regarding hull cover ratio. Furthermore, the Company is not permitted to pay any dividends from the earnings of the vessel following the occurrence of an event of default. Also, Gala is required for the duration of the loan to maintain in its current account with the Bank sufficient funds to meet the next repayment installment and interest due at monthly intervals, any other outstanding indebtedness that becomes due with the bank and sufficient funds to cover the anticipated cost of the next special survey. As at December 31, 2012 and 2011, such funds amounted to \$721 and \$744, respectively.

Deutsche Bank AG ("Deutsche") loan facility: On October 8, 2009, Bikini entered into a loan agreement with Deutsche to partly finance, or, as the case may be, refinance, the contract price of the vessel "New York" (Hull H1107), for an amount of \$40,000, but not exceeding 80% of the fair value of the vessel. The loan is repayable in 19 quarterly installments of \$600 and a final installment of \$28,600 on March 10, 2015. The loan bears interest at LIBOR plus a margin of 2.40% per annum. The weighted average interest rate of the loan facility as at December 31, 2012 and 2011 was 2.9% and 2.7%, respectively.

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The loan is secured by a first preferred ship mortgage on the vessel "New York", a first priority assignment of all earnings, insurances, and requisition compensation and a corporate guarantee. The lenders may also require additional security in the future in the event the Company breaches certain covenants including restrictions as to changes in management and ownership of the vessel, additional indebtedness, as well as minimum requirements regarding hull cover ratio, minimum liquidity of \$400 for the borrower, average cash balance of \$10,000 for the guarantor, and financial covenants. Furthermore, the Company is not permitted to pay any dividends which would result in a breach of financial covenants or if an event of default has occurred and is continuing. As at December 31, 2012, the Company was not in compliance with the hull cover ratio requirement of the loan facility. In this respect and in connection with the term sheet signed on March 19, 2013 for the partial refinancing of the vessels Myrto and Maia (Note 18), the Company accepted to cross collateralize the vessels New York, Myrto and Maia against the Deutsche loan facilities and thereby to remedy any event of noncompliance by combining the security cover of the two Deutsche facilities.

Export-Import Bank of China and DnB Bank ASA ("Cex-Im and DnB") : On October 2, 2010, Lae and Namu entered into a loan agreement with the Export – Import Bank of China and DnB Bank ASA (formerly known as DnB NOR Bank ASA) to finance part of the construction cost of the "Los Angeles" and the "Philadelphia" for an amount of up to \$82,600. On February 15, and May 18, 2012, Lae and Namu drew down an aggregate of \$72,100 of the loan, which represents 70% of the vessels' market value on delivery.

The Lae advance is repayable in 40 quarterly installments of \$628 and a balloon of \$12,330 payable together with the last installment on February 15, 2022 and the Namu advance is repayable in 40 quarterly installments of \$581 and a balloon of \$11,410 payable together with the last installment on May 18, 2022. Each Bank has the right to demand repayment of the outstanding balance of any advance 72 months after the respective advance drawdown. Such demand shall be subject to written notification to be made no earlier than 54 months and not later than 60 months after the respective drawdown date for that advance. The loan bears interest at LIBOR plus a margin of 2.50% per annum and an agency fee of \$10 is paid annually until its full repayment. The weighted average interest rate of the loan facility as at December 31, 2012 was 2.9%.

The loan is secured by a first preferred ship mortgage on the vessels, general assignments, charter assignments, operating account assignments, hull cover ratio, a corporate guarantee from DSI and manager's undertakings. The loan requires minimum liquidity of \$400 for each borrower, an average cash balance of \$10,000 for the guarantor and financial covenants. The Company is not permitted to pay any dividends that would result in an event of default or if an event of default has occurred and is continuing.

Emporiki Bank of Greece S.A. ("Emporiki") replaced by Credit Agricole Corporate and Investment Bank ("Credit Agricole"): On September 13, 2011, Bikar entered into a loan agreement with Emporiki for a loan of up to \$15,000 to refinance part of the acquisition cost of m/v "Arethusa". On December 13, 2012, Bikar, the Company, DSS and Credit Agricole, entered into a supplemental loan agreement to set out amendments of the loan agreement to which the parties entered into in a supplemental agreement on December 11, 2012, to provide applicability of the English law and exclusive jurisdiction of English courts and to a deed of novation to transfer the outstanding loan balance, the ISDA master swap agreement and the existing security documents from Emporiki to Credit Agricole.

The loan is repayable in 20 equal semiannual installments of \$500 each and a balloon payment of \$5,000 to be paid together with the last installment on September 15, 2021. The loan bears interest at LIBOR plus a margin of 2.5% per

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annum, or 1% for such loan amount that is equivalently secured by cash pledge in favor of the bank. The weighted average interest rate of the loan facility as at December 31, 2012 and 2011 was 1.2% and 1.3%, respectively.

The loan, which is secured by an equivalent amount of cash collateral, is also secured with a first priority mortgage on the vessel "Arethusa", charter assignment on long term charters, first priority general assignment of all earnings, insurances and requisition compensation on the vessel, a corporate guarantee from DSI, manager's undertaking and a first priority pledge on the earnings account and the cash collateral account. The lender may also require additional security, if at any time the market value of the vessel and the cash standing in a pledged account with the bank becomes less than the required hull cover ratio. The loan also has other non-financial and financial covenants, minimum cash of \$10,000 to be held by DSI and \$500 to be held by Bikar and/or the guarantor. The Company is not permitted to pay any dividends, that would result in an event of default or if an event of default has occurred and is continuing.

Nordea Bank Finland Plc.("Nordea"): On February 7, 2012, Jemo (the "Borrower") entered into an agreement with Nordea Bank Finland Plc, London Branch, for a secured term loan facility in the principal amount of \$16,125, drawn down in February 2012, to partly finance the acquisition cost of "Leto". The loan has a term of five years and is repayable in 20 consecutive equal quarterly installments of \$252 and a balloon payment of \$11,085 payable together with the final quarterly installment on February 7, 2017. On June 21, 2012, the agreement between Jemo and Nordea Bank Finland Plc, was restated and amended by a supplemental agreement in order to include Mandaringina as a new borrower and increase the loan amount to up to \$26,450 for the purpose of financing part of the acquisition cost of Melia. The additional advance for Mandaringina of \$10,325, drawn down in June 2012, is repayable in 20 consecutive equal quarterly installments of \$235 and a balloon of \$5,625 payable together with the last installment on May 7, 2017. The loan bears interest at LIBOR plus a margin of 2.5% and the weighted average interest rate as at December 31, 2012 was 2.7%.

On December 20, 2012, Palau and Guam entered into a new loan agreement with Nordea for an amount of \$20,000, drawn down on December 21, 2012, to finance part of the acquisition cost of the vessels "Amphitrite" and "Polymnia". The loan is repayable in 20 consecutive quarterly installments of \$312 and a balloon installment of \$13,760 payable together with the last installment on December 21, 2017. The loan bears interest at LIBOR plus a margin of 2.9% and the weighted average interest rate of the loan facilities as at December 31, 2012 was 3.1%.

Both loans are secured with a corporate guarantee from DSI, a first priority or first preferred mortgage on the vessels, first priority assignment of earnings, first priority pledge of the earnings accounts, first priority assignment of the time charters and any subsequent long term charter contracts, first priority assignment of insurances, first priority pledge over the shares of the borrowers and manager's letter of subordination of rights and minimum hull value. The loans also have financial covenants and require minimum liquidity of \$500 per vessel owned by the guarantor. Finally, The Company is not permitted to pay any dividends, that would result in an event of default or if an event of default has occurred and is continuing.

Total interest incurred on long-term debt for 2012, 2011 and 2010 amounted to \$7,342, \$5,129, and \$4,982, respectively. Of the above amounts, \$321, \$635, and \$340, respectively, were capitalized and included in Vessels and in Advances for vessels under construction and acquisitions and other vessel costs in the accompanying consolidated balance sheets. Interest expense on long-term debt, net of interest capitalized, is included in Interest and finance costs in the accompanying consolidated statements of income. The Company pays commitment fees on the undrawn portion of the facilities, which for 2012, 2011, and 2010 amounted to \$122, \$468, and \$361, respectively of which \$103, \$422,

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and \$110, respectively, are included in Vessels and in Advances for vessels under construction and acquisition and other vessel costs.

The maturities of the Company's debt facilities described above, as at December 31, 2012, and throughout their term are as follows:

Period	Principal Repayment
January 1, 2013 to December 31, 2013	\$ 45,032
January 1, 2014 to December 31, 2014	45,033
January 1, 2015 to December 31, 2015	71,232
January 1, 2016 to December 31, 2016	192,632
January 1, 2017 to December 31, 2017	41,874
January 1, 2018 and thereafter	65,075
Total	\$ 460,878

10. Deferred revenue

The amounts presented as deferred revenue in the accompanying consolidated balance sheets as of December 31, 2012 and December 31, 2011 reflect the cash received prior to the balance sheet date for which all criteria to recognize as revenue have not been met and the unamortized balance of the liability amounting to \$25,000 associated with the acquisition of the vessel "Salt Lake City" with a charter party attached at a charter rate below market at the date of delivery of the vessel in 2007.

	2012	2011
Hires collected in advance	\$ 2,827	\$ 3,905
Unamortized balance of time charter attached	- 4,231	
Total	\$ 2,827	\$ 8,136

The time charter attached has been amortized to revenue over the duration of the charter party, which ended in July 2012. For 2012, 2011 and 2010 amortization amounted to \$4,231, \$5,114, and \$5,114, respectively, and is included in Time charter revenues in the accompanying consolidated statements of income.

11. Commitments and Contingencies

- a) Various claims, suits, and complaints, including those involving government regulations and product liability, arise in the ordinary course of the shipping business. In addition, losses may arise from disputes with charterers, agents, insurance and other claims with suppliers relating to the operations of the Company's vessels. The Company accrues for the cost of environmental and other liabilities when management becomes aware that a liability is probable and is able to reasonably estimate the probable exposure. As of December 31, 2012 management was not aware of any claims or contingent liabilities, for which it has not accrued for, requiring disclosure in the accompanying consolidated financial statements.

The Company's vessels are covered for pollution in the amount of \$1 billion per vessel per incident, by the P&I Association in which the Company's vessels are entered. The Company's vessels are subject to calls payable to their P&I Association and may be subject to supplemental calls which are based on estimates of premium income and anticipated and paid claims. Such estimates are adjusted each year by the Board of Directors of the

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P&I Association until the closing of the relevant policy year, which generally occurs within three years from the end of the policy year. Supplemental calls, if any, are expensed when they are announced and according to the period they relate to. The Company is not aware of any supplemental calls in respect of any policy year that should be recorded in its consolidated financial statements.

- b) The Company has entered into two shipbuilding contracts for the construction of two ice class Panamax dry bulk carriers for a contract price of \$29,000 each (Note 5) and one memorandum of agreement for the acquisition of one Kamsarmax vessel renamed "Myrto" for the price of \$26,500 (Notes 5 and 18). As at December 31, 2012, the total obligations under these contracts amounted to \$73,150.
- c) As of December 31, 2012, all our vessels had fixed non-cancelable time charter contracts. The minimum contractual gross charter revenues to be generated from the existing non-cancelable time charter contracts until their expiration are as follows:

Period	Amount
Year 1	\$ 127,428
Year 2	70,948
Year 3	22,495
Year 4	1,110
Total	<u>221,981</u>

12. Capital Stock and Changes in Capital Accounts

- (a) **Preferred stock and common stock:** The Company's authorized capital stock consists of 200,000,000 shares (all in registered form) of common stock, par value \$0.01 per share and of 25,000,000 shares (all in registered form) of preferred stock, par value \$0.01 per share. The holders of the common shares are entitled to one vote on all matters submitted to a vote of stockholders and to receive all dividends, if any.
- (b) **Incentive plan:** In February 2005, the Company adopted an equity incentive plan (the "Plan") for 2,800,000 common shares, which was amended and restated on October 21, 2008 and terminated in 2012 as all shares reserved had been issued. In May 2011, the Company's board of directors approved the adoption of the Diana Shipping Inc. 2011 Equity Incentive Plan, with substantially the same terms and provisions as the Company's Amended and Restated 2005 Equity Incentive Plan. Under the 2011 Equity Incentive Plan, an aggregate of 5,000,000 common shares will be available for issuance.

The plan entitles the Company's employees, officers and directors to receive options to acquire the Company's common stock and is administered by the Compensation Committee of the Company's Board Directors or such other committee of the Board as may be designated by the Board to administer the Plan. Under the terms of the plan, the Company's Board of Directors is able to grant a) incentive stock options, b) non-qualified stock options, c) stock appreciation rights, d) dividend equivalent rights, e) restricted stock, f) unrestricted stock, g) restricted stock units, and h) performance shares. No options, stock appreciation rights or restricted stock units can be exercisable prior to the first anniversary or subsequent to the tenth anniversary of the date on which such award was granted. The plan will expire 10 years from its adoption by the Board of Directors. Under the 2011 Equity Incentive Plan, the Administrator may waive or modify the application of forfeiture of awards of restricted stock and performance shares in connection with cessation of service with the Company.

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The Company follows the provisions in ASC 718 "Compensation – Stock Compensation", for purposes of accounting for such share-based payments. All share-based compensation provided to employees is recognized in accordance with the relevant guidance, and is included in General and administrative expenses in the accompanying consolidated statements of income.

Restricted stock during the years ended December 31, 2012, 2011 and 2010 is analysed as follows:

	Number of Shares	Weighted Average Price	Grant Date
Outstanding at December 31, 2009			
Granted	914,533	\$ 16.13	
Vested	519,926	14.29	
Forfeited or expired	(246,572)	16.25	
Outstanding at December 31, 2010			
Granted	1,187,887	\$ 15.30	
Vested	616,055	12.64	
Forfeited or expired	(419,880)	15.44	
Outstanding at December 31, 2011			
Granted	1,384,062	\$ 14.07	
Vested	667,614	9.13	
Forfeited or expired	(600,051)	13.83	
Outstanding at December 31, 2012			
	<u>1,451,625</u>	<u>\$ 11.90</u>	

The fair value of the restricted shares has been determined with reference to the closing price of the Company's stock on the date the agreements were signed. The aggregate compensation cost is being recognized ratably in the consolidated income statement over the respective vesting periods, which for the shares issued in 2012, 2011 and 2010 was three years. During 2012, 2011, and 2010, an amount of \$8,645, \$8,087, and \$6,151, respectively, was recognized in General and administrative expenses.

For 2011 and 2010, General and administrative expenses also include compensation cost of \$7 and \$1,331, respectively, relating to Diana Containerships for restricted shares issued to its executive officers. At December 31, 2012 and 2011, the total unrecognized cost relating to restricted share awards was \$10,662 and \$13,212, respectively. At December 31, 2012, the weighted-average period over which the total compensation cost related to non-vested awards not yet recognized is expected to be recognized is 0.89 years.

- (c) **Dividend Reinvestment and Direct Stock Purchase Plan ("DRIP"):** In April 2008, the Company entered into a Plan for 2,500,000 shares of common stock to allow existing shareholders to purchase additional common stock by reinvesting all or a portion of the dividends paid on their common stock and by making optional cash investments and new investors to enter into the Plan by making an initial investment. During the period from January 1, 2011 until its termination in April 2011, 1,640 shares were issued pursuant to the DRIP in addition to the 21,187 shares issued as at December 31, 2010.
- (d) **Share repurchase agreement:** In December 2011, the Company entered into an agreement with Goldman, Sachs & Co. (the "Broker") to repurchase its stock according to Rule 10b5-1(c)(1) and to the extend applicable to Rule 10b-18 under the Securities and Exchange Act of 1934. The agreement was terminated on February 29, 2012. On

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June 14 and August 2, 2012, the Company entered into two similar agreements which were terminated on July 11, and on October 15, 2012, respectively. The Company repurchased and retired 154,091 shares up to December 31, 2011 for an aggregate cost of \$1,187, and additional shares of 853,607 in 2012 for an additional cost of \$6,044.

13. Voyage and Vessel Operating Expenses

The amounts in the accompanying consolidated statements of income are analyzed as follows:

	2012	2011	2010
Voyage Expenses			
Bunkers	\$ (2,149)	\$ (1,663)	\$ (652)
Commissions charged by third parties	10,273	11,963	12,889
Miscellaneous	150	297	155
Total	\$ 8,274	\$ 10,597	\$ 12,392
Vessel Operating Expenses			
Crew wages and related costs	\$ 37,351	\$ 31,497	\$ 28,406
Insurance	4,747	4,369	4,181
Spares and consumable stores	14,996	12,686	12,691
Repairs and maintenance	6,609	5,903	6,257
Tonnage taxes (Note 16)	361	318	306
Other operating expenses	2,229	602	744
Total	\$ 66,293	\$ 55,375	\$ 52,585

14. Interest and Finance Costs

The amounts in the accompanying consolidated statements of income are analyzed as follows:

	2012	2011	2010
Interest expense	\$ 7,021	\$ 4,494	\$ 4,642
Amortization of financing costs	379	278	263
Commitment fees and other costs	218	152	308
Total	\$ 7,618	\$ 4,924	\$ 5,213

15. Earnings per Share

All shares issued (including the restricted shares issued under the Company's Incentive Plan) are the Company's common stock and have equal rights to vote and participate in dividends upon their vesting. The calculation of basic earnings per share does not treat the non-vested shares (not considered participating securities) as outstanding until the time/service-based vesting restriction has lapsed.

For 2012, 2011 and 2010, the denominator of the diluted earnings per share calculation includes 0, 42,574 and 125,462 shares, being the number of incremental shares assumed issued under the treasury stock method weighted for the periods the non-vested shares were outstanding. For purposes of calculating the numerator of the 2010 diluted Earnings per Share ("EPS"), Diana Containerships' diluted Earnings/Losses per Share is multiplied by the number of shares held by

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the Company weighted for the period they were outstanding. The result substitutes the Company's share of the actual earnings/ losses of Diana Containerships.

	2012		2011		2010	
	<u>Basic EPS</u>	<u>Diluted EPS</u>	<u>Basic EPS</u>	<u>Diluted EPS</u>	<u>Basic EPS</u>	<u>Diluted EPS</u>
Net income attributed to Diana Shipping Inc.	\$ 54,639	\$ 54,639	\$ 107,497	\$ 107,497	\$ 128,779	\$ 128,779
Weighted average number of common shares outstanding	81,083,485	81,083,485	81,081,774	81,081,774	80,682,770	80,682,770
Incremental shares	-	-	-	42,574	-	125,462
Total shares outstanding	81,083,485	81,083,485	81,081,774	81,124,348	80,682,770	80,808,232
Earnings per share	\$ 0.67	\$ 0.67	\$ 1.33	\$ 1.33	\$ 1.60	\$ 1.59

16. Income Taxes

Under the laws of the countries of the companies' incorporation and / or vessels' registration, the companies are not subject to tax on international shipping income; however, they are subject to registration and tonnage taxes, which are included in vessel operating expenses in the accompanying consolidated statements of income (Note 13).

Pursuant to the Internal Revenue Code of the United States (the "Code"), U.S. source income from the international operations of ships is generally exempt from U.S. tax if the company operating the ships meets both of the following requirements, (a) the Company is organized in a foreign country that grants an equivalent exception to corporations organized in the United States and (b) either (i) more than 50% of the value of the Company's stock is owned, directly or indirectly, by individuals who are "residents" of the Company's country of organization or of another foreign country that grants an "equivalent exemption" to corporations organized in the United States (50% Ownership Test) or (ii) the Company's stock is "primarily and regularly traded on an established securities market" in its country of organization, in another country that grants an "equivalent exemption" to United States corporations, or in the United States (Publicly-Traded Test).

Notwithstanding the foregoing, the regulations provide, in pertinent part, that each class of the Company's stock will not be considered to be "regularly traded" on an established securities market for any taxable year in which 50% or more of the vote and value of the outstanding shares of such class are owned, actually or constructively under specified stock attribution rules, on more than half the days during the taxable year by persons who each own 5% or more of the value of such class of the Company's outstanding stock, ("5 Percent Override Rule").

The Company and each of its subsidiaries expects to qualify for this statutory tax exemption for the 2012, 2011 and 2010 taxable years, and the Company takes this position for United States federal income tax return reporting purposes. However, there are factual circumstances beyond the Company's control that could cause it to lose the benefit of this tax exemption in future years and thereby become subject to United States federal income tax on its United States source income such as if, for a particular taxable year, other shareholders with a five percent or greater interest in the Company's stock were, in combination with the Company's existing 5% shareholders, to own 50% or more of the Company's outstanding shares of its stock on more than half the days during the taxable year.

The Company estimates that since no more than the 50% of its shipping income would be treated as being United States

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source income, the effective tax rate is expected to be 2% and accordingly it anticipates that the impact on its results of operations will not be material. The Company believes that it satisfies the Publicly-Traded Test and all of its United States source shipping income is exempt from U.S. federal income tax. Based on its U.S. source Shipping Income for 2012, 2011 and 2010, the Company would be subject to U.S. federal income tax of approximately \$289, \$217 and \$190, respectively, in the absence of an exemption under Section 883.

17. Financial Instruments

The carrying values of temporary cash investments, accounts receivable and accounts payable approximate their fair value due to the short-term nature of these financial instruments. The fair values of long-term bank loans approximate the recorded values, due to their variable interest rates.

The Company is exposed to interest rate fluctuations associated with its variable rate borrowings and its objective is to manage the impact of such fluctuations on earnings and cash flows of its borrowings. In May 2009 (novated in March 2012), the Company entered into a five-year zero cost collar agreement with a floor at 1% and a cap at 7.8% of a notional amount of \$100,000 to manage its exposure to interest rate changes related to its borrowings. The collar agreement is used as an economic hedge agreement and does not meet the criteria for hedge accounting; therefore, the changes in its fair value are recognized in earnings.

As of December 31, 2012 and December 31, 2011, the fair value of the swap resulted to a liability of \$994 and \$1,030, respectively, both separately presented in the accompanying consolidated balance sheets. During the years ended December 31, 2012, 2011, and 2010, the Company incurred from the swap losses amounting to \$518, \$737, and \$1,477, respectively, separately presented as Loss from derivative instruments in the accompanying consolidated statements of income. The fair value of the collar agreement determined through Level 2 inputs of the fair value hierarchy as defined in ASC 820-10-35-47 Fair Value Measurements and Disclosure, Subsequent Re-measurement of FASB Accounting Standard Codification (ASC), is derived principally from or corroborated by observable market data. Inputs include interest rates, yield curves and other items that allow value to be determined.

18. Subsequent Events

- (a) **Loan securities:** On January 18, 2013, Jaluit Shipping Company Inc., owner of m/v Sideris GS, and on March 7, 2013 Silver Chandra Shipping Company Ltd., owner of m/v Norfolk, granted a first preferred ship mortgage to the Royal Bank of Scotland, as additional security to the Company's credit facility (Note 9).
- (b) **Delivery of new vessel:** On January 25, 2013, the Company took delivery of the Myrto and paid \$23,850 being the balance of the purchase price of the vessel (Note 5).
- (c) **New vessel acquisition:** On February 11, 2013, the Company through Jabat Shipping Company Inc., a newly acquired wholly-owned subsidiary, was the successful bidder at an auction that took place in France, for the m/v "Valeria Della Gatta" (renamed Maia), a Kamsarmax dry bulk carrier, which was acquired for \$19,827. The vessel was delivered to the Company on February 19, 2013.
- (d) **Termination of agreements:** On March 1, 2013, DSS and Diana Containerships Inc. and its subsidiaries, amicably terminated the respective administrative and management agreements (Notes 1 and 4) and DSS seized from being the manager of the group of Diana Containerships. On the same date the agreement between DSS and Diana Enterprises Inc., with respect to services provided to Diana Containerships was also

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terminated. On March 15, 2013, the agreement between DSS and Diana Enterprises with respect to services provided to DSI was also terminated and it was replaced with a new agreement having a term of thirteen months from March 1, 2013 to March 31, 2014 and a monthly fee of \$208 to be paid quarterly in advance.

- (e) **Vessels under construction:** On March 4, 2013, the Company paid the second installment amounting to \$4,350 for the construction of Hull H2528 (Notes 5 and 11).
- (f) **Annual Incentive Bonus:** On March 8, 2013 the Company's Board of Directors approved a cash bonus of about \$2,062 to all employees and executive management of the Company and 607,946 shares of restricted common stock awards to executive management and non-executive directors, pursuant to the Company's 2011 equity incentive plan. The fair value of the restricted shares based on the closing price on the date of the Board of Directors' approval was \$5,508 and will be recognized in income ratably over the restricted shares vesting period which will be 3 years.
- (g) **Commitment letter:** On March 19, 2013, Tuvalu and Jabat, both signed a commitment letter with Deutsche Bank AG for a loan facility of \$18,000 to finance part of the acquisition cost of the vessels Maia and Myrto, discussed in (b) and (c) above. Under the new loan agreement, the Maia, the Myrto and the New York (which already has a loan agreement with Deutsche Bank (Note 9)) will be cross-collateralized.
- (h) **Pending litigation:** On March 20, 2013, the Company's fleet manager, DSS, was indicted by a federal grand jury in Norfolk, Virginia for alleged violations of law concerning maintenance of books and records and the handling of waste oils on the vessel Thetis. The chief engineer and second assistant engineer of the vessel were also named as co-defendants in the indictment. DSS has cooperated with the Department of Justice since notice of the alleged violations was received in September 2012, and intends to continue to cooperate with the Department of Justice as appropriate. If this matter results in a trial, DSS intends to defend itself against any charges vigorously. As of December 31, 2012, the Company had accrued for its best estimate of a monetary exposure to loss as a result of this incident. The Company's management does not expect that these charges will have any material effect on its ongoing business, its relationships with its charterers or its other contractual arrangements.

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F-31

Dated 20 December 2012

**PALAU SHIPPING COMPANY INC. and
GUAM SHIPPING COMPANY INC.**
as joint and several Borrowers

and

**THE BANKS AND FINANCIAL INSTITUTIONS
listed in Schedule 1**
as Lenders

and

NORDEA BANK FINLAND PLC
London Branch
as Swap Bank

and

NORDEA BANK FINLAND PLC
London Branch
as Agent and as Security Trustee

LOAN AGREEMENT

relating to a US\$20,000,000 term loan facility to finance part
of the acquisition cost of two dry bulk carriers
"AMPHITRITE" and "POLYMNIA"

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THIS AGREEMENT is made on 20 December 2012 **PARTIES**

- (1) **PALAU SHIPPING COMPANY INC. and GUAM SHIPPING COMPANY INC.**, as joint and several borrowers (together, the "**Borrowers**");
- (2) **THE BANKS AND FINANCIAL INSTITUTIONS** listed in Schedule 1, as Lenders;
- (3) **NORDEA BANK FINLAND PLC, London Branch**, as Swap Bank;
- (4) **NORDEA BANK FINLAND PLC, London Branch**, as Agent; and
- (5) **NORDEA BANK FINLAND PLC, London Branch**, as Security Trustee.

BACKGROUND

- (A) The Lenders have agreed to make available to the Borrowers a term loan facility of \$20,000,000 for the purpose of financing part of the aggregate acquisition cost of two dry bulk carriers named "AMPHITRITE" and "POLYMNIA".
- (B) The Swap Bank has agreed to enter into interest rate swap transactions with the Borrowers from time to time to hedge the Borrowers' exposure under this Agreement to interest rate fluctuations.
- (C) The Lenders and the Swap Bank have agreed to share pari passu in the security to be granted to the Security Trustee pursuant to this Agreement.

IT IS AGREED as follows:

1 INTERPRETATION

1.1 Definitions

Subject to Clause 1.5, in this Agreement:

"Account Pledges" means, together, the Earnings Account Pledges in the Agreed Form and, in the singular, means any of them;

"Affected Lender" has the meaning given in Clause 5.7;

"Agency and Trust Deed" means the agency and trust deed dated the same date as this Agreement and made between the same parties;

"Agent" means Nordea Bank Finland Plc, London Branch, acting in such capacity through its office at City Place House, 55 Basinghall Street, London EC2V 5NB, England, or any successor of it appointed under clause 4.7 of the Agency and Trust Deed;

"Agreed Form" means in relation to any document, that document in the form approved in writing by the Agent (acting on the instructions of all the Lenders) or as otherwise approved in accordance with any other approval procedure specified in any relevant provision of any Finance Document;

"Applicable Accounts" means, as at the date of calculation or, as the case may be, in respect of an accounting period, the annual audited consolidated accounts and financial statements of the Group or the quarterly unaudited accounts and financial statements of the Group, in each case, which the Guarantor is obliged to deliver to the Agent pursuant to Clause 11.6;

"Approved Broker" means Arrow Sale & Purchase (UK) Limited, Breamar Seascope Limited, H. Clarkson & Company Limited, Fearnleys AS, Maersk Brokers K.S., R.S. Platou Shipbrokers AS and Simpson Spence & Young (London) Ltd. or any other any reputable sale and purchase broker approved and appointed by the Agent subject to the prior written consent of the Borrowers;

"Approved Charter" means any time charterparty (in the case of Ship B, other than the Initial Charter) having a duration of at least 12 consecutive months or any bareboat charterparty in respect of the Ship (such charters to be entered into with the prior consent of the Agent pursuant to Clause 14.13);

"Approved Charterer" means a company approved by the Agent as the charterer of the Ship which is to be a party to the Approved Charter;

"Approved Charterparty Assignment" means, in relation to each Approved Charter, a specific deed of assignment of the rights of the Borrower who is a party to that Approved Charter executed or to be executed by that Borrower in favour of the Security Trustee in the Agreed Form and, in the plural, means both of them;

"Approved Flag" means the Marshall Islands flag or any other flag that the Agent may, in its absolute discretion, approve that the Ship is registered;

"Approved Flag State" means the Republic of the Marshall Islands or any other state in which the Agent may, in its absolute discretion, at the request of the Borrowers, approve that a Ship is registered;

"Approved Manager" means, in relation to each Ship, Diana Shipping Services S.A., a company incorporated and existing under the laws of Panama having its registered office at Edificio Universal, Piso 12, Avenida Federico Boyd, Panama, Republic of Panama and maintaining an office at 16 Pendelis Street, 175 64, Palaio Faliro, Greece or any other company which the Agent may, with the authorisation of the Lenders, approve from time to time as the technical and/or commercial manager of each Ship;

"Availability Period" means the period commencing on the date of this Agreement and ending on:

- (a) 31 December 2012 (or such later date as the Agent may, with the authorisation of the Lenders, agree with the Borrowers); or
- (b) if earlier, the date on which the Total Commitments are fully borrowed, cancelled or terminated;

"Borrower" means each of Borrower A and Borrower 8, and in the plural means, both of them;

"Borrower A" means Palau Shipping Company Inc., a corporation incorporated in the Republic of the Marshall Islands whose registered office is at Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro MH96960, The Marshall Islands;

"Borrower B" means Guam Shipping Company Inc., a corporation incorporated in the Republic of the Marshall Islands whose registered office is at Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro MH96960, The Marshall Islands;

"Business Day" means a day on which banks are open in London, Athens and, in respect of a day on which a payment is required to be made under a Finance Document, also in New York City;

"CISADA" means the United States Comprehensive Iran Sanctions, Accountability and Divestment Act of 2010 as it applies to non-US persons;

"Commitment" means, in relation to a Lender, the amount set opposite its name in Schedule 1, or, as the case may require, the amount specified in the relevant Transfer Certificate, as that amount may be reduced, cancelled or terminated in accordance with this Agreement (and "Total Commitments" means the aggregate of the Commitments of all the Lenders);

"Confirmation" and **"Early Termination Date"**, in relation to any continuing Designated Transaction, have the meanings given in the Master Agreement;

"Contractual Currency" has the meaning given in Clause 21.5;

"Contribution" means, in relation to a Lender, the part of the Loan which is owing to that Lender;

"Corporate Guarantee" means a corporate guarantee of the obligations of the Borrowers under this Agreement, the Master Agreement and the other Finance Documents;

"Corporate Guarantor" mean Diana Shipping Inc., a corporation domesticated in the Marshall Islands whose registered office is at Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro MH96960, The Marshall Islands;

"Creditor Party" means the Agent, the Security Trustee, the Swap Bank or any Lender, whether as at the date of this Agreement or at any later time;

"Designated Transaction" means a Transaction which fulfils the following requirements:

- (a) it is entered into by each Borrower pursuant to the Master Agreement with the Swap Bank which, at the time the Transaction is entered into, is also a Lender;
- (b) its purpose is the hedging of all or part of each Borrower's exposure under this Agreement to fluctuations in LIBOR arising from the funding of the Loan (or any part thereof) for a period expiring no later than the final Repayment Date; and
- (c) it is designated by each Borrower, by delivery by that Borrower to the Agent of a notice of designation in the form set out in Schedule 5, as a Designated Transaction for the purposes of the Finance Documents;

"Dollars" and **"\$"** means the lawful currency for the time being of the United States of America;

"Drawdown Date" means, in relation to the Loan, the date requested by the Borrowers for the Loan to be advanced, or (as the context requires) the date on which the Loan is actually advanced;

"Drawdown Notice" means a notice in the form set out in Schedule 2 (or in any other form which the Agent approves or reasonably requires);

"Earnings" means, in relation to a Ship, all moneys whatsoever which are now, or later become, payable (actually or contingently) to the relevant Borrower owning that Ship or the Security Trustee and which arise out of the use or operation of that Ship, including (but not limited to):

- (a) except to the extent that they fall within paragraph (b);
 - (i) all freight, hire and passage moneys;

- (ii) compensation payable to a Borrower or the Security Trustee in the event of requisition of a Ship for hire;
- (iii) remuneration for salvage and towage services;
- (iv) demurrage and detention moneys;
- (v) damages for breach (or payments for variation or termination) of any charterparty or other contract for the employment of a Ship; and
- (vi) all moneys which are at any time payable under any Insurances in respect of loss of hire; and

(b) if and whenever a Ship is employed on terms whereby any moneys falling within paragraphs (a)(i) to (vi) are pooled or shared with any other person, that proportion of the net receipts of the relevant pooling or sharing arrangement which is attributable to the Ship;

"Earnings Account" means an account in the name of each Borrower with the Agent in London designated "*[name of the Borrower]*- Earnings Account", or any other account which is designated by the Agent as an Earnings Account for the purposes of this Agreement;

"Earnings Account Pledge" means, respect of each Earnings Account, a deed creating security in the Agreed Form;

"Environmental Claim" means:

- (a) any claim by any governmental, judicial or regulatory authority which arises out of an Environmental Incident or an alleged Environmental Incident or which relates to any Environmental Law; or
- (b) any claim by any other person which relates to an Environmental Incident or to an alleged Environmental Incident,

and **"claim"** means a claim for damages, compensation, fines, penalties or any other payment of any kind whether or not similar to the foregoing; an order or direction to take, or not to take, certain action or to desist from or suspend certain action; and any form of enforcement or regulatory action, including the arrest or attachment of any asset;

"Environmental Incident" means:

- (a) any release of Environmentally Sensitive Material from the Ship; or
- (b) any incident in which Environmentally Sensitive Material is released from a vessel other than a Ship and which involves a collision between a Ship and such other vessel or some other incident of navigation or operation, in either case, in connection with which a Ship is actually or potentially liable to be arrested, attached, detained or injunctioned and/or a Ship and/or the Borrower and/or any operator or manager of a Ship is at fault or alleged at fault or otherwise liable to any legal or administrative action; or
- (c) any other incident in which Environmentally Sensitive Material is released otherwise than from a Ship and in connection with which a Ship is actually or potentially liable to be arrested and/or where either Borrower and/or any operator or manager of a Ship is at fault or allegedly at fault or otherwise liable to any legal or administrative action;

"Environmental Law" means any law relating to pollution or protection of the environment, to the carriage of Environmentally Sensitive Material or to actual or threatened releases of Environmentally Sensitive Material;

"Environmentally Sensitive Material" means oil, oil products and any other substance (including any chemical, gas or other hazardous or noxious substance) which is (or is capable of being or becoming) polluting, toxic or hazardous;

"Event of Default" means any of the events or circumstances described in Clause 19.1;

"Finance Documents" means:

- (a) this Agreement;
- (b) the Agency and Trust Deed;
- (c) the Master Agreement;
- (d) the Master Agreement Assignment;
- (e) the Corporate Guarantee;
- (f) the General Assignments;
- (g) the Mortgages;
- (h) the Accounts Pledges;
- (i) the Shares Pledges;
- (j) the Initial Charter Assignment;
- (k) the Manager's Undertakings;
- (l) any Approved Charterparty Assignment; and
- (m) any other document (whether creating a Security Interest or not) which is executed at any time by either Borrower, the Corporate Guarantor, the Approved Manager or any other person as security for, or to establish any form of subordination or priorities arrangement in relation to, any amount payable to the Lenders and/or the Swap Bank under this Agreement or any of the other documents referred to in this definition;

"Financial Indebtedness" means, in relation to a person (the **"debtor"**), a liability of the debtor:

- (a) for principal, interest or any other sum payable in respect of any moneys borrowed or raised by the debtor;
- (b) under any loan stock, bond, note or other security issued by the debtor;
- (c) under any acceptance credit, guarantee or letter of credit facility or dematerialised equivalent made available to the debtor;
- (d) under a financial lease, a deferred purchase consideration arrangement or any other agreement having the commercial effect of a borrowing or raising of money by the debtor;

- (e) under any foreign exchange transaction, any interest or currency swap or any other kind of derivative transaction entered into by the debtor or, if the agreement under which any such transaction is entered into requires netting of mutual liabilities, the liability of the debtor for the net amount; or
- (f) under a guarantee, indemnity or similar obligation entered into by the debtor in respect of a liability of another person which would fall within paragraphs (a) to (e) if the references to the debtor referred to the other person;

"Financial Year" means, in relation to the Corporate Guarantor, each period of 1 year commencing on 1 January in respect of which its annual audited accounts are or ought to be prepared;

"Fleet Vessels" means all of the vessels (including, but not limited to, the Ships) from time to time wholly owned by members of the Group (each a **"Fleet Vessel"**);

"GAAP" means, at any time, the most recent and updated generally accepted accounting principles in the United States of America;

"General Assignment" means, in relation to each Ship, a first priority general assignment of the Earnings, the Insurances and any Requisition Compensation in the Agreed Form and, in the plural, means both of them;

"Group" means the Corporate Guarantor and all its subsidiaries (including, but not limited to, the Borrowers) from time to time during the Security Period and **"member of the Group"** shall be construed accordingly;

"IACS" means the International Association of Classification Societies;

"Initial Charter" means, in respect of Ship B, the time charterparty dated 6 August 2012 made between Borrower B as owner and the Initial Charterer for a period of at least 22 months at a minimum daily charter hire of \$10,000;

"Initial Charter Assignment" means an assignment of the rights of Borrower B under the Initial Charter in favour of the Agent in the Agreed Form;

"Initial Charterer" means Bunge S.A., a company incorporated in Geneva whose registered address is 13 Route de Florissant, 12111 Geneva 12, Switzerland;

"Insurances" means, in relation to a Ship:

- (a) all policies and contracts of insurance, including entries of the Ship in any protection and indemnity or war risks association, effected in respect of the Ship, its Earnings or otherwise in relation to the Ship whether before, on or after the date of this Agreement; and
- (b) all rights and other assets relating to, or derived from, any of the foregoing, including any rights to a return of a premium and any rights in respect of any claim whether or not the relevant policy, contract of insurance or entry has expired on or before the date of this Agreement;

"Interest Period" means a period determined in accordance with Clause 6;

"ISM Code" means the International Safety Management Code (including the guidelines on its implementation), adopted by the International Maritime Organisation, as the same may be amended or supplemented from time to time (and the terms **"safety management system"**, **"Safety Management Certificate"** and **"Document of Compliance"** have the same meanings as are given to them in the ISM Code);

"ISPS Code" means the International Ship and Port Facility Security Code as adopted by the International Maritime Organisation, as the same may be amended or supplemented from time to time;

"ISSC" means a valid and current International Ship Security Certificate issued under the ISPS Code;

"Lender" means a bank or financial institution listed in Schedule 1 and acting through its branch indicated in Schedule 1 (or through another branch notified to the Agent under Clause 26.14) or its transferee, successor or assign and, in the plural, means all of them;

"LIBOR" means, in relation to any period for which an interest rate is to be determined under any provision of a Finance Document:

- (a) the applicable Screen Rate; or
- (b) if no Screen Rate is available for that period, the rate per annum determined by the Agent to be the arithmetic mean of the rates, as supplied to the Agent at its request, quoted by the Reference Bank to leading banks in the London Interbank Market,

as of 11 a.m. (London time) on the Quotation Date for that period for the offering of deposits in the relevant currency and for a period comparable to that period;

"Loan" means the principal amount for the time being outstanding under this Agreement;

"Major Casualty" means, in relation to a Ship, any casualty to that Ship in respect of which the claim or the aggregate of the claims against all insurers, before adjustment for any relevant franchise or deductible, exceeds \$1,000,000 or the equivalent in any other currency;

"Majority Lenders" means:

- (a) before the Loan has been advanced, Lenders whose Commitments total 66.67 per cent. of the Total Commitments; and
- (b) after the Loan has been advanced, Lenders whose Contributions total 66.67 per cent. of the Loan;

and the Approved Manager in respect of the commercial and technical management of such Ship in the Agreed Form and, in the plural, means both of them;

"Manager's Undertaking" means, in relation to each Ship, a letter of undertaking executed or to be executed by the Approved Manager in favour of the Security Trustee in the Agreed Form agreeing certain matters in relation to the management of that Ship and subordinating the rights of the Approved Manager against that Ship and the Borrower which is the owner thereof to the rights of the Security Trustee under the Finance Documents and, in the plural, means both of them;

"Mandatory Cost" means the percentage rate per annum calculated by the Agent in accordance with Schedule 6;

"Margin" means 2.90 per cent. per annum;

"Market Value" means, in relation to each Ship (and each other Fleet Vessel), the market value thereof determined in accordance with Clause 15.3;

"Master Agreement" means the master agreement (on the 2002 ISDA (Multicurrency-Crossborder) form) in the Agreed Form made or to be made between (i) the Borrowers and (ii) the Swap Bank or (i) each Borrower and (ii) the Swap Bank and includes all Designated Transactions from time to time entered into and Confirmations from time to time exchanged under such master agreement;

"Master Agreement Assignment" means the assignment of the Master Agreement in the Agreed Form;

"Mortgage" means, in relation to a Ship, the first preferred Marshall Islands ship mortgage on that Ship in the Agreed Form and, in the plural, means both of them;

"Negotiation Period" has the meaning given in Clause 5.10;

"Notifying Lender" has the meaning given in Clause 23.1 or Clause 24.1 as the context requires;

"Payment Currency" has the meaning given in Clause 21.5;

"Permitted Security Interests" means:

- (a) Security Interests created by the Finance Documents;
- (b) liens for unpaid master's and crew's wages in accordance with usual maritime practice;
- (c) liens for salvage;
- (d) liens arising by operation of law for not more than 2 months' prepaid hire under any charter in relation to a Ship not prohibited by this Agreement;
- (e) liens for master's disbursements incurred in the ordinary course of trading and any other lien arising by operation of law or otherwise in the ordinary course of the operation, repair or maintenance of a Ship, provided such liens do not secure amounts more than 30 days overdue (unless the overdue amount is being contested by the relevant Borrower in good faith by appropriate steps) and subject, in the case of liens for repair or maintenance, to Clause 14.13(g);
- (f) any Security Interest created in favour of a plaintiff or defendant in any proceedings or arbitration as security for costs and expenses where the Borrower is actively prosecuting or defending such proceedings or arbitration in good faith; and
- (g) Security Interests arising by operation of law in respect of taxes which are not overdue for payment or in respect of taxes being contested in good faith by appropriate steps and in respect of which appropriate reserves have been made;]

"Pertinent Document" means:

- (a) any Finance Document;
- (b) any policy or contract of insurance contemplated by or referred to in Clause 13 or any other provision of this Agreement or another Finance Document;
- (c) any other document contemplated by or referred to in any Finance Document; and
- (d) any document which has been or is at any time sent by or to a Servicing Bank in contemplation of or in connection with any Finance Document or any policy, contract or document falling within paragraphs (b) or (c);

"Pertinent Jurisdiction", in relation to a company, means:

- (a) England and Wales;
- (b) the country under the laws of which the company is incorporated or formed;
- (c) a country in which the company has the centre of its main interests or in which the company's central management and control is or has recently been exercised;
- (d) a country in which the overall net income of the company is subject to corporation tax, income tax or any similar tax;
- (e) a country in which assets of the company (other than securities issued by, or loans to, related companies) having a substantial value are situated, in which the company maintains a branch or permanent place of business, or in which a Security Interest created by the company must or should be registered in order to ensure its validity or priority; and
- (f) a country the courts of which have jurisdiction to make a winding up, administration or similar order in relation to the company, whether as main or territorial or ancillary proceedings, or which would have such jurisdiction if their assistance were requested by the courts of a country referred to in paragraphs (b) or (c);

"Pertinent Matter" means:

- (a) any transaction or matter contemplated by, arising out of, or in connection with a Pertinent Document; or
- (b) any statement relating to a Pertinent Document or to a transaction or matter falling within paragraph (a),

and covers any such transaction, matter or statement, whether entered into, arising or made at any time before the signing of this Agreement or on or at any time after that signing;

"Potential Event of Default" means an event or circumstance which, with the giving of any notice, the lapse of time, a determination of the Lenders and/or the satisfaction of any other condition, would constitute an Event of Default;

"Prohibited Person" means any person (whether designated by name or by reason of being included in a class of persons) against whom Sanctions are directed;

"Quotation Date" means, in relation to any period for which an interest rate is to be determined under any provision of a Finance Document, the day which is 2 Business Days before the first day of that period, unless market practice differs in the London Interbank Market for a currency, in which case the Quotation Date will be determined by the Agent in accordance with market practice in the London Interbank Market (and if quotations would normally be given by leading banks in the London Interbank Market on more than one day, the Quotation Date will be the last of those days);

"Reference Bank" means, subject to Clause 26.16, the London branch of Nordea Bank Finland Plc, London Branch and any of its successors;

"Relevant Person" has the meaning given in Clause 19.9;

"Repayment Date" means a date on which a repayment is required to be made under Clause 8;

"Requisition Compensation" includes all compensation or other moneys payable by reason of any act or event such as is referred to in paragraph (b) of the definition of **"Total Loss"**;

"Sanctions" means any sanctions, embargoes, freezing provisions, prohibitions or other restrictions relating to trading, doing business, investment, exporting, financing or making assets available (or other activities similar to or connected with any of the foregoing):

- (a) imposed by law or regulation of the United Kingdom, the Council of the European Union, the United Nations or its Security Council;
- (b) imposed by CISADA; or
- (c) otherwise imposed by any law or regulation by which the Borrower is bound or, as regards a regulation, compliance with which is reasonable in the ordinary course of business of the Borrower and for which a waiver or suspension has not been obtained;

"Screen Rate" means, in relation to any period for which an interest rate is to be determined under any provision of a Finance Document, the British Bankers' Association Interest Settlement Rate for the relevant currency and period displayed on Reuters page LIBOR 01 or on any other appropriate page of the Reuters screen. If the agreed page is replaced or service ceases to be available, the Agent may specify another page or service displaying the appropriate rate after consultation with the Borrower and the Lenders;

"Secured Liabilities" means all liabilities which the Borrowers, the Corporate Guarantor, the Security Parties or any of them have, at the date of this Agreement or at any later time or times, under or in connection with any Finance Document or any judgment relating to any Finance Document; and for this purpose, there shall be disregarded any total or partial discharge of these liabilities, or variation of their terms, which is effected by, or in connection with, any bankruptcy, liquidation, arrangement or other procedure under the insolvency laws of any country;

"Security Interest" means:

- (a) a mortgage, charge (whether fixed or floating) or pledge, any maritime or other lien or any other security interest of any kind;
- (b) the security rights of a plaintiff under an action *in rem*; and
- (c) any arrangement entered into by a person (A) the effect of which is to place another person (B) in a position which is similar, in economic terms, to the position in which B would have been had he held a security interest over an asset of A; but this paragraph (c) does not apply to a right of set off or combination of accounts conferred by the standard terms of business of a bank or financial institution;

"Security Party" means the Corporate Guarantor, the Approved Manager and any other person (except a Creditor Party) who, as a surety or mortgagor, as a party to any subordination or priorities arrangement, or in any similar capacity, executes a document falling within the last paragraph of the definition of **"Finance Documents"**;

"Security Period" means the period commencing on the date of this Agreement and ending on the date on which the Agent notifies the Borrowers, the Security Parties and the other Creditor Parties that:

- (a) all amounts which have become due for payment by the Borrowers or any Security Party under the Finance Documents have been paid;

- (b) no amount is owing or has accrued (without yet having become due for payment) under any Finance Document;
- (c) neither a Borrower nor any Security Party has any future or contingent liability under Clause 20, 21 or 22 below or any other provision of this Agreement or another Finance Document; and
- (d) the Agent, the Security Trustee and the Majority Lenders do not consider that there is a significant risk that any payment or transaction under a Finance Document would be set aside, or would have to be reversed or adjusted, in any present or possible future bankruptcy of the Borrowers or a Security Party or in any present or possible future proceeding relating to a Finance Document or any asset covered (or previously covered) by a Security Interest created by a Finance Document;

"Security Trustee" means Nordea Bank Finland Plc, London Branch, acting in such capacity through its office at City Place House, 55 Basinghall Street, London EC2V 5NB, England, or any successor of it appointed under clause 5 of the Agency and Trust Deed;

"Servicing Bank" means the Agent or the Security Trustee;

"Shares Pledge" means, in relation to each Borrower, a deed creating security over the share capital of that Borrower in the Agreed Form and, in the plural, means both of them;

"Ship A" means the 2012-built bulk carrier vessel of 98,704 deadweight currently registered in the ownership of Borrower A under the Marshall Islands flag under IMO No. 9598660 with the name of "POLYMNIA";

"Ship B" means the 2012-built bulk carrier vessel of 98,697 deadweight currently registered in the ownership of Borrower B under the Marshall Islands flag under IMO No. 9599157 with the name of "AMPHITRITE";

"Ships" means, together, Ship A and Ship B and, in the singular, means either of them;

"SMC" means a safety management certificate issued in respect of each Ship in accordance with Rule 13 of the ISM Code;

"Swap Bank" means Nordea Bank Finland Plc, London Branch, acting in such capacity through its office at City Place House, 55 Basinghall Street, London EC2V 5NB, England;

"Swap Exposure" means, as at any relevant date, the amount certified by the Swap Bank to the Agent to be the aggregate net amount in Dollars which would be payable by each Borrower to the Swap Bank under (and calculated in accordance with) section 6(e) (Payments on Early Termination) of the Master Agreement if an Early Termination Date had occurred on the relevant date in relation to all continuing Designated Transactions;

"Total Loss" means, in relation to a Ship:

- (a) actual, constructive, compromised, agreed or arranged total loss of the Ship;
- (b) any expropriation, confiscation, requisition or acquisition of the Ship, whether for full consideration, a consideration less than its proper value, a nominal consideration or without any consideration, which is effected by any government or official authority or by any person or persons claiming to be or to represent a government or official authority (excluding a requisition for hire for a fixed period not exceeding 1 year without any right to an extension) unless it is within 1 month redelivered to the full control of the Borrower owning that Ship;

- (c) any condemnation of the Ship by any tribunal or by any person or person claiming to be a tribunal; and
- (d) any arrest, capture, seizure or detention of the Ship (including any hijacking or theft) unless it is within 1 month redelivered to the full control of the Borrower owning the Ship;

"Total Loss Date" means, in relation to a Ship:

- (a) in the case of an actual loss of the Ship, the date on which it occurred or, if that is unknown, the date when the Ship was last heard of;
- (b) in the case of a constructive, compromised, agreed or arranged total loss of the Ship, the earliest of:
 - (i) the date on which a notice of abandonment is given to the insurers; and
 - (ii) the date of any compromise, arrangement or agreement made by or on behalf of the Borrower owning the Ship with the Ship's insurers in which the insurers agree to treat the Ship as a total loss; and
- (c) in the case of any other type of total loss, on the date (or the most likely date) on which it appears to the Agent that the event constituting the total loss occurred;

"Transaction" has the meaning given in the Master Agreement;

"Transfer Certificate" has the meaning given in Clause 26.2; and

"Trust Property" has the meaning given in clause 3.1 of the Agency and Trust Deed.

1.2 Construction of certain terms

In this Agreement:

"administration notice" means a notice appointing an administrator, a notice of intended appointment and any other notice which is required by law (generally or in the case concerned) to be filed with the court or given to a person prior to, or in connection with, the appointment of an administrator;

"approved" means, for the purposes of Clause 13, approved in writing by the Agent;

"asset" includes every kind of property, asset, interest or right, including any present, future or contingent right to any revenues or other payment;

"company" includes any partnership, joint venture and unincorporated association;

"consent" includes an authorisation, consent, approval, resolution, licence, exemption, filing, registration, notarisation and legalisation;

"contingent liability" means a liability which is not certain to arise and/or the amount of which remains unascertained;

"document" includes a deed; also a letter or fax;

"excess risks" means, in relation to a Ship, the proportion of claims for general average, salvage and salvage charges not recoverable under the hull and machinery policies in respect of the Ship in consequence of its insured value being less than the value at which the Ship is assessed for the purpose of such claims;

"expense" means any kind of cost, charge or expense (including all legal costs, charges and expenses) and any applicable value added or other tax;

"law" includes any order or decree, any form of delegated legislation, any treaty or international convention and any regulation or resolution of the Council of the European Union, the European Commission, the United Nations or its Security Council;

"legal or administrative action" means any legal proceeding or arbitration and any administrative or regulatory action or investigation;

"liability" includes every kind of debt or liability (present or future, certain or contingent), whether incurred as principal or surety or otherwise;

"months" shall be construed in accordance with Clause 1.3;

"obligatory insurances" means, in relation to a Ship, all insurances effected, or which the Borrower owning the Ship is obliged to effect, under Clause 13 or any other provision of this Agreement or another Finance Document;

"parent company" has the meaning given in Clause 1.4;

"person" includes any company; any state, political sub-division of a state and local or municipal authority; and any international organisation;

"policy", in relation to any insurance, includes a slip, cover note, certificate of entry or other document evidencing the contract of insurance or its terms;

"protection and indemnity risks" means the usual risks covered by a protection and indemnity association managed in London, including pollution risks and the proportion (if any) of any sums payable to any other person or persons in case of collision which are not recoverable under the hull and machinery policies by reason of the incorporation in them of clause 6 of the International Hull Clauses (1/11/02 or 1/11/03), clause 8 of the Institute Time Clauses (Hulls) (1/1 1/5) or clause 8 of the Institute Time Clauses (Hulls) (1/10/83) or the Institute Amended Running Down Clause (1/10/71) or any equivalent provision;

"regulation" includes any regulation, rule, official directive, request or guideline (either having the force of law or compliance with which is reasonable in the ordinary course of business of the party concerned) whether or not having the force of law of any governmental, intergovernmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organisation;

"subsidiary" has the meaning given in Clause 1.4;

"successor" includes any person who is entitled (by assignment, novation, merger or otherwise) to any person's rights under this Agreement or any other Finance Document (or any interest in those rights) or who, as administrator, liquidator or otherwise, is entitled to exercise those rights; and in particular references to a successor include a person to whom those rights (or any interest in those rights) are transferred or pass as a result of a merger, division, reconstruction or other reorganisation of it or any other person;

"tax" includes any present or future tax, duty, impost, levy or charge of any kind which is imposed by any state, any political sub-division of a state or any local or municipal authority (including any such imposed in connection with exchange controls), and any connected penalty, interest or fine; and

"war risks" includes the risk of mines and all risks excluded by clause 29 of the international Hull Clauses (1/11/02 or 1/11/03), clause 24 of the institute Time Clauses (Hulls)(1/11/95) or clause 23 of the Institute Time Clauses (Hulls) (1/10/83).

1.3 Meaning of "month"

A period of one or more "**months**" ends on the day in the relevant calendar month numerically corresponding to the day of the calendar month on which the period started ("**the numerically corresponding day**"), but:

- (a) on the Business Day following the numerically corresponding day if the numerically corresponding day is not a Business Day or, if there is no later Business Day in the same calendar month, on the Business Day preceding the numerically corresponding day; or
- (b) on the last Business Day in the relevant calendar month, if the period started on the last Business Day in a calendar month or if the last calendar month of the period has no numerically corresponding day,

and "**month**" and "**monthly**" shall be construed accordingly.

1.4 Meaning of "subsidiary"

A company (S) is a subsidiary of another company (P) if:

- (a) a majority of the issued shares in S (or a majority of the issued shares in S which carry unlimited rights to capital and income distributions) are directly owned by P or are indirectly attributable to P; or
- (b) P has direct or indirect control over a majority of the voting rights attaching to the issued shares of S; or
- (c) P has the direct or indirect power to appoint or remove a majority of the directors of S; or
- (d) P otherwise has the direct or indirect power to ensure that the affairs of S are conducted in accordance with the wishes of P,

and any company of which S is a subsidiary is a parent company of S.

1.5 General Interpretation

In this Agreement:

- (a) references to, or to a provision of, a Finance Document or any other document are references to it as amended or supplemented, whether before the date of this Agreement or otherwise;
- (b) references to, or to a provision of, any law include any amendment, extension, re-enactment or replacement, whether made before the date of this Agreement or otherwise;
- (c) words denoting the singular number shall include the plural and vice versa; and
- (d) Clauses 1.1 to 1.5 apply unless the contrary intention appears.

1.6 Headings

In interpreting a Finance Document or any provision of a Finance Document, all clause, sub-clause and other headings in that and any other Finance Document shall be entirely disregarded.

2 FACILITY

2.1 Amount of facility

Subject to the other provisions of this Agreement, the Lenders shall make available to the Borrowers, in one advance, a term loan facility of \$20,000,000 for the purpose of financing part of the aggregate acquisition cost of the Ships.

2.2 Lenders' participations in the Loan

Subject to the other provisions of this Agreement, each Lender shall participate in the Loan in the proportion which, as at the Drawdown Date, its Commitment bears to the Total Commitments.

2.3 Purpose of the Loan

The Borrowers undertake with each Creditor Party to use the Loan only for the purpose stated in the preamble to this Agreement.

3 POSITION OF THE LENDERS, THE SWAP AND THE MAJORITY LENDERS

3.1 Interests of Lenders and Swap Bank several

The rights of the Lenders and the Swap Bank under this Agreement and the Master Agreement are several; accordingly:

- (a) each Lender shall be entitled to sue for any amount which has become due and payable by the Borrowers to it under this Agreement; and
- (b) the Swap Bank shall be entitled to sue for any amount which has become due and payable by the Borrowers to it under the Master Agreement,

without joining the Agent, the Security Trustee, any other Lender and the Swap Bank as additional parties in the proceedings.

3.2 Proceedings by individual Lender or Swap Bank

However, without the prior consent of the Majority Lenders, no Lender nor the Swap Bank may bring proceedings in respect of:

- (a) any other liability or obligation of either Borrower or a Security Party under or connected with a Finance Document; or
- (b) any misrepresentation or breach of warranty by either Borrower or a Security Party in or connected with a Finance Document.

3.3 Obligations several

The obligations of the Lenders and the Swap Bank under this Agreement and of the Swap Bank under the Master Agreement are several; and a failure of a Lender or the Swap Bank to perform its obligations under this Agreement or of the Swap Bank to perform its obligations under the Master Agreement shall not result in:

- (a) the obligations of the other Lenders or (as the case may be) the Swap Bank being increased; nor
- (b) either Borrower, any Security Party or any other Creditor Party being discharged (in whole or in part) from its obligations under any Finance Document,

and in no circumstances shall a Lender or the Swap Bank have any responsibility for a failure of another Lender or the Swap Bank to perform its obligations under this Agreement or the Master Agreement.

3.4 Parties bound by certain actions of Majority Lenders

Every Lender, the Swap Bank, each Borrower and each Security Party shall be bound by:

- (a) any determination made, or action taken, by the Majority Lenders under any provision of a Finance Document;
- (b) any instruction or authorisation given by the Majority Lenders to the Agent or the Security Trustee under or in connection with any Finance Document (subject always to Clause 27.2);
- (c) any action taken (or in good faith purportedly taken) by the Agent or the Security Trustee in accordance with such an instruction or authorisation.

3.5 Reliance on action of Agent

However, each Borrower and each Security Party:

- (a) shall be entitled to assume that the Majority Lenders have duly given any instruction or authorisation which, under any provision of a Finance Document, is required in relation to any action which the Agent has taken or is about to take; and
- (b) shall not be entitled to require any evidence that such an instruction or authorisation has been given.

3.6 Construction

In Clauses 3.4 and 3.5 references to action taken include (without limitation) the granting of any waiver or consent, an approval of any document and an agreement to any matter.

4 DRAWDOWN

4.1 Request for the Loan

Subject to the following conditions, the Borrowers may request the Loan to be made by ensuring that the Agent receives a completed Drawdown Notice not later than 11.00 a.m. (London time) 3 Business Days (or such shorter period as the Agent may, in its absolute discretion, agree) prior to the intended Drawdown Date.

4.2 Availability

The conditions referred to in Clause 4.1 are that:

- (a) the Drawdown Date has to be a Business Day during the Availability Period;
- (b) the amount of the Loan shall not exceed \$20,000,000;
- (c) the Loan shall be applied in financing part of the acquisition cost of each Ship; and
- (d) the amount of the Loan shall not exceed the Total Commitments.

4.3 Notification to Lenders of receipt of a Drawdown Notice

The Agent shall promptly notify the Lenders that it has received a Drawdown Notice and shall inform each Lender of:

- (a) the amount of the Loan and the Drawdown Date;
- (b) the amount of that Lender's participation in the Loan; and

- (c) the duration of the first Interest Period.

4.4 Drawdown Notice irrevocable

A Drawdown Notice must be signed by a director or an authorised representative of each Borrower; and once served, a Drawdown Notice cannot be revoked without the prior consent of the Agent, acting on the authority of the Majority Lenders.

4.5 Lenders to make available Contributions

Subject to the provisions of this Agreement, each Lender shall, on and with value on the Drawdown Date, make available to the Agent for the account of the Borrowers the amount due from that Lender on the Drawdown Date under Clause 2.2.

4.6 Disbursement of the Loan

Subject to the provisions of this Agreement, the Agent shall on the Drawdown Date pay to the Borrowers the amounts which the Agent receives from the Lenders under Clause 4.5; and that payment to the Borrowers shall be made:

- (a) to the account which the Borrowers specify in the Drawdown Notice; and
- (b) in the like funds as the Agent received the payments from the Lenders.

4.7 Disbursement of the Loan to third party

The payment by the Agent under Clause 4.6 shall constitute the making of the Loan and the Borrowers shall at that time become indebted, as principal and direct obligors, to each Lender in an amount equal to that Lender's Contribution.

5 INTEREST

5.1 Payment of normal interest

Subject to the provisions of this Agreement, interest on the Loan in respect of each Interest Period applicable thereto shall be paid by the Borrowers on the last day of that Interest Period.

5.2 Normal rate of interest

Subject to the provisions of this Agreement, the rate of interest on the Loan in respect of an Interest Period shall be the aggregate of (i) the Margin, (ii) the Mandatory Cost (if any) and (iii) LIBOR for that Interest Period.

5.3 Payment of accrued interest

In the case of an Interest Period longer than 3 months, accrued interest shall be paid every 3 months during that Interest Period and on the last day of that Interest Period.

5.4 Notification of Interest Periods and rates of normal interest

The Agent shall notify the Borrowers and each Lender of:

- (a) each rate of interest; and
- (b) the duration of each Interest Period as soon as reasonably practicable after each is determined.

5.5 Obligation of Reference Bank to quote

The Reference Bank shall use all reasonable efforts to supply the quotation required of it for the purposes of fixing a rate of interest under this Agreement unless the Reference Bank ceases to be a Lender pursuant to Clause 26.16.

5.6 Absence of quotations by Reference Bank

If the Reference Bank fails to supply a quotation, the relevant rate of interest shall be set in accordance with the following provisions of this Clause 5.

5.7 Market disruption

The following provisions of this Clause 5 apply if:

- (a) no Screen Rate is available for an Interest Period and the Reference Bank does not, before 1.00 p.m. (London time) on the Quotation Date, provide quotations to the Agent in order to fix LIBOR; or
- (b) at least 1 Business Day before the start of an Interest Period, a Lender with Contribution amounting to more than 33.3 per cent. of the Loan, may notify the Agent that LIBOR fixed by the Agent would not accurately reflect the cost to those Lenders of funding its respective Contribution (or any part of it) during the Interest Period in the London Interbank Market at or about 11.00 a.m. (London time) on the Quotation Date for the Interest Period; or
- (c) at least 1 Business Day before the start of an Interest Period, the Agent is notified by a Lender (the **"Affected Lender"**) that for any reason it is unable to obtain Dollars in the London Interbank Market in order to fund its Contribution (or any part of it) during the Interest Period.

5.8 Notification of market disruption

The Agent shall promptly notify the Borrowers and each of the Lenders stating the circumstances falling within Clause 5.7 which have caused its notice to be given.

5.9 Suspension of drawdown

If the Agent's notice under Clause 5.8 is served before the Loan is made:

- (a) in a case falling within Clauses 5.7(a) or 5.7(b), the Lenders' obligations to make the Loan; and
- (b) in a case falling within Clause 5.7, the Affected Lender's obligation to participate in the Loan, shall be suspended while the circumstances referred to in the Agent's notice continue.

5.10 Negotiation of alternative rate of interest

If the Agent's notice under Clause 5.5 is served after the Loan is made, the Borrowers, the Agent, the Lenders or (as the case may be) the Affected Lender shall use reasonable endeavours to agree, within 30 days after the date on which the Agent serves its notice under Clause 5.5 (the **"Negotiation Period"**), an alternative interest rate or (as the case may be) an alternative basis for the Lenders or (as the case may be) the Affected Lender to fund or continue to fund their or its Contribution during the Interest Period concerned.

5.11 Application of agreed alternative rate of interest

Any alternative interest rate or an alternative basis which is agreed during the Negotiation Period shall take effect in accordance with the terms agreed.

5.12 Alternative rate of interest in absence of agreement

If an alternative interest rate or alternative basis is not agreed within the Negotiation Period, and the relevant circumstances are continuing at the end of the Negotiation Period, then the Agent shall, with the agreement of each Lender or (as the case may be) the Affected Lender, set an interest period and interest rate representing the cost of funding of the Lenders or (as the case may be) the Affected Lender in Dollars or in any available currency of their or its Contribution plus the Margin and the Mandatory Cost (if any); and the procedure provided for by this Clause 5.12 shall be repeated if the relevant circumstances are continuing at the end of the interest period so set by the Agent.

5.13 Notice of prepayment

If the Borrowers do not agree with an interest rate set by the Agent under Clause 5.12, the Borrowers may give the Agent not less than 15 Business Days' notice of their intention to prepay the Loan at the end of the interest period set by the Agent.

5.14 Prepayment; termination of Commitments

A notice under Clause 5.13 shall be irrevocable; the Agent shall promptly notify the Lenders or (as the case may require) the Affected Lender of the Borrowers' notice of intended prepayment; and:

- (a) on the date on which the Agent serves that notice, the Total Commitments or (as the case may require) the Commitment of the Affected Lender shall be cancelled; and
- (b) on the last Business Day of the interest period set by the Agent, the Borrowers shall prepay (without premium or penalty) the Loan or, as the case may be, the Affected Lender's Contribution, together with accrued interest thereon at the applicable rate plus the Margin and the Mandatory Cost (if any).

5.15 Application of prepayment

The provisions of Clause 8 shall apply in relation to the prepayment.

6 INTEREST PERIODS

6.1 Commencement of Interest Periods

The first Interest Period applicable to the Loan shall commence on the Drawdown Date and each subsequent Interest Period shall commence on the expiry of the preceding Interest Period.

6.2 Duration of normal Interest Periods

Subject to Clauses 6.3 and 6.4, each Interest Period shall be:

- (a) 1 or 3 months as notified by the Borrowers to the Agent not later than 11.00 a.m. (London time) 5 Business Days (or such longer period as the Agent and the Borrowers may agree) before the commencement of the Interest Period; or
- (b) 3 months, if the Borrowers fail to notify the Agent by the time specified in paragraph (a); or
- (c) such other period as the Agent may, with the authorisation of the Majority Lenders, agree with the Borrowers.

6.3 Duration of Interest Periods for repayment instalments

In respect of an amount due to be repaid under Clause 8 on a particular Repayment Date, an Interest Period shall end on that Repayment Date.

6.4 Non-availability of matching deposits for Interest Period selected

If, after the Borrowers have selected and the Lenders have agreed an Interest Period longer than 3 months, any Lender notifies the Agent by 11.00 a.m. (London time) on the third Business Day before the commencement of the Interest Period that it is not satisfied that deposits in Dollars for a period equal to the Interest Period will be available to it in the London Interbank Market when the Interest Period commences, the Interest Period shall be of 3 months.

7 DEFAULT INTEREST

7.1 Payment of default interest on overdue amounts

The Borrowers shall pay interest in accordance with the following provisions of this Clause 7 on any amount payable by the Borrowers under any Finance Document which the Agent, the Security Trustee or the other designated payee does not receive on or before the relevant date, that is:

- (a) the date on which the Finance Documents provide that such amount is due for payment; or
- (b) if a Finance Document provides that such amount is payable on demand, the date on which the demand is served; or
- (c) if such amount has become immediately due and payable under Clause 19.4, the date on which it became immediately due and payable.

7.2 Default rate of interest

Interest shall accrue on an overdue amount from (and including) the relevant date until the date of actual payment (as well after as before judgment) at the rate per annum determined by the Agent to be 2 per cent. above:

- (a) in the case of an overdue amount of principal, the higher of the rates set out at Clauses 7.3(a) and (b); or
- (b) in the case of any other overdue amount, the rate set out at Clause 7.3(b).

7.3 Calculation of default rate of interest

The rates referred to in Clause 7.2 are:

- (a) the rate applicable to the overdue principal amount immediately prior to the relevant date (but only for any unexpired part of any then current Interest Period applicable to it); and
- (b) the aggregate of the Margin and the Mandatory Cost (if any) plus, in respect of successive periods of any duration (including at call) up to 3 months which the Agent may select from time to time:
 - (i) LIBOR; or
 - (ii) if the Agent (after consultation with the Reference Bank) determines that Dollar deposits for any such period are not being made available to the Reference Bank by leading banks in the London Interbank Market in the ordinary course of business, a

rate from time to time determined by the Agent by reference to the cost of funds to the Reference Bank from such other sources as the Agent (after consultation with the Reference Bank) may from time to time determine.

7.4 Notification of interest periods and default rates

The Agent shall promptly notify the Lenders and the Borrowers of each interest rate determined by the Agent under Clause 7.3 and of each period selected by the Agent for the purposes of paragraph (b) of that Clause; but this shall not be taken to imply that the Borrowers are liable to pay such interest only with effect from the date of the Agent's notification.

7.5 Payment of accrued default interest

Subject to the other provisions of this Agreement, any interest due under this Clause shall be paid on the last day of the period by reference to which it was determined; and the payment shall be made to the Agent for the account of the Creditor Party to which the overdue amount is due.

7.6 Compounding of default interest

Any such interest which is not paid at the end of the period by reference to which it was determined shall thereupon be compounded.

7.7 Application to Master Agreement

For the avoidance of doubt, this Clause 7 does not apply to any amount payable under the Master Agreement in respect of any continuing Designated Transaction as to which section 2(e) (Default Interest; Other Amounts) of the Master Agreement shall apply.

8 REPAYMENT AND PREPAYMENT

8.1 Amount of repayment instalments

The Borrowers shall repay the Loan by:

- (a) 20 consecutive three-monthly instalments (the "**Repayment Instalments**" and each a "**Repayment Instalment**") of \$312,500 each; and
- (b) a balloon instalment in the amount of \$13,750,000 (the "**Balloon Instalment**").

8.2 Repayment Dates

The first Repayment Instalment for the Loan shall be repaid three months after the Drawdown Date (the "**First Repayment Date**"), each subsequent Repayment Instalment shall be repaid at three-monthly intervals thereafter and the last Repayment Instalment together with the Balloon Instalment shall be repaid on the fifth anniversary of the Drawdown Date.

8.3 Final Repayment Date

On the final Repayment Date, the Borrowers shall additionally pay to the Agent for the account of the Creditor Parties all other sums then accrued or owing under any Finance Document.

8.4 Voluntary prepayment

Subject to the following conditions, the Borrowers may prepay the whole or any part of the Loan on the last day of an Interest Period.

8.5 Conditions for voluntary prepayment

The conditions referred to in Clause 8.4 are that:

- (a) a partial prepayment shall be \$250,000 or a higher integral multiple of \$250,000;
- (b) the Agent has received from the Borrowers at least 7 days' prior written notice specifying the amount to be prepaid and the date on which the prepayment is to be made;
- (c) the Borrowers have provided evidence satisfactory to the Agent that any consent required by either Borrower or any Security Party in connection with the prepayment has been obtained and remains in force, and that any regulation relevant to this Agreement which affects either Borrower or any Security Party has been complied with; and
- (d) the Borrowers have complied with Clause 8.12 on or prior to the date of prepayment.

8.6 Effect of notice of prepayment

A prepayment notice may not be withdrawn or amended without the consent of the Agent, given with the authorisation of the Majority Lenders, and the amount specified in the prepayment notice shall become due and payable by the Borrowers on the date for prepayment specified in the prepayment notice.

8.7 Notification of notice of prepayment

The Agent shall notify the Lenders promptly upon receiving a prepayment notice, and shall provide any Lender which so requests with a copy of any document delivered by the Borrowers under Clause 8.5(c).

8.8 Mandatory prepayment

The Borrowers shall be obliged to prepay the whole of the Relevant Amount if a Ship is sold or becomes a Total Loss:

- (a) in the case of a sale, on or before the date on which the Mortgage on that Ship is released; or
- (b) in the case of a Total Loss, on the earlier of the date falling 180 days after the Total Loss Date and the date of receipt by the Security Trustee of the proceeds of insurance relating to such Total Loss.

In this Clause 8.8:

"Relevant Amount" means an amount equal to 50 per cent. of the Loan.

8.9 Amounts payable on prepayment

A prepayment shall be made together with accrued interest (and any other amount payable under Clause 21 or otherwise) in respect of the amount prepaid and, if the prepayment is not made on the last day of an Interest Period together with any sums payable under Clause 21.1(b) but without premium or penalty.

8.10 Application of partial prepayment

Each partial prepayment made pursuant to Clause 8.4 and 8.8 shall be applied pro rata against the then outstanding Repayment Instalments and the Balloon Instalment or in such other order as the Agent may, in its absolute discretion, determine.

8.11 No reborrowing

No amount prepaid may be reborrowed.

8.12 Unwinding of Designated Transactions

On or prior to any repayment or prepayment of the Loan under this Clause 8 or any other provision of this Agreement, each Borrower shall wholly or partially reverse, offset, unwind or otherwise terminate one or more of the continuing Designated Transactions so that the notional principal amount of the continuing Designated Transactions thereafter remaining does not and will not in the future (taking into account the scheduled amortisation) exceed the amount of the Loan as reducing from time to time thereafter pursuant to Clause 8.1.

9 CONDITIONS PREDECENT

9.1 Documents, fees and no default

Each Lender's obligation to contribute to the Loan is subject to the following conditions precedent:

- (a) that, on or before the service of the Drawdown Notice, the Agent receives:
 - (i) the documents described in Part A of Schedule 3 in form and substance satisfactory to the Agent and its lawyers;
 - (ii) the arrangement fee referred to in Clause 20.1;
- (b) that, on the Drawdown Date but prior to the making of the Loan, the Agent receives or is satisfied that it will receive on the making of the Loan the documents described in Part B of Schedule 3 in form and substance satisfactory to it and its lawyers;
- (c) that, on or before the service of the Drawdown Date, the Agent receives payment of any expenses payable pursuant to Clause 20.2 which is due and payable on the Drawdown Date;
- (d) that both at the date of the Drawdown Notice and at the Drawdown Date:
 - (i) no Event of Default or Potential Event of Default has occurred or would result from the borrowing of the Loan;
 - (ii) the representations and warranties in Clause 10.1 and those of either Borrower or any Security Party which are set out in the other Finance Documents would be true and not misleading if repeated on each of those dates with reference to the circumstances then existing;
 - (iii) none of the circumstances contemplated by Clause 5.7 has occurred and is continuing; and
 - (iv) there has been no material adverse change in the financial condition, state of affairs or prospects of any of the Borrowers (or either of them), the Corporate Guarantor or any other Security Party in the light of which the Agent considers that there is a significant risk that the Borrowers, the Corporate Guarantor or any other Security Party is, or will later become, unable to discharge its liabilities under the Finance Documents to which it is a party as they fall due;
- (e) that, if the ratio set out in Clause 15.1 were applied immediately following the making of the Loan, the Borrowers would not be obliged to provide additional security or prepay part of the Loan under that Clause; and

(f) that the Agent has received, and found to be acceptable to it, any further opinions, consents, agreements and documents in connection with the Finance Documents which the Agent may, with the authorisation of the Majority Lenders, request by notice to the Borrowers prior to the Drawdown Date.

9.2 Waiver of conditions precedent

If the Majority Lenders, at their discretion, permit the Loan to be borrowed before certain of the conditions referred to in Clause 9.1 are satisfied, the Borrowers shall ensure that those conditions are satisfied within 5 Business Days after the Drawdown Date (or such longer period as the Agent may, with the authorisation of the Majority Lenders, specify).

10 REPRESENTATIONS AND WARRANTIES

10.1 General

Each Borrower represents and warrants to each Creditor Party as follows.

10.2 Status

Each Borrower is duly incorporated and validly existing and in good standing under the laws of the Marshall Islands.

10.3 Share capital and ownership

Each Borrower has an authorised share capital of Five hundred (500) registered shares with par value of \$0,01 each and the legal title and beneficial ownership of all those shares is held, free of any Security Interest or other claim, by the Corporate Guarantor.

10.4 Corporate power

Each Borrower has the corporate capacity, and has taken all corporate action and obtained all consents necessary for it:

- (a) to register permanently the Ship owned by it in its name under the Approved Flag;
- (b) to execute the Finance Documents to which that Borrower is a party; and
- (c) to borrow under this Agreement, to enter into Designated Transactions under the Master Agreement and to make all the payments contemplated by, and to comply with, those Finance Documents to which it is a party.

10.5 Consents in force

All the consents referred to in Clause 10.4 remain in force and nothing has occurred which makes any of them liable to revocation.

10.6 Legal validity; effective Security Interests

The Finance Documents to which each Borrower is a party, do now or, as the case may be, will, upon execution and delivery (and, where applicable, registration as provided for in the Finance Documents):

- (a) constitute that Borrower's legal, valid and binding obligations enforceable against that Borrower in accordance with their respective terms; and
- (b) create legal, valid and binding Security Interests enforceable in accordance with their respective terms over all the assets to which they, by their terms, relate;

subject to any relevant insolvency laws affecting creditors' rights generally.

10.7 No third party Security Interests

Without limiting the generality of Clause 10.6, at the time of the execution and delivery of each Finance Document to which a Borrower is a party:

- (a) each Borrower which is a party to that Finance Document will have the right to create all the Security Interests which that Finance Document purports to create; and
- (b) no third party will have any Security Interest (except for Permitted Security Interests) or any other interest, right or claim over, in or in relation to any asset to which any such Security Interest, by its terms, relates.

10.8 No conflicts

The execution by each Borrower of each Finance Document to which it is a party, and the borrowing by that Borrower of the Loan, and its compliance with each Finance Document to which it is a party will not involve or lead to a contravention of:

- (a) any law or regulation; or
- (b) the constitutional documents of that Borrower; or
- (c) any contractual or other obligation or restriction which is binding on that Borrower or any of its assets.

10.9 No withholding taxes

All payments which each Borrower is liable to make under the Finance Documents to which it is a party may be made without deduction or withholding for or on account of any tax payable under any law of any Pertinent Jurisdiction.

10.10 No default

No Event of Default or Potential Event of Default has occurred.

10.11 Information

All information which has been provided in writing by or on behalf of the Borrowers or any Security Party to any Creditor Party in connection with any Finance Document satisfied the requirements of Clause 11.5; all audited and unaudited accounts which have been so provided satisfied the requirements of Clause 11.7; and there has been no material adverse change in the financial position or state of affairs of either Borrower from that disclosed in the latest of those accounts.

10.12 No litigation

No legal or administrative action involving any Borrower (including action relating to any alleged or actual breach of the ISM Code or the ISPS Code) has been commenced or taken or, to either Borrower's knowledge, is likely to be commenced or taken.

10.13 Validity and completeness of the Initial Charter

The Initial Charter constitutes valid, binding and enforceable obligations of the Initial Charterer and Borrower B in accordance with its terms; and:

- (a) the copy of the Initial Charter delivered to the Agent before the date of this Agreement is a true and complete copy; and
- (b) other than those amendments and additions to the initial Charter disclosed to the Agent before the date of this Agreement, no amendments or additions to the Initial Charter have been agreed nor has Borrower B or the Initial Charterer waived any of their respective rights under the Initial Charter.

10.14 Compliance with certain undertakings

At the date of this Agreement, the Borrowers are in compliance with Clauses 11.2, 11.4, 11.9 and 11.13.

10.15 Taxes paid

Each Borrower has paid all taxes applicable to, or imposed on or in relation to that Borrower, its business or the Ship owned by it.

10.16 ISM Code and ISPS Code compliance

All requirements of the ISM Code and the ISPS Code as they relate to the Borrowers, the Approved Manager and the Ships have been complied with.

10.17 No money laundering

Without prejudice to the generality of Clause 2.3, in relation to the borrowing by the Borrowers of the Loan, the performance and discharge of their obligations and liabilities under the Finance Documents, and the transactions and other arrangements affected or contemplated by the Finance Documents to which a Borrower is a party, the Borrowers confirm (i) that they are acting for their own account; (ii) that they will use the proceeds of the Loan for their own benefit, under their full responsibility and exclusively for the purposes specified in this Agreement; and (iii) that the foregoing will not involve or lead to a contravention of any law, official requirement or other regulatory measure or procedure implemented to combat "money laundering" (as defined in Article 1 of Directive 2005/60/EC of the European Parliament and of the Council).

10.18 No immunity

Neither Borrower, nor any of their assets are entitled to immunity on the grounds of sovereignty or otherwise from any legal action or proceeding (which shall include, without limitation, suit attachment prior to judgement, execution or other enforcement).

10.19 Sanctions

As regards Sanctions:

- (a) neither Borrower is a Prohibited Person or is owned or controlled by, or acting directly or indirectly on behalf of or for the benefit of, a Prohibited Person and neither Borrower owns or controls a Prohibited Person; and
- (b) no proceeds of the Loan shall be made available, directly or indirectly, to or for the benefit of a Prohibited Person or otherwise shall be, directly or indirectly, applied in a manner or for a purpose prohibited by Sanction.

11 GENERAL UNDERTAKINGS

11.1 General

Each Borrower undertakes with each Creditor Party to comply with the following provisions of this Clause 11 at all times during the Security Period except as the Agent may, with the authorisation of the Majority Lenders, otherwise permit.

11.2 Title; negative pledge

Each Borrower will:

- (a) hold the legal title to, and own the entire beneficial interest in the Ship owned by it, the Insurances and Earnings, free from all Security Interests and other interests and rights of every kind, except for those created by the Finance Documents and the effect of assignments contained in the Finance Documents and except for Permitted Security Interests; and
- (b) not create or permit to arise any Security Interest (except for Permitted Security Interests) over any other asset, present or future (including, but not limited to, that Borrower's rights against the Swap Bank under the Master Agreement or all or any part of that Borrower's interest in any amount payable to that Borrower by the Swap Bank under the Master Agreement).

11.3 No disposal of assets

Neither Borrower will transfer, lease or otherwise dispose of:

- (a) all or a substantial part of its assets, whether by one transaction or a number of transactions, whether related or not; or
- (b) any debt payable to it or any other right (present, future or contingent right) to receive a payment, including any right to damages or compensation,

but paragraph (a) does not apply to any charter of a Ship as to which Clause 14.13 applies.

11.4 No other liabilities or obligations to be incurred

Neither Borrower will incur any liability or obligation except:

- (a) under the Finance Documents to which it is a party;
- (b) liabilities or obligations reasonably incurred in the ordinary course of owning, operating and chartering the Ship; and
- (c) in respect of the Designated Transactions.

11.5 Information provided to be accurate

All financial and other information which is provided in writing by or on behalf of a Borrower under or in connection with any Finance Document will be true and not misleading and will not omit any material fact or consideration.

11.6 Provision of financial statements

Each Borrower will send or procure that are to be sent to the Agent:

- (a) as soon as possible, but in no event later than 180 days after the end of each Financial Year of the Corporate Guarantor the audited annual consolidated accounts for that Financial Year of the Corporate Guarantor (commencing with the accounts for the year ending 31 December 2012);

- (b) as soon as possible, but in no event later than 90 days after 31 March, 30 June, 30 September and 31 December in each Financial Year of the Corporate Guarantor the unaudited quarterly accounts (including, without limitation, updated details regarding balance sheets and cash flow statements) for that Financial Year of the Corporate Guarantor (commencing with the accounts for the 3-month period ending 31 December 2012) certified as to their correctness by the chief financial officer of the Corporate Guarantor; and
- (c) promptly after a request by the Agent, such further financial or other information in respect of the Borrowers, the Ships, the Corporate Guarantor, the other Security Parties and the Group (including, but not limited to, charter arrangements, Financial Indebtedness, operating expenses) as the Agent may require.

11.7 Form of financial statements

All accounts delivered under Clause 11.6 will:

- (a) be prepared in accordance with all applicable laws and GAAP consistently applied;
- (b) give a true and fair view of the state of affairs of the Group at the date of those accounts and of its profit for the period to which those accounts relate; and
- (c) fully disclose or provide for all significant liabilities of the Group.

11.8 Shareholder and creditor notices

Each Borrower will send the Agent, at the same time as they are despatched, copies of all communications which are despatched to that Borrower's shareholders or creditors or any class of them.

11.9 Consents

Each Borrower will maintain in force and promptly obtain or renew, and will promptly send certified copies to the Agent of, all consents required:

- (a) for that Borrower to perform its obligations under any Finance Document to which it is a party;
- (b) for the validity or enforceability of any Finance Document to which it is a party; and
- (c) for that Borrower to continue to own and operate the Ship owned by it, and that Borrower will comply with the terms of all such consents.

11.10 Maintenance of Security Interests

Each Borrower will:

- (a) at its own cost, do all that is necessary to ensure that any Finance Document to which it is a party validly creates the obligations and the Security Interests which it purports to create; and
- (b) without limiting the generality of paragraph (a), at its own cost, promptly register, file, record or enrol any Finance Document with any court or authority in all Pertinent Jurisdictions, pay any stamp, registration or similar tax in all Pertinent Jurisdictions in respect of any Finance Document, give any notice or take any other step which, in the opinion of the Majority Lenders, is or has become necessary or desirable for any Finance Document to be valid, enforceable or admissible in evidence or to ensure or protect the priority of any Security Interest which it creates.

11.11 Notification of litigation

Each Borrower will provide the Agent with details of any legal or administrative action involving that Borrower, any Security Party, the Approved Manager or the Ship owned by it, the Earnings or the Insurances as soon as such action is instituted or it becomes apparent to that Borrower that it is likely to be instituted, unless it is clear that the legal or administrative action cannot be considered material in the context of any Finance Document.

11.12 No amendment to Master Agreement

Neither Borrower will agree to any amendment or supplement to, or waive or fail to enforce, the Master Agreement or any of its provisions.

11.13 Principal place of business

Neither Borrower will establish, or do anything as a result of which it would be deemed to have, a place of business in any country other than the Marshall Islands and Greece.

11.14 Confirmation of no default

Each Borrower will, within 2 Business Days after service by the Agent of a written request, serve on the Agent a notice which is signed by 2 directors of that Borrower and which:

- (a) states that no Event of Default or Potential Event of Default has occurred; or
- (b) states that no Event of Default or Potential Event of Default has occurred, except for a specified event or matter, of which all material details are given.

The Agent may serve requests under this Clause 11.14 from time to time but only if asked to do so by a Lender or Lenders having Contributions exceeding 10 per cent. of the Loan or (if the Loan hasn't been drawn) Commitments exceeding 10 per cent of the Total Commitments; and this Clause 11.14 does not affect the Borrowers' obligations under Clause 11.15.

11.15 Notification of default

Each Borrower will notify the Agent as soon as that Borrower becomes aware of:

- (a) the occurrence of an Event of Default or a Potential Event of Default; or
- (b) any matter which indicates that an Event of Default or a Potential Event of Default may have occurred, and will keep the Agent fully up to date with all developments

11.16 Provision of further information

Each Borrower will, as soon as practicable after receiving the request, provide the Agent with any additional financial or other information relating:

- (a) to the Borrowers, the Group, the Corporate Guarantor, the Ships, the other Fleet Vessels, their Insurances or their Earnings (including, but not limited to, any sales or purchases of any Fleet Vessels, the incurrence of Financial Indebtedness by members of the Group, details of the employment of the Fleet Vessels) as the Agent may require; or
- (b) to any other matter relevant to, or to any provision of, a Finance Document,

which may be requested by the Agent, the Security Trustee, the Swap Bank or any Lender at any time.

11.17 Provision of copies and translation of documents

Each Borrower will supply the Agent with a sufficient number of copies of the documents referred to above to provide 1 copy for each Creditor Party; and if the Agent so requires in respect of any of those documents, the Borrowers will provide a certified English translation prepared by a translator approved by the Agent.

11.18 "Know your customer" checks

If:

- (a) the introduction of or any change in (or in the interpretation, administration or application of) any law or regulation made after the date of this Agreement;
- (b) any change in the status of either Borrower or any Security Party after the date of this Agreement; or
- (c) a proposed assignment or transfer by a Lender of any of its rights and obligations under this Agreement to a party that is not a Lender prior to such assignment or transfer,

obliges the Agent or any Lender (or, in the case of paragraph (c), any prospective new Lender) to comply with "know your customer" or similar identification procedures in circumstances where the necessary information is not already available to it, the Borrowers shall promptly upon the request of the Agent or the Lender concerned supply, or procure the supply of, such documentation and other evidence as is reasonably requested by the Agent (for itself or on behalf of any Lender) or the Lender concerned (for itself or, in the case of the event described in paragraph (c), on behalf of any prospective new Lender) in order for the Agent, the Lender concerned or, in the case of the event described in paragraph (c), any prospective new Lender to carry out and be satisfied it has complied with all necessary "know your customer" or other similar checks under all applicable laws and regulations pursuant to the transactions contemplated in the Finance Documents.

11.19 No amendment to the Initial Charter

Each Borrower will ensure that the parties to the Initial Charter will not agree to any amendment or supplement to, or waive or fault to enforce, the Initial Charter or any of its provisions.

12 CORPORATE UNDERTAKINGS

12.1 General

Each Borrower also undertakes with each Creditor Party to comply with the following provisions of this Clause 12 at all times during the Security Period except as the Agent may, with the authorisation of the Majority Lenders, otherwise permit.

12.2 Maintenance of status

Each Borrower will maintain its separate corporate existence and remain in good standing under the laws of the Marshall Islands.

12.3 Negative undertakings

Neither Borrower will:

- (a) carry on any business other than the ownership, chartering and operation of the Ship owned by that Borrower; or
- (b) pay any dividend or make any other form of distribution or effect any form of redemption, purchase or return of share capital if an Event of Default has occurred at the relevant time or an Event of Default will result from the payment of a dividend or the making of any other form of distribution; or
- (c) provide any form of credit or financial assistance to:
 - (i) a person who is directly or indirectly interested in that Borrower's share or loan capital; or
 - (ii) any company in or with which such a person is directly or indirectly interested or connected;

or enter into any transaction with or involving such a person or company on terms which are, in any respect, less favourable to that Borrower than those which it could obtain in a bargain made at arms' length; or

- (d) save for the account opened by Borrower B with Duetsche Bank AG Finale Deutschlandgescht in Hamburg, open or maintain any account with any bank or financial institution except accounts with the Agent and the Security Trustee for the purposes of the Finance Documents; or
- (e) issue, allot or grant any person a right to any shares in its capital or repurchase or reduce its issued share capital; or

acquire any shares or other securities other than US or UK Treasury bills and certificates of deposit issued by major North American or European banks, or enter into any transaction in a derivative other than the Designated Transactions; or

- (g) enter into any form of amalgamation, merger or de-merger or any form of reconstruction or reorganisation.

13 INSURANCE

13.1 General

Each Borrower also undertakes with each Creditor Party to comply with the following provisions of this Clause 13 at all times during the Security Period except as the Agent may, with the authorisation of the Majority Lenders, otherwise permit.

13.2 Maintenance of obligatory insurances

Each Borrower shall keep the Ship owned by it insured at the expense of that Borrower against:

- (a) fire and usual marine risks (including hull and machinery and excess risks);
- (b) war risks (including terrorism, piracy and confiscation);
- (c) protection and indemnity risks (other than loss of hire or political risks); and
- (d) any other risks against which the Security Trustee considers, having regard to practices and other circumstances prevailing at the relevant time, it would in the opinion of the Security Trustee be reasonable for that Borrower to insure and which are specified by the Security Trustee by notice to that Borrower.

13.3 Terms of obligatory insurances

Each Borrower shall effect such insurances:

- (a) in Dollars;
- (b) in the case of fire and usual marine risks and war risks, (including hull interest and freight interest) in such amount as shall from time to time be approved by the Security Trustee but in any event in an amount not less than the greater of (i) an amount which when aggregated with the insured value of the other Ship then subject to a Mortgage, 120 per cent of the aggregate of the Loan and (ii) the Market Value of the Ship owned by it;
- (c) in the case of hull and machinery policy at an agreed insured value (excluding hull interest and freight interest) in an amount of not less than the greater of (i) 80 per cent. of the Market Value of the Ship owned by it or (ii) an amount which when aggregated with the agreed insured values under all the other hull and machinery policies for the other Ship then subject to a Mortgage is not less than the principal amount of the Loan, Provided that the Borrowers are in compliance with their obligations under paragraph (b) above at all times;
- (d) in the case of oil pollution liability risks, for an aggregate amount equal to the highest level of cover from time to time available under basic protection and indemnity club entry and in the international marine insurance market;
- (e) in relation to protection and indemnity risks in respect of the full tonnage of the Ship;
- (f) on approved terms; and
- (g) through approved brokers and with approved insurance companies and/or underwriters or, in the case of war risks and protection and indemnity risks, in approved war risks and protection and indemnity risks associations.

13.4 Further protections for the Creditor Parties

In addition to the terms set out in Clause 13.3, each Borrower shall procure that the obligatory insurances effected by it shall:

- (a) subject always to paragraph (b), name that Borrower as the sole named assured unless the interest of every other named assured is limited:
 - (i) in respect of any obligatory insurances for hull and machinery and war risks:
 - (A) to any provable out-of-pocket expenses that it has incurred and which form part of any recoverable claim on underwriters; and
 - (B) to any third party liability claims where cover for such claims is provided by the policy (and then only in respect of discharge of any claims made against it); and
 - (ii) in respect of any obligatory insurances for protection and indemnity risks, to any recoveries it is entitled to make by way of reimbursement following discharge of any third party liability claims made specifically against it

and every other named assured has undertaken in writing to the Security Trustee (in such form as it requires) that any deductible shall be apportioned between that Borrower and every other named assured in proportion to the gross claims made or paid by each of them and that it shall do all things necessary and provide all documents, evidence and information to enable the Security Trustee to collect or recover any moneys which at any time become payable in respect of the obligatory insurances;

- (b) whenever the Security Trustee requires, name (or be amended to name) the Security Trustee as additional named assured for its rights and interests, warranted no operational interest and with full waiver of rights of subrogation against the Security Trustee, but without the Security Trustee thereby being liable to pay (but having the right to pay) premiums, calls or other assessments in respect of such insurance;
- (c) name the Security Trustee as loss payee with such directions for payment as the Security Trustee may specify;
- (d) provide that all payments by or on behalf of the insurers under the obligatory insurances to the Security Trustee shall be made without set-off, counterclaim or deductions or condition whatsoever;
- (e) provide that such obligatory insurances shall be primary without right of contribution from other insurances which may be carried by the Security Trustee or any other Creditor Party; and
- (f) provide that the Security Trustee may make proof of loss if that Borrower fails to do so.

13.5 Renewal of obligatory insurances

Each Borrower shall:

- (a) at least 21 days before the expiry of any obligatory insurance effected by it:
 - (i) notify the Security Trustee of the brokers (or other insurers) and any protection and indemnity or war risks association through or with whom that Borrower proposes to renew that obligatory insurance and of the proposed terms of renewal; and
 - (ii) obtain the Security Trustee's approval to the matters referred to in paragraph (i);
- (b) at least 14 days before the expiry of any obligatory insurance, renew that obligatory insurance in accordance with the Security Trustee's approval pursuant to paragraph (a); and
- (c) procure that the approved brokers and/or the war risks and protection and indemnity associations with which such a renewal is effected shall promptly after the renewal notify the Security Trustee in writing of the terms each conditions of the renewal.

13.6 Copies of policies; letters of undertaking

Each Borrower shall ensure that all approved brokers provide the Security Trustee with pro forma copies of all policies relating to the obligatory insurances which they are to effect or renew and of a letter or letters of undertaking in a form required by the Security Trustee and including undertakings by the approved brokers that:

- (a) they will have endorsed on each policy, immediately upon issue, a loss payable clause and a notice of assignment complying with the provisions of Clause 13.4;
- (b) they will hold such policies, and the benefit of such insurances, to the order of the Security Trustee in accordance with the said loss payable clause;
- (c) they will advise the Security Trustee immediately of any material change to the terms of the obligatory insurances;
- (d) they will notify the Security Trustee, not less than 14 days before the expiry of the obligatory insurances, in the event of their not having received notice of renewal instructions from that Borrower or its agents and, in the event of their receiving instructions to renew, they will promptly notify the Security Trustee of the terms of the instructions; and

(e) they will not set off against any sum recoverable in respect of a claim relating to the Ship owned by that Borrower under such obligatory insurances any premiums or other amounts due to them or any other person whether in respect of that Ship or otherwise, they waive any lien on the policies, or any sums received under them, which they might have in respect of such premiums or other amounts, and they will not cancel such obligatory insurances by reason of non-payment of such premiums or other amounts, and will arrange for a separate policy to be issued in respect of that Ship forthwith upon being so requested by the Security Trustee.

13.7 Copies of certificates of entry

Each Borrower shall ensure that any protection and indemnity and/or war risks associations in which the Ship owned by it is entered provides the Security Trustee with:

- (a) a certified copy of the certificate of entry for that Ship owned by it;
- (b) a letter or letters of undertaking in such form as may be required by the Security Trustee; and
- (c) a certified copy of each certificate of financial responsibility for pollution by oil or other Environmentally Sensitive Material issued by the relevant certifying authority in relation to that Ship.

13.8 Deposit of original policies

Each Borrower shall ensure that all policies relating to obligatory insurances effected by it are deposited with the approved brokers through which the insurances are effected or renewed.

13.9 Payment of premiums

Each Borrower shall punctually pay all premiums or other sums payable in respect of the obligatory insurances effected by it and produce **all** relevant receipts when so required by the Security Trustee.

13.10 Guarantees

Each Borrower shall ensure that any guarantees required by a protection and indemnity or war risks association are promptly issued and remain in full force and effect.

13.11 Restrictions on employment

Neither Borrower shall employ its Ship, nor shall permit it to be employed, outside the cover provided by any obligatory insurances.

13.12 Compliance with terms of insurances

Neither Borrower shall do nor omit to do (nor permit to be done or not to be done) any act or thing which would or might render any obligatory insurance invalid, void, voidable or unenforceable or render any sum payable under an obligatory insurance repayable in whole or in part; and, in particular:

- (a) each Borrower shall take all necessary action and comply with all requirements which may from time to time be applicable to the obligatory insurances, and (without limiting the obligation contained in Clause 13.6(c)) ensure that the obligatory insurances are not made subject to any exclusions or qualifications to which the Security Trustee has not given its prior approval;

- (b) neither Borrower shall make any changes relating to the classification or classification society or manager or operator of the Ship owned by it approved by the underwriters of the obligatory insurances;
- (c) each Borrower shall make (and promptly supply copies to the Agent of) all quarterly or other voyage declarations which may be required by the protection and indemnity risks association in which the Ship owned by it is entered to maintain cover for trading to the United States of America and Exclusive Economic Zone (as defined in the United States Oil Pollution Act 1990 or any other applicable legislation); and
- (d) neither Borrower shall employ the Ship owned by it, nor allow it to be employed, otherwise than in conformity with the terms and conditions of the obligatory insurances, without first obtaining the consent of the insurers and complying with any requirements (as to extra premium or otherwise) which the insurers specify.

13.13 Alteration to terms of insurances

Neither Borrower shall make nor agree to any alteration to the terms of any obligatory insurance nor waive any right relating to any obligatory insurance.

13.14 Settlement of claims

Neither Borrower shall settle, compromise or abandon any claim under any obligatory insurance for Total Loss or for a Major Casualty, and shall do all things necessary and provide all documents, evidence and information to enable the Security Trustee to collect or recover any moneys which at any time become payable in respect of the obligatory insurances.

13.15 Provision of copies of communications

Each Borrower shall provide the Security Trustee, at the time of each such communication, copies of all written communications between a Borrower and:

- (a) the approved brokers;
- (b) the approved protection and indemnity and/or war risks associations; and
- (c) the approved insurance companies and/or underwriters, which relate directly or indirectly to:
 - (i) that Borrower's obligations relating to the obligatory insurances including, without limitation, all requisite declarations and payments of additional premiums or calls; and
 - (ii) any credit arrangements made between that Borrower and any of the persons referred to in paragraphs (a) or (b) relating wholly or partly to the effecting or maintenance of the obligatory insurances.

13.16 Provision of information

In addition, each Borrower shall promptly provide the Security Trustee (or any persons which it may designate) with any information which the Security Trustee (or any such designated person) requests for the purpose of:

- (a) obtaining or preparing any report from an independent marine insurance broker as to the adequacy of the obligatory insurances effected or proposed to be effected; and/or
- (b) effecting, maintaining or renewing any such insurances as are referred to in Clause 13.17 below or dealing with or considering any matters relating to any such insurances,

and the Borrowers shall, forthwith upon demand, indemnify the Security Trustee in respect of all fees and other expenses incurred by or for the account of the Security Trustee in connection with any such report as is referred to in paragraph (a).

13.17 Mortgagee's interest insurances

The Security Trustee shall be entitled from time to time to effect, maintain and renew a mortgagee's interest marine insurance policy in such amounts, on such terms, through such insurers and generally in such manner as the Security Trustee may from time to time consider appropriate and each Borrower shall upon demand fully indemnify the Creditor Parties in respect of all premiums and other expenses which are incurred in connection with or with a view to effecting, maintaining or renewing any such insurance or dealing with, or considering, any matter arising out of any such insurance.

13.18 Review of insurance requirements

The Agent shall be entitled to review the requirements of this Clause 13 from time to time in order to take account of any changes in circumstances after the date of this Agreement which the Agent reasonably considers significant and capable of affecting the Borrowers, the Ships and their Insurances (including, without limitation, changes in the availability or the cost of insurance coverage or the risks to which each Borrower may be subject), and may appoint insurance consultants in relation to this review at the cost of that Borrower.

13.19 Modification of insurance requirements

The Agent shall notify the Borrowers of any proposed modification under Clause 13.18 to the requirements of this Clause 13 which the Agent reasonably considers appropriate in the circumstances, and such modification shall take effect on and from the date it is notified in writing to the relevant Borrower as an amendment to this Clause 13 and shall bind that Borrower accordingly.

13.20 Compliance with mortgagee's instructions

The Agent shall be entitled (without prejudice to or limitation of any other rights which it may have or acquire under any Finance Document) to require a Ship to remain at any safe port or to proceed to and remain at any safe port designated by the Agent until the Borrower owning that Ship implements any amendments to the terms of the obligatory insurances and any operational changes required as a result of a notice served under Clause 13.19.

14 SHIP COVENANTS

14.1 General

Each Borrower also undertakes with each Creditor Party to comply with the following provisions of this Clause 14 at all times during the Security Period except as the Agent, with the authorisation of the Majority Lenders, may otherwise permit.

14.2 Ship's name and registration

Each Borrower shall keep the Ship owned by it registered in its name under an Approved Flag; shall not do, omit to do or allow to be done anything as a result of which such registration might be cancelled or imperilled; and shall not change the name or port of registry of the Ship owned by it.

14.3 Repair and classification

Each Borrower shall keep the Ship owned by it in a good and safe condition and state of repair:

- (a) consistent with first class ship ownership and management practice;
- (b) so as to maintain the highest class free of overdue recommendations and conditions with a classification society which is a member of [ACS acceptable to the Agent; and
- (c) so as to comply with all laws and regulations applicable to vessels registered at ports in the applicable Approved Flag State or to vessels trading to any jurisdiction to which that Ship may trade from time to time, including but not limited to the ISM Code and the ISPS Code.

14.4 Classification society undertaking

Each Borrower shall instruct the classification society referred to in Clause 14.3 (and procure that the classification society undertakes with the Security Trustee):

- (a) to send to the Security Trustee, following receipt of a written request from the Security Trustee, certified true copies of all original class records held by the classification society in relation to its Ship;
- (b) to allow the Security Trustee (or its agents), at any time and from time to time, to inspect the original class and related records of its Ship at the offices of the classification society and to take copies of them;
- (c) to notify the Security Trustee immediately in writing if the classification society:
 - (i) receives notification from that Borrower or any other person that its Ship's classification society is to be changed; or
 - (ii) becomes aware of any facts or matters which may result in or have resulted in a change, suspension, discontinuance, withdrawal or expiry of that Ship's class under the rules or terms and conditions of that Borrower's or its Ship's membership of the classification society; and
- (d) following receipt of a written request from the Security Trustee:
 - (i) to confirm that a Borrower is not in default of any of its contractual obligations or liabilities to the classification society and, without limiting the foregoing, that it has paid in full all fees or other charges due and payable to the classification society; or
 - (ii) if a Borrower is in default of any of its contractual obligations or liabilities to the classification society, to specify to the Security Trustee in reasonable detail the facts and circumstances of such default, the consequences of such default, and any remedy period agreed or allowed by the classification society.

14.5 Modification

Neither Borrower shall make any modification or repairs to, or replacement of, any Ship or equipment installed on it which would or might materially alter the structure, type or performance characteristics of that Ship or materially reduce its value.

14.6 Removal of parts

Neither Borrower shall remove any material part of any Ship, or any item of equipment installed on, any Ship unless the part or item so removed is forthwith replaced by a suitable part or item which is in the same condition as or better condition than the part or item removed, is free from any Security Interest or any right in favour of any person other than

the Security Trustee and becomes on installation on the relevant Ship the property of the relevant Borrower and subject to the security constituted by the relevant Mortgage **Provided that** a Borrower may install equipment owned by a third party if the equipment can be removed without any risk of damage to the Ship owned by it.

14.7 Surveys

Each Borrower shall submit the Ship owned by it regularly to all periodical or other surveys which may be required for classification purposes and, if so required by the Security Trustee provide the Security Trustee, with copies of all survey reports.

14.8 Inspection

Each Borrower shall permit the Security Trustee (by surveyors or other persons appointed by it for that purpose) to board the Ship owned by it at all reasonable times to inspect its condition or to satisfy themselves about proposed or executed repairs and shall afford all proper facilities for such inspections.

14.9 Prevention of and release from arrest

Each Borrower shall promptly discharge:

- (a) all liabilities which give or may give rise to maritime or possessory liens on or claims enforceable against the Ship owned by it, the Earnings or the Insurances;
- (b) all taxes, dues and other amounts charged in respect of the Ship owned by it, the Earnings or the Insurances; and
- (c) all other outgoings whatsoever in respect of the Ship owned by it, the Earnings or the Insurances,

and, forthwith upon receiving notice of the arrest of the Ship owned by it, or of its detention in exercise or purported exercise of any lien or claim, that Borrower shall procure its release by providing bail or otherwise as the circumstances may require.

14.10 Compliance with laws etc.

Each Borrower shall:

- (a) comply, or procure compliance with the ISM Code, the ISPS Code, all Environmental Laws and all other laws or regulations relating to the Ship owned by it, its ownership, operation and management or to the business of that Borrower;
- (b) not employ the Ship owned by it nor allow its employment in any manner contrary to any law or regulation in any relevant jurisdiction including but not limited to the ISM Code and the ISPS Code; and
- (c) in the event of hostilities in any part of the world (whether war is declared or not), not cause or permit the Ship owned by it to enter or trade to any zone which is declared a war zone by any government or by the Ship's war risks insurers unless the prior written consent of the Security Trustee has been given and that Borrower has (at its expense) effected any special, additional or modified insurance cover which the Security Trustee may require.

14.11 Provision of information

Each Borrower shall promptly provide the Security Trustee with any information which it requests regarding:

- (a) the Ship owned by it, its employment, position and engagements;
- (b) the Earnings and payments and amounts due to the master and crew of the Ship owned by it;
- (c) any expenses incurred, or likely to be incurred, in connection with the operation, maintenance or repair of the Ship owned by it and any payments made in respect of that Ship;
- (d) any towages and salvages; and
- (e) its compliance, the Approved Manager's compliance and the compliance of the Ship owned by it with the ISM Code and the ISPS Code,

and, upon the Security Trustee's request, provide copies of any current charter relating to the Ship owned by it, of any current charter guarantee and copies of the Borrower's or the Approved Manager's Document of Compliance.

14.12 Notification of certain events

Each Borrower shall immediately notify the Security Trustee by fax, confirmed forthwith, by letter of:

- (a) any casualty which is or is likely to be or to become a Major Casualty;
- (b) any occurrence as a result of which the Ship owned by it has become or is, by the passing of time or otherwise, likely to become a Total Loss;
- (c) any requirement or recommendation made by any insurer or classification society or by any competent authority which is not immediately complied with;
- (d) any arrest or detention of the Ship owned by it, any exercise or purported exercise of any lien on that Ship or its Earnings or any requisition of that Ship for hire;
- (e) any intended dry docking of the Ship owned by it;
- (f) any Environmental Claim made against that Borrower or in connection with the Ship owned by it, or any Environmental **Incident**;
- (g) any claim for breach of the ISM Code or the ISPS Code being made against the Borrower, the Approved Manager or otherwise in connection with the Ship owned by it; or
- (h) any other matter, event or incident, actual or threatened, the effect of which will or could lead to the ISM Code or the ISPS Code not being complied with,

and that Borrower shall keep the Security Trustee advised in writing on a regular basis and in such detail as the Security Trustee shall require of that Borrower's, the Approved Manager's or any other person's response to any of those events or matters.

14.13 Restrictions on chartering, appointment of managers etc.

Neither Borrower shall, in relation to the Ship owned by it:

- (a) let that Ship on demise charter for any period;
- (b) other than the Initial Charter in the case of Borrower B, enter into any time or consecutive voyage charter in respect of that Ship for a term which exceeds, or which by virtue of any optional extensions may exceed, 12 months;

- (c) enter into any charter in relation to that Ship under which more than 2 months' hire (or the equivalent) is payable in advance;
- (d) charter that Ship otherwise than on bona fide arm's length terms at the time when that Ship is fixed;
- (e) appoint a manager of that Ship other than the Approved Manager or agree to any alteration to the terms of the Approved Manager's appointment;
- (f) deactivate or lay up that Ship; or
- (g) put that Ship into the possession of any person for the purpose of work being done upon it in an amount exceeding or likely to exceed 1,000,000 (or the equivalent in any other currency) unless that person has first given to the Security Trustee and in terms satisfactory to it a written undertaking not to exercise any lien on that Ship or its Earnings for the cost of such work or for any other reason.

14.14 Notice of Mortgage

Each Borrower shall keep the relevant Mortgage registered against the Ship owned by it as a valid first priority or preferred mortgage, carry on board that Ship a certified copy of the relevant Mortgage and place and maintain in a conspicuous place in the navigation room and the Master's cabin of that Ship a framed printed notice stating that that Ship is mortgaged by that Borrower to the Security Trustee.

14.15 Sharing of Earnings

Neither Borrower shall:

- (a) enter into any agreement or arrangement for the sharing of any Earnings;
- (b) enter into any agreement or arrangement for the postponement of any date on which any Earnings are due; and
- (c) the reduction of the amount of any Earnings or otherwise for the release or adverse alteration of any right of a Borrower to any Earnings.

14.16 ISPS Code

Each Borrower shall comply with the ISPS Code and in particular, without limitation, shall:

- (a) procure that the Ship owned by that Borrower and the company responsible for that Ship's compliance with the ISPS Code comply with the ISPS Code;
- (b) maintain for that Ship an ISSC; and
- (c) notify the Agent immediately in writing of any actual or threatened withdrawal, suspension, cancellation or modification of the ISSC.

14.17 Charterparty Assignment

if a Borrower enters into any Approved Charter (subject to obtaining the consent of the Agent in accordance with Clause 14.13(b)), that Borrower shall at the request of the Agent execute in favour of the Security Trustee (and register, if applicable) an Approved Charterparty Assignment and shall:

- (a) serve notices of the Approved Charterparty Assignment on the Approved Charterer and procure that the Approved Charterer acknowledges such notice in such form as the Agent may approve or require; and
- (b) deliver to the Agent such other documents equivalent to those referred to at paragraphs 3, 4 and 5 of Schedule 3, Part A as the Agent may require.

15 SECURITY COVER

15.1 Minimum required security cover

Clause 15.2 applies if, at any relevant time during the Security Period, the Agent notifies the Borrowers that:

- (a) The aggregate of the Market Values of the Ships; plus
- (b) the net realisable value of any additional security previously provided under this Clause 15, is below 125 per cent of the Loan.

15.2 Provision of additional security; prepayment

If the Agent serves a notice on the Borrowers under Clause 15.1, the Borrowers shall prepay such part at least of the Loan as will eliminate the shortfall on or before the date falling 1 month after the date on which the Agent's notice is served under Clause 15.1 (the "**Prepayment Date**") unless at least 1 Business Day before the Prepayment Date the Borrowers have provided additional security which, in the opinion of the Majority Lenders, has a net realisable value at least equal to the shortfall and is documented in such terms as the Agent may, with the authorisation of the Majority Lenders, approve or require.

15.3 Valuation of Ships

The Market Value of a Ship (or any other Fleet Vessel) at any date during the Security Period is that shown by taking the arithmetic means of two valuations, each valuation to be prepared:

- (a) as at a date not more than 14 days previously;
- (b) an Approved Broker;
- (c) with or without physical inspection of the Ship (as the Agent may require);
- (d) on the basis of a sale for prompt delivery for cash on normal arm's length commercial terms as between a willing seller and a willing buyer, free of any existing charter or other contract of employment; and
- (e) after deducting the estimated amount of the usual and reasonable expenses which would be incurred in connection with the sale

15.4 Value of additional vessel security

The net realisable value of any additional security which is provided under Clause 15.2 and which consists of a Security Interest over a vessel shall be that shown by a valuation complying with the requirements of Clause 15.3.

15.5 Valuations binding

Any valuation under Clause 15.2, 15.3 or 15.4 shall be binding and conclusive as regards the Borrowers, as shall be any valuation which the Majority Lenders make of any additional security which does not consist of or include a Security Interest.

15.6 Provision of information

The Borrowers shall promptly provide the Agent and the Approved Broker acting under Clause 15.3 or 15.4 with any information which the Agent or the Approved Broker may request for the purposes of the valuation; and, if the Borrowers fail to provide the information by the date specified in the request, the valuation may be made on any basis and assumptions which the Approved Broker or the Majority Lenders (or the expert appointed by them) consider prudent.

15.7 Payment of valuation expenses

Without prejudice to the generality of the Borrowers' obligations under Clauses 20.2, 20.3 and 21.3, the Borrowers shall, on demand, pay the Agent the amount of the fees and expenses of the Approved Broker instructed by the Agent under this Clause and all legal and other expenses incurred by any Creditor Party in connection with any matter arising out of this Clause.

15.8 Application of prepayment

Clause 8.10 shall apply in relation to any prepayment pursuant to Clause 15.1.

16 PAYMENTS AND CALCULATIONS

16.1 Currency and method of payments

All payments to be made by the Lenders or by either Borrower under a Finance Document shall be made to the Agent or to the Security Trustee, in the case of an amount payable to it:

- (a) by not later than 11.00 a.m. (New York City time) on the due date;
- (b) in same day Dollar funds settled through the New York Clearing House Interbank Payments System (or in such other Dollar funds and/or settled in such other manner as the Agent shall specify as being customary at the time for the settlement of international transactions of the type contemplated by this Agreement);
- (c) in the case of an amount payable by a Lender to the Agent or by either Borrower to the Agent or any Lender, to the account of the Agent at JP Morgan Chase Bank NA, New York (SWIFT CODE: CHASUS33 (Account Nordea Bank Finland plc, London Branch Account No. 400807041, Swift Code: NDEAGB2L)), or to such other account with such other bank as the Agent may from time to time notify to the Borrowers and the other Creditor Parties; and
- (d) in the case of an amount payable to the Security Trustee, to such account as it may from time to time notify to the Borrowers and the other Creditor Parties.

16.2 Payment on non-Business Day

If any payment by either Borrower under a Finance Document would otherwise fall due on a day which is not a Business Day:

- (a) the due date shall be extended to the next succeeding Business Day; or
- (b) if the next succeeding Business Day falls in the next calendar month, the due date shall be brought forward to the immediately preceding Business Day,

and interest shall be payable during any extension under paragraph (a) at the rate payable on the original due date.

16.3 Basis for calculation of periodic payments

All interest and commitment fee and any other payments under any Finance Document which are of an annual or periodic nature shall accrue from day to day and shall be calculated on the basis of the actual number of days elapsed and a 360 day year.

16.4 Distribution of payments to Creditor Parties

Subject to Clauses 16.5, 16.6 and 16.7:

- (a) any amount received by the Agent under a Finance Document for distribution or remittance to a Lender, the Swap Bank or the Security Trustee shall be made available by the Agent to that Lender, the Swap Bank or, as the case may be, the Security Trustee by payment, with funds having the same value as the funds received, to such account as the Lender, the Swap Bank or the Security Trustee may have notified to the Agent not less than 5 Business Days previously; and
- (b) amounts to be applied in satisfying amounts of a particular category which are due to the Lenders and/or the Swap Bank generally shall be distributed by the Agent to each Lender and the Swap Bank pro rata to the amount in that category which is due to it.

16.5 Permitted deductions by Agent

Notwithstanding any other provision of this Agreement or any other Finance Document, the Agent may, before making an amount available to a Lender or the Swap Bank, deduct and withhold from that amount any sum which is then due and payable to the Agent from that Lender or the Swap Bank under any Finance Document or any sum which the Agent is then entitled under any Finance Document to require that Lender or the Swap Bank to pay on demand.

16.6 Agent only obliged to pay when monies received

Notwithstanding any other provision of this Agreement or any other Finance Document, the Agent shall not be obliged to make available to either Borrower or any Lender or the Swap Bank any sum which the Agent is expecting to receive for remittance or distribution to that Borrower or that Lender or the Swap Bank until the Agent has satisfied itself that it has received that sum.

16.7 Refund to Agent of monies not received

If and to the extent that the Agent makes available a sum to a Borrower or a Lender or the Swap Bank, without first having received that sum, that Borrower or (as the case may be) the Lender or the Swap Bank concerned shall, on demand:

- (a) refund the sum in full to the Agent; and
- (b) pay to the Agent the amount (as certified by the Agent) which will indemnify the Agent against any funding or other loss, liability or expense incurred by the Agent as a result of making the sum available before receiving it.

16.8 Agent may assume receipt

Clause 16.7 shall not affect any claim which the Agent has under the law of restitution, and applies irrespective of whether the Agent had any form of notice that it had not received the sum which it made available.

16.9 Creditor Party accounts

Each Creditor Party shall maintain accounts showing the amounts owing to it by the Borrowers and each Security Party under the Finance Documents and all payments in respect of those amounts made by the Borrowers and any Security Party.

16.10 Agent's memorandum account

The Agent shall maintain a memorandum account showing the amounts advanced by the Lenders and all other sums owing to the Agent, the Security Trustee and each Lender from the Borrowers and each Security Party under the Finance Documents and all payments in respect of those amounts made by the Borrowers and any Security Party.

16.11 Accounts prima facie evidence

If any accounts maintained under Clauses 16.9 and 16.10 show an amount to be owing by a Borrower or a Security Party to a Creditor Party, those accounts shall be prima facie evidence that that amount is owing to that Creditor Party.

17 APPLICATION OF RECEIPTS

17.1 Normal order of application

Except as any Finance Document may otherwise provide, any sums which are received or recovered by any Creditor Party under or by virtue of any Finance Document shall be applied:

- (a) FIRST: in or towards satisfaction of any amounts then due and payable under the Finance Documents in the following order and proportions:
 - (i) first, in or towards satisfaction pro rata of all amounts then due and payable to the Creditor Parties under the Finance Documents other than those amounts referred to at paragraphs (ii) and (iii) (including, but without limitation, all amounts payable by either Borrower under Clauses 20, 21 and 22 of this Agreement or by either Borrower or any Security Party under any corresponding or similar provision in any other Finance Document);
 - (ii) secondly, in or towards satisfaction pro rata of any and all amounts of interest or default interest payable to the Creditor Parties under the Finance Documents (and, for this purpose, the expression "**interest**" shall include any net amount which either Borrower shall have become liable to pay or deliver under section 2(e) (Obligations) of the Master Agreement but shall have failed to pay or deliver to the Swap Bank at the time of application or distribution under this Clause 17); and
 - (iii) thirdly, in or towards satisfaction pro rata of the Loan and the Swap Exposure (in the case of the latter, calculated as at the actual Early Termination Date applying to each particular Designated Transaction, or if no such Early Termination Date shall have occurred, calculated as if an Early Termination Date occurred on the date of application or distribution hereunder);
- (b) SECONDLY: in retention of an amount equal to any amount not then due and payable under any Finance Document but which the Agent, by notice to either Borrower, the Security Parties and the other Creditor Parties, states in its opinion will either or may become due and payable in the future and, upon those amounts becoming due and payable, in or towards satisfaction of them in accordance with the provisions of Clause 17.1(a); and
- (c) THIRDLY: any surplus shall be paid to the Borrowers or to any other person appearing to be entitled to it.

17.2 Variation of order of application

The Agent may, with the authorisation of the Majority Lenders and the Swap Bank, by notice to the Borrowers, the Security Parties and the other Creditor Parties provide for a different manner of application from that set out in Clause 17.1 either as regards a specified sum or sums or as regards sums in a specified category or categories.

17.3 Notice of variation of order of application

The Agent may give notices under Clause 17.2 from time to time; and such a notice may be stated to apply not only to sums which may be received or recovered in the future, but also to any sum which has been received or recovered on or after the third Business Day before the date on which the notice is served.

17.4 Appropriation rights overridden

This Clause 17 and any notice which the Agent gives under Clause 17.2 shall override any right of appropriation possessed, and any appropriation made, by either Borrower or any Security Party.

18 APPLICATION OF EARNINGS

18.1 Payment of Earnings

Each Borrower undertakes with each Creditor Party to ensure that, throughout the Security Period (and subject only to the provisions of the General Assignments) all Earnings of the Ship owned by it are paid to the Earnings Account for that Ship.

18.2 Location of accounts

Each Borrower shall promptly:

- (a) comply with any requirement of the Agent as to the location or re location of its Earnings Account; and
- (b) execute any documents which the Agent specifies to create or maintain in favour of the Security Trustee a Security Interest over (and/or rights of set-off, consolidation or other rights in relation to) its Earnings Account.

18.3 Debits for expenses etc.

The Agent shall be entitled (but not obliged) from time to time to debit any Earnings Account without prior notice in order to discharge any amount due and payable under Clause 20 or 21 to a Creditor Party or payment of which any Creditor Party has become entitled to demand under Clause 20 or 21.

18.4 Borrowers' obligations unaffected

The provisions of this Clause 18 do not affect:

- (a) the liability of the Borrowers to make payments of principal and interest on the due dates; or
- (b) any other liability or obligation of the Borrowers or any Security Party under any Finance Document.

18.5 Earnings Accounts balances

Subject to the other terms of this Agreement (including, without limitation, the terms of this Clause 18), the monies on the Earnings Account shall be freely available to the Borrowers to be used in accordance with and in compliance with the terms and conditions of this Agreement subject to no Event of Default having occurred.

19 EVENTS OF DEFAULT

19.1 Events of Default

An Event of Default occurs if:

- (a) either Borrower or any Security Party fails to pay when due or (if so payable) on demand any sum payable under a Finance Document or under any document relating to a Finance Document; or
- (b) any breach occurs of Clause 9.2, 10.18, 10.19, 11.2, 11.3, 11.9, 11.18, 11.19, 12.2, 12.3, 13.2, 13.3, 15.1, 15.2 and [12.4] of the Corporate Guarantee; or
- (c) any breach by either Borrower or any Security Party occurs of any provision of a Finance Document (other than a breach covered by paragraphs (a) or (b)) which, in the opinion of the Majority Lenders, is capable of remedy, and such default continues unremedied 10 days after written notice from the Agent requesting action to remedy the same; or
- (d) (subject to any applicable grace period specified in the Finance Document) any breach by either Borrower or any Security Party occurs of any provision of a Finance Document (other than a breach falling within paragraphs (a), (b) or (c)); or
- (e) any representation, warranty or statement made or repeated by, or by an officer of, the Borrower or a Security Party in a Finance Document or in a Drawdown Notice or any other notice or document relating to a Finance Document is untrue or misleading when it is made or repeated; or
- (f) any of the following occurs in relation to any Financial Indebtedness of a Relevant Person (exceeding in aggregate, in the case of the Corporate Guarantor, \$10,000,000 and, in the case of any other Relevant Person, \$500,000 (or the equivalent in any other currency)):
 - (i) any Financial Indebtedness of a Relevant Person is not paid when due; or
 - (ii) any Financial Indebtedness of a Relevant Person becomes due and payable or capable of being declared due and payable prior to its stated maturity date as a consequence of any event of default; or
 - (iii) a lease, hire purchase agreement or charter creating any Financial Indebtedness of a Relevant Person is terminated by the lessor or owner or becomes capable of being terminated as a consequence of any termination event; or
 - (iv) any overdraft, loan, note issuance, acceptance credit, letter of credit, guarantee, foreign exchange or other facility, or any swap or other derivative contract or transaction, relating to any Financial Indebtedness of a Relevant Person ceases to be available or becomes capable of being terminated as a result of any event of default, or cash cover is required, or becomes capable of being required, in respect of such a facility as a result of any event of default; or
 - (v) any Security Interest securing any Financial Indebtedness of a Relevant Person becomes enforceable; or
- (g) any of the following occurs in relation to a Relevant Person:

- (i) a Relevant Person becomes, in the opinion of the Majority Lenders, unable to pay its debts as they fall due; or
- (ii) any assets of a Relevant Person are subject to any form of execution, attachment, arrest, sequestration or distress in respect of a sum of, or sums aggregating, in the case of
 - (A) the Corporate Guarantor, \$10,000,000 or more or the equivalent in another currency; and
 - (B) any other Relevant Person, \$500,000 or more or the equivalent in another currency; or
- (iii) any administrative or other receiver is appointed over any asset of a Relevant Person; or
- (iv) an administrator is appointed (whether by the court or otherwise) in respect of a Relevant Person; or
- (v) any formal declaration of bankruptcy or any formal statement to the effect that a Relevant Person is insolvent or likely to become insolvent is made by a Relevant Person or by the directors of a Relevant Person or, in any proceedings, by a lawyer acting for a Relevant Person; or
- (vi) a provisional liquidator is appointed in respect of a Relevant Person, a winding up order is made in relation to a Relevant Person or a winding up resolution is passed by a Relevant Person; or
- (vii) a resolution is passed, an administration notice is given or filed, an application or petition to a court is made or presented or any other step is taken by (aa) a Relevant Person, (bb) the members or directors of a Relevant Person, (cc) a holder of Security Interests which together relate to all or substantially all of the assets of a Relevant Person, or (dd) a government minister or public or regulatory authority of a Pertinent Jurisdiction for or with a view to the winding up of that or another Relevant Person or the appointment of a provisional liquidator or administrator in respect of that or another Relevant Person, or that or another Relevant Person ceasing or suspending business operations or payments to creditors, save that this paragraph does not apply to a fully solvent winding up of a Relevant Person other than a Borrower or the Corporate Guarantor which is, or is to be, effected for the purposes of an amalgamation or reconstruction previously approved by the Majority Lenders and effected not later than 3 months after the commencement of the winding up; or
- (viii) an administration notice is given or filed, an application or petition to a court is made or presented or any other step is taken by a creditor of a Relevant Person (other than a holder of Security Interests which together relate to all or substantially all of the assets of a Relevant Person) for the winding up of a Relevant Person or the appointment of a provisional liquidator or administrator in respect of a Relevant Person in any Pertinent Jurisdiction, unless the proposed winding up, appointment of a provisional liquidator or administration is being contested in good faith, on substantial grounds and not with a view to some other insolvency law procedure being implemented instead and either (aa) the application or petition is dismissed or withdrawn within 30 days of being made or presented, or (bb) within 30 days of the administration notice being given or filed, or the other relevant steps being taken, other action is taken which will ensure that there will be no administration and (in both cases (aa) or (bb)) the Relevant Person will continue to carry on business in the ordinary way and without being the subject of any actual, interim or pending insolvency law procedure; or

- (ix) a Relevant Person or its directors take any steps (whether by making or presenting an application or petition to a court, or submitting or presenting a document setting out a proposal or proposed terms, or otherwise) with a view to obtaining, in relation to that or another Relevant Person, any form of moratorium, suspension or deferral of payments, reorganisation of debt (or certain debt) or arrangement with all or a substantial proportion (by number or value) of creditors or of any class of them or any such moratorium, suspension or deferral of payments, reorganisation or arrangement is effected by court order, by the filing of documents with a court, by means of a contract or in any other way at all; or
- (x) any meeting of the members or directors, or of any committee of the board or senior management, of a Relevant Person is held or summoned for the purpose of considering a resolution or proposal to authorise or take any action of a type described in paragraphs (iv) to (ix) or a step preparatory to such action, or (with or without such a meeting) the members, directors or such a committee resolve or agree that such an action or step should be taken or should be taken if certain conditions materialise or fail to materialise; or
- (xi) in a country other than England, any event occurs, any proceedings are opened or commenced or any step is taken which, in the opinion of the Majority Lenders is similar to any of the foregoing; or

(h) either Borrower ceases or suspends carrying on its business or a part of its business which, in the opinion of the Majority Lenders, is material in the context of this Agreement; or

(i) it becomes unlawful in any Pertinent Jurisdiction or impossible:

- (i) for either Borrower, either corporate Guarantor or any Security Party to discharge any liability under a Finance Document or to comply with any other obligation which the Majority Lenders consider material under a Finance Document;
- (ii) for the Agent, the Security Trustee, the Lenders or the Swap Bank to exercise or enforce any right under, or to enforce any Security Interest created by, a Finance Document; or

(j) any official consent necessary to enable either Borrower to own, operate or charter the Ship owned by it or to enable either Borrower or any Security Party to comply with any provision which the Majority Lenders consider material of a Finance Document is not granted, expires without being renewed, is revoked or becomes liable to revocation or any condition of such a consent is not fulfilled; or

(k) it appears to the Majority Lenders that, without their prior consent, a change has occurred or probably has occurred after the date of this Agreement in the ownership of any of the shares in a Borrower or the Approved Manager; or

(l) any provision which the Majority Lenders consider material of a Finance Document proves to have been or becomes invalid or unenforceable, or a Security Interest created by a Finance Document proves to have been or becomes invalid or unenforceable or such a Security Interest proves to have ranked after, or loses its priority to, another Security Interest or any other third party claim or interest; or

(m) the security constituted by a Finance Document is in any way imperilled or in jeopardy; or

(n) without the prior consent of the Lenders, the shares of the Corporate Guarantor cease to be listed on the New York Stock Exchange; or

(o) an Event of Default (as defined in section 14 of the Master Agreement) occurs; or

- (p) the Master Agreement is terminated, cancelled, suspended, rescinded or revoked or otherwise ceases to remain in full force and effect for any reason except with the consent of the Swap Bank; or
- (q) any other event occurs or any other circumstances arise or develop including, without limitation:
 - (i) a change in the financial position, state of affairs or prospects of any Relevant Person; or
 - (ii) any accident or other event involving any Ship or another vessel owned, chartered or operated by a Relevant Person

in the light of which the Majority Lenders consider that there is a significant risk that either Borrower or Corporate Guarantor is, or will later become, unable to discharge its liabilities under the Finance Documents as they fall due.

19.2 Actions following an Event of Default

On, or at any time after, the occurrence of an Event of Default:

- (a) the Agent may, and if so instructed by the Majority Lenders, the Agent shall:
 - (i) serve on the Borrowers a notice stating that all or part of the Commitments and of the other obligations of each Lender to the Borrowers under this Agreement are cancelled; and/or
 - (ii) serve on the Borrowers a notice stating that all or part of the Loan together with accrued interest and all other amounts accrued or owing under this Agreement are immediately due and payable or are due and payable on demand; and/or
 - (iii) take any other action which, as a result of the Event of Default or any notice served under paragraph (i) or (ii), the Agent and/or the Lenders are entitled to take under any Finance Document or any applicable law; and/or
- (b) the Security Trustee may, and if so instructed by the Agent, acting with the authorisation of the Majority Lenders, the Security Trustee shall take any action which, as a result of the Event of Default or any notice served under paragraph (a) (i) or (ii), the Security Trustee, the Agent and/or the Lenders and/or the Swap Bank are entitled to take under any Finance Document or any applicable law.

19.3 Termination of Commitments

On the service of a notice under Clause 19.2(a)(i), the Commitments and all other obligations of each Lender to the Borrowers under this Agreement shall be cancelled.

19.4 Acceleration of Loan

On the service of a notice under Clause 19.2(a)(ii), all or, as the case may be, the part of the Loan specified in the notice together with accrued interest and all other amounts accrued or owing from the Borrowers or any Security Party under this Agreement and every other Finance Document shall become immediately due and payable or, as the case may be, payable on demand.

19.5 Multiple notices; action without notice

The Agent may serve notices under Clauses 19.2(a)(i) and (ii) simultaneously or on different dates and it and/or the Security Trustee may take any action referred to in Clause 19.2 if no

such notice is served or simultaneously with or at any time after the service of both or either of such notices.

19.6 Notification of Creditor Parties and Security Parties

The Agent shall send to each Lender, the Swap Bank, the Security Trustee and each Security Party a copy or the text of any notice which the Agent serves on the Borrowers under Clause 19.2; but the notice shall become effective when it is served on the Borrowers, and no failure or delay by the Agent to send a copy or the text of the notice to any other person shall invalidate the notice or provide either Borrower or any Security Party with any form of claim or defence.

19.7 Creditor Party's rights unimpaired

Nothing in this Clause shall be taken to impair or restrict the exercise of any right given to individual Lenders or the Swap Bank under a Finance Document or the general law; and, in particular, this Clause is without prejudice to Clause 3.1.

19.8 Exclusion of Creditor Party liability

No Creditor Party, and no receiver or manager appointed by the Security Trustee, shall have any liability to a Borrower or a Security Party:

- (a) for any loss caused by an exercise of rights under, or enforcement of a Security Interest created by, a Finance Document or by any failure or delay to exercise such a right or to enforce such a Security Interest; or
- (b) as mortgagee in possession or otherwise, for any income or principal amount which might have been produced by or realised from any asset comprised in such a Security Interest or for any reduction (however caused) in the value of such an asset,

except that this does not exempt a Creditor Party or a receiver or manager from liability for losses shown to have been directly and mainly caused by the dishonesty or the wilful misconduct of such Creditor Party's own officers and employees or (as the case may be) such receiver's or manager's own partners or employees **and** any other member of the Group.

19.9 Relevant Persons

In this Clause 19, a "**Relevant Person**" means a Borrower, the Corporate Guarantor or a Security Party, and any company which is a subsidiary of the Corporate Guarantor or a Security Party and any other member of the Group but excluding any company which is dormant and the value of whose gross assets is \$50,000 or less.

19.10 Interpretation

In Clause 19.1(f), references to an event of default or a termination event include any event, howsoever described, which is similar to an event of default in a facility agreement or a termination event in a finance lease; and in Clause 19.1(g), "**petition**" includes an application.

19.11 Position of Swap Bank

Neither the Agent nor the Security Trustee shall be obliged, in connection with any action taken or proposed to be taken under or pursuant to the foregoing provisions of this Clause 19, to have any regard to the requirements of the Swap Bank except to the extent that the Swap Bank is also a Lender.

20 FEES AND EXPENSES

20.1 Front-end fee

The Borrowers shall pay to the Agent, on the date of this Agreement, a non-refundable arrangement fee at the rate of one point twenty per cent. (1.20%) of the Total Commitments for distribution among the Lenders pro rata to their Commitments.

20.2 Costs of negotiation, preparation etc.

The Borrowers shall pay to the Agent on its demand the amount of all expenses incurred by the Agent or the Security Trustee in connection with the negotiation, preparation, execution or registration of any Finance Document or any related document or with any transaction contemplated by a Finance Document or a related document.

20.3 Costs of variations, amendments, enforcement etc.

The Borrowers shall pay to the Agent, on the Agent's demand, for the account of the Creditor Party concerned, the amount of all expenses incurred by a Creditor Party in connection with:

- (a) any amendment or supplement to a Finance Document (required for the continuation of the availability of the Loan), or any proposal for such an amendment to be made;
- (b) any consent or waiver by the Lenders, the Swap Bank, the Majority Lenders or the Creditor Party concerned under or in connection with a Finance Document, or any request for such a consent or waiver;
- (c) the valuation of any security provided or offered under Clause 15 or any other matter relating to such security; or
- (d) where the Security Trustee, in its absolute opinion, considers that there has been a material change to the insurances in respect of a Ship, the review of the insurances of that Ship pursuant to Clause 13.18; and
- (e) any step taken by the Creditor party concerned or the Swap Bank with a view to the protection, exercise or enforcement of any right or Security Interest created by a Finance Document or for any similar purpose.

There shall be recoverable under paragraph (d) the full amount of all legal expenses, whether or not such as would be allowed under rules of court or any taxation or other procedure carried out under such rules.

20.4 Extraordinary management time

The Borrowers shall pay to the Agent on its demand compensation in respect of the reasonable and documented amount of time which the management of either Servicing Bank has spent in connection with a matter covered by Clause 20.3 and which exceeds the amount of time which would ordinarily be spent in the performance of the relevant Servicing Bank's routine functions. Any such compensation shall be based on such reasonable daily or hourly rates as the Agent may notify to the Borrowers and is in addition to any fee paid or payable to the relevant Servicing Bank.

20.5 Documentary taxes

The Borrowers shall promptly pay any tax payable on or by reference to any Finance Document, and shall, on the Agent's demand, fully indemnify each Creditor Party against any

claims, expenses, liabilities and losses resulting from any failure or delay by the Borrowers to pay such a tax.

20.6 Financial Services Authority fees

The Borrowers shall pay to the Agent, on the Agent's demand, for the account of the Lender concerned the amounts which the Agent from time to time notifies the Borrowers that a Lender has notified the Agent to be necessary to compensate it for the cost attributable to its Contribution resulting from the imposition from time to time under or pursuant to the Bank of England Act 1998 and/or by the Bank of England and/or by the Financial Services Authority (or other United Kingdom governmental authorities or agencies) of a requirement to pay fees to the Financial Services Authority calculated by reference to liabilities used to fund its Contribution.

20.7 Certification of amounts

A notice which is signed by 2 officers of a Creditor Party, which states that a specified amount, or aggregate amount, is due to that Creditor Party under this Clause 20 and which indicates (without necessarily specifying a detailed breakdown) the matters in respect of which the amount, or aggregate amount, is due shall be *prima facie* evidence that the amount, or aggregate amount, is due.

21 INDEMNITIES

21.1 Indemnities regarding borrowing and repayment of Loan

The Borrowers shall fully indemnify the Agent and each Lender on the Agent's demand and the Security Trustee on its demand in respect of all claims, expenses, liabilities and losses which are made or brought against or incurred by that Creditor Party, or which that Creditor Party reasonably and with due diligence estimates that it will incur, as a result of or in connection with:

- (a) the Loan not being borrowed on the date specified in the Drawdown Notice for any reason other than a default by the Lender claiming the indemnity;
- (b) the receipt or recovery of all or any part of the Loan or an overdue sum otherwise than on the last day of an Interest Period or other relevant period;
- (c) any failure (for whatever reason) by the Borrowers to make payment of any amount due under a Finance Document on the due date or, if so payable, on demand (after giving credit for any default interest paid by the Borrowers on the amount concerned under Clause 7); and
- (d) the occurrence of an Event of Default or a Potential Event of Default and/or the acceleration of repayment of the Loan under Clause 19,

and in respect of any tax (other than tax on its overall net income) for which a Creditor Party is liable in connection with any amount paid or payable to that Creditor Party (whether for its own account or otherwise) under any Finance Document.

21.2 Breakage costs

Without limiting its generality, Clause 21.1 covers any claim, expense, liability or loss, including a loss of a prospective profit, incurred by a Lender:

- (a) in liquidating or employing deposits from third parties acquired or arranged to fund or maintain all or any part of its Contribution and/or any overdue amount (or an aggregate amount which includes its Contribution or any overdue amount); and

(b) in terminating, or otherwise in connection with, any interest and/or currency swap or any other transaction entered into (whether with another legal entity or with another office or department of the Lender concerned) to hedge any exposure arising under this Agreement or that part which the Lender concerned determines is fairly attributable to this Agreement of the amount of the liabilities, expenses or losses (including losses of prospective profits) incurred by it in terminating, or otherwise in connection with, a number of transactions of which this Agreement is one.

21.3 Miscellaneous indemnities

The Borrowers shall fully indemnify each Creditor Party severally on their respective demands in respect of all claims, expenses, liabilities and losses which may be made or brought against or incurred by a Creditor Party, in any country, as a result of or in connection with:

(a) any action taken, or omitted or neglected to be taken, under or in connection with any Finance Document by the Agent, the Security Trustee or any other Creditor Party or by any receiver appointed under a Finance Document; and

(b) any other Pertinent Matter,

other than claims, expenses, liabilities and losses which are shown to have been directly and mainly caused by the dishonesty or wilful misconduct of the officers or employees of the Creditor Party concerned.

Without prejudice to its generality, this Clause 21.3 covers any claims, expenses, liabilities and losses which arise, or are asserted, under or in connection with any law relating to safety at sea, the ISM Code, the ISPS Code or any Environmental Law.

21.4 Environmental indemnity

Without prejudice to its generality, Clause 21.3 covers any claims, demands, proceedings, liabilities, taxes, losses or expenses of every kind which arise, or are asserted, under or in connection with any law relating to safety at sea, pollution or the protection of the environment, the ISM Code or the ISPS Code.

21.5 Currency indemnity

If any sum due from either Borrower or any Security Party to a Creditor Party under a Finance Document or under any order or judgment relating to a Finance Document has to be converted from the currency in which the Finance Document provided for the sum to be paid (the "Contractual Currency") into another currency (the "Payment Currency") for the purpose of:

(a) making or lodging any claim or proof against either Borrower or any Security Party, whether in its liquidation, any arrangement involving it or otherwise; or

(b) obtaining an order or judgment from any court or other tribunal; or

(c) enforcing any such order or judgment,

the Borrowers shall indemnify the Creditor Party concerned against the loss arising when the amount of the payment actually received by that Creditor Party is converted at the available rate of exchange into the Contractual Currency.

In this Clause 21.5, the "**available rate of exchange**" means the rate at which the Creditor Party concerned is able at the opening of business (London time) on the Business Day after it

receives the sum concerned to purchase the Contractual Currency with the Payment Currency.

This Clause 21.5 creates a separate liability of the Borrowers which is distinct from their other liabilities under the Finance Documents and which shall not be merged in any judgment or order relating to those other liabilities.

21.6 Application to Master Agreement

For the avoidance of doubt, Clause 21.4 does not apply in respect of sums due from a Borrower to the Swap Bank under or in connection with the Master Agreement as to which sums the provisions of section 8 (Contractual Currency) of the Master Agreement shall apply.

21.7 Certification of amounts

A notice which is signed by 2 officers of a Creditor Party, which states that a specified amount, or aggregate amount, is due to that Creditor Party under this Clause 21 and which indicates (without necessarily specifying a detailed breakdown) the matters in respect of which the amount, or aggregate amount, is due shall be *prima facie* evidence that the amount, or aggregate amount, is due.

21.8 Sums deemed due to a Lender

For the purposes of this Clause 21, a sum payable by the Borrowers to the Agent or the Security Trustee for distribution to a Lender shall be treated as a sum due to that Lender.

22 NO SET-OFF OR TAX DEDUCTION

22.1 No deductions

All amounts due from the Borrowers under a Finance Document shall be paid:

- (a) without any form of set off, cross-claim or condition; and
- (b) free and clear of any tax deduction except a tax deduction which a Borrower is required by law to make.

22.2 Grossing-up for taxes

If a Borrower is required by law to make a tax deduction from any payment:

- (a) that Borrower shall notify the Agent as soon as it becomes aware of the requirement;
- (b) that Borrower shall pay the tax deducted to the appropriate taxation authority promptly, and in any event before any fine or penalty arises; and
- (c) the amount due in respect of the payment shall be increased by the amount necessary to ensure that each Creditor Party receives and retains (free from any liability relating to the tax deduction) a net amount which, after the tax deduction, is equal to the full amount which it would otherwise have received.

22.3 Evidence of payment of taxes

Within 1 month after making any tax deduction, the Borrower concerned shall deliver to the Agent documentary evidence satisfactory to the Agent that the tax had been paid to the appropriate taxation authority.

22.4 Exclusion of tax on overall net income

In this Clause 22 "tax deduction" means any deduction or withholding for or on account of any present or future tax except tax on a Creditor Party's overall net income.

22.5 Application to Master Agreement

For the avoidance of doubt, Clause 22 does not apply in respect of sums due from a Borrower to the Swap Bank under or in connection with the Master Agreement as to which sums the provisions of section 2(d) (Deduction or Withholding for Tax) of the Master Agreement shall apply.

23 ILLEGALITY, ETC.

23.1 Illegality

This Clause 23 applies if a Lender (the "**Notifying Lender**") notifies the Agent that it has become, or will with effect from a specified date, become:

- (a) unlawful or prohibited as a result of the introduction of a new law, an amendment to an existing law or a change in the manner in **which** an existing law is or will be interpreted or applied; or
- (b) contrary to, or inconsistent with, any regulation,

for the Notifying Lender to maintain or give effect to any of its obligations under this Agreement in the manner contemplated by this Agreement.

23.2 Notification of illegality

The Agent shall promptly notify the Borrowers, the Security Parties, the Security Trustee and the other Lenders of the notice under Clause 23.1 which the Agent receives from the Notifying Lender.

23.3 Prepayment; termination of Commitment

On the Agent notifying the Borrowers under Clause 23.2, the Notifying Lender's Commitment shall terminate; and thereupon or, if later, on the date specified in the Notifying Lender's notice under Clause 23.1 as the date on which the notified event would become effective the Borrowers shall prepay the Notifying Lender's Contribution in accordance with Clause 8.

23.4 Mitigation

If circumstances arise which would result in a notification under Clause 23.1 then, without in any way limiting the rights of the Notifying Lender under Clause 23.3, the Notifying Lender shall use reasonable endeavours to transfer its obligations, liabilities and rights under this Agreement and the Finance Documents to another office or financial institution not affected by the circumstances but the Notifying Lender shall not be under any obligation to take any such action if, in its opinion, to do would or might:

- (a) have an adverse effect on its business, operations or financial condition; or
- (b) involve it in any activity which is unlawful or prohibited or any activity that is contrary to, or inconsistent with, any regulation; or
- (c) involve it in any expense (unless indemnified to its satisfaction) or tax disadvantage.

24 INCREASED COSTS

24.1 Increased costs

This Clause 24 applies if a Lender (the "**Notifying Lender**") notifies the Agent that the Notifying Lender considers that as a result of:

- (a) the introduction or alteration after the date of this Agreement of a law or an alteration after the date of this Agreement in the manner in which a law is interpreted or applied (disregarding any effect which relates to the application to payments under this Agreement of a tax on the Lender's overall net income); or
- (b) complying with any regulation (including any which relates to capital adequacy or liquidity controls or which affects the manner in which the Notifying Lender allocates capital resources to its obligations under this Agreement) which is introduced, or altered, or the interpretation or application of which is altered, after the date of this Agreement,

the Notifying Lender (or a parent company of it) has incurred or will incur an "**increased cost**".

24.2 Meaning of "increased costs"

In this Clause 24, "**increased costs**" means, in relation to a Notifying Lender:

- (a) an additional or increased cost incurred as a result of, or in connection with, the Notifying Lender having entered into, or being a party to, this Agreement or a Transfer Certificate, of funding or maintaining its Commitment or Contribution or performing its obligations under this Agreement, or of having outstanding all or any part of its Contribution or other unpaid sums;
- (b) a reduction in the amount of any payment to the Notifying Lender under this Agreement or in the effective return which such a payment represents to the Notifying Lender or on its capital;
- (c) an additional or increased cost of funding all or maintaining all or any of the advances comprised in a class of advances formed by or including the Notifying Lender's Contribution or (as the case may require) the proportion of that cost attributable to the Contribution; or
- (d) a liability to make a payment, or a return foregone, which is calculated by reference to any amounts received or receivable by the Notifying Lender under this Agreement,

but not an item attributable to a change in the rate of tax on the overall net income of the Notifying Lender (or a parent company of it) or an item covered by the indemnity for tax in Clause 21.1 or by Clause 22 or an item arising directly out of the implementation or application of or compliance with the "International Convergence of Capital Measurement and Capital Standards, a Revised Framework" published by the Basel Committee on Banking Supervision in June 2004, in the form existing on the date of this Agreement ("**Basel II**") or any other law or regulation which implements Basel II (whether such implementation, application or compliance is by a government, regulator, Creditor Party or any of its affiliates).

For the purposes of this Clause 24.2 the Notifying Lender may in good faith allocate or spread costs and/or losses among its assets and liabilities (or any class of its assets and liabilities) on such basis as it considers appropriate.

24.3 Notification to Borrowers of claim for increased costs

The Agent shall promptly notify the Borrowers and the Security Parties of the notice which the Agent received from the Notifying Lender under Clause 24.1.

24.4 Payment of increased costs

The Borrowers shall pay to the Agent, on the Agent's demand, for the account of the Notifying Lender the amounts which the Agent from time to time notifies the Borrowers that the Notifying Lender has specified to be necessary to compensate the Notifying Lender for the increased cost.

24.5 Notice of prepayment

If the Borrowers are not willing to continue to compensate the Notifying Lender for the increased cost under Clause 24.4, the Borrowers may give the Agent not less than 14 days' notice of its intention to prepay the Notifying Lender's Contribution at the end of an Interest Period.

24.6 Prepayment; termination of Commitment

A notice under Clause 24.5 shall be irrevocable; the Agent shall promptly notify the Notifying Lender of the Borrowers' notice of intended prepayment; and:

- (a) on the date on which the Agent serves that notice, the Commitment of the Notifying Lender shall be cancelled; and
- (b) on the date specified in its notice of intended prepayment, the Borrowers shall prepay (without premium or penalty) the Notifying Lender's Contribution, together with accrued interest thereon at the applicable rate plus the Margin and the Mandatory Cost (if any).

24.7 Application of prepayment

Clause 8 shall apply in relation to the prepayment.

25 SET OFF

25.1 Application of credit balances

Each Creditor Party may without prior notice:

- (a) apply any balance (whether or not then due) which at any time stands to the credit of any account in the name of a Borrower at any office in any country of that Creditor Party in or towards satisfaction of any sum then due from that Borrower to that Creditor Party under any of the Finance Documents; and
- (b) for that purpose:
 - (i) break, or alter the maturity of, all or any part of a deposit of that Borrower;
 - (ii) convert or translate all or any part of a deposit or other credit balance into Dollars; and
 - (iii) enter into any other transaction or make any entry with regard to the credit balance which the Creditor Party concerned considers appropriate.

25.2 Existing rights unaffected

No Creditor Party shall be obliged to exercise any of its rights under Clause 25.1; and those rights shall be without prejudice and in addition to any right of set off, combination of

accounts, charge, lien or other right or remedy to which a Creditor Party is entitled (whether under the general law or any document).

25.3 Sums deemed due to a Lender

For the purposes of this Clause 25, a sum payable by the Borrowers to the Agent or the Security Trustee for distribution to, or for the account of, a Lender shall be treated as a sum due to that Lender; and each Lender's proportion of a sum so payable for distribution to, or for the account of, the Lenders shall be treated as a sum due to such Lender.

25.4 No Security Interest

This Clause 25 gives the Creditor Parties a contractual right of set-off only, and does not create any equitable charge or other Security Interest over any credit balance of either Borrower.

26 TRANSFERS AND CHANGES IN LENDING OFFICES

26.1 Transfer by Borrowers

Neither Borrower may, without the consent of the Agent, given on the instructions of all the Lenders transfer any of its rights, liabilities or obligations under any Finance Document.

26.2 Transfer by a Lender

Subject to Clause 26.4, a Lender (the "**Transferor Lender**") may at any time, without needing the consent of the Borrowers or any Security Party, cause:

- (a) its rights in respect of all or part of its Contribution; or
- (b) its obligations in respect of all or part of its Commitment; or
- (c) a combination of (a) and (b),

to be (in the case of its rights) transferred to, or (in the case of its obligations) assumed by, another bank or financial institution or a trust, fund or other entity which is regularly engaged in or established for the purpose of making, purchasing or investing in loans, securities or other financial assets (a "**Transferee Lender**") by delivering to the Agent a completed certificate in the form set out in Schedule 4 with any modifications approved or required by the Agent (a "**Transfer Certificate**") executed by the Transferor Lender and the Transferee Lender.

However any rights and obligations of the Transferor Lender in its capacity as Agent or Security Trustee will have to be dealt with separately in accordance with the Agency and Trust Deed.

26.3 Transfer Certificate, delivery and notification

As soon as reasonably practicable after a Transfer Certificate is delivered to the Agent, it shall (unless it has reason to believe that the Transfer Certificate may be defective):

- (a) sign the Transfer Certificate on behalf of itself, the Borrowers, the Security Parties, the Security Trustee, each of the other Lenders and the Swap Bank;
- (b) on behalf of the Transferee Lender, send to each Borrower and each Security Party letters or faxes notifying them of the Transfer Certificate and attaching a copy of it; and
- (c) send to the Transferee Lender copies of the letters or faxes sent under paragraph (b) above,

but the Agent shall only be obliged to execute a Transfer Certificate delivered to it by the Transferor Lender and the Transferee Lender once it is satisfied it has complied with all necessary "know your customer" or other similar checks under all applicable laws and regulations in relation to the transfer to that Transferee Lender.

26.4 Effective Date of Transfer Certificate

A Transfer Certificate becomes effective on the date, if any, specified in the Transfer Certificate as its effective date, **Provided that** it is signed by the Agent under Clause 26.3 on or before that date.

26.5 No transfer without Transfer Certificate

Except as provided in Clause 26.17, no assignment or transfer of any right or obligation of a Lender under any Finance Document is binding on, or effective in relation to, either Borrower, any Security Party, the Agent or the Security Trustee unless it is effected, evidenced or perfected by a Transfer Certificate.

26.6 Lender re-organisation; waiver of Transfer Certificate

However, if a Lender enters into any merger, de-merger or other reorganisation as a result of which all its rights or obligations vest in another person (the "successor"), the Agent may, if it sees fit, by notice to the successor and the Borrowers and the Security Trustee waive the need for the execution and delivery of a Transfer Certificate; and, upon service of the Agent's notice, the successor shall become a Lender with the same Commitment and Contribution as were held by the predecessor Lender.

26.7 Effect of Transfer Certificate

A Transfer Certificate takes effect in accordance with English law as follows:

- (a) to the extent specified in the Transfer Certificate, all rights and interests (present, future or contingent) which the Transferor Lender has under or by virtue of the Finance Documents are assigned to the Transferee Lender absolutely, free of any defects in the Transferor Lender's title and of any rights or equities which either Borrower or any Security Party had against the Transferor Lender;
- (b) the Transferor Lender's Commitment is discharged to the extent specified in the Transfer Certificate;
- (c) the Transferee Lender becomes a Lender with the Contribution previously held by the Transferor Lender and a Commitment of an amount specified in the Transfer Certificate;
- (d) the Transferee Lender becomes bound by all the provisions of the Finance Documents which are applicable to the Lenders generally, including those about pro rata sharing and the exclusion of liability on the part of, and the indemnification of, the Agent and the Security Trustee and, to the extent that the Transferee Lender becomes bound by those provisions (other than those relating to exclusion of liability), the Transferor Lender ceases to be bound by them;
- (e) any part of the Loan which the Transferee Lender advances after the Transfer Certificate's effective date ranks in point of priority and security in the same way as it would have ranked had it been advanced by the transferor, assuming that any defects in the transferor's title and any rights or equities of either Borrower or any Security Party against the Transferor Lender had not existed;
- (f) the Transferee Lender becomes entitled to all the rights under the Finance Documents which are applicable to the Lenders generally, including but not limited to those relating to the

Majority Lenders and those under Clause 5.7 and Clause 20, and to the extent that the Transferee Lender becomes entitled to such rights, the Transferor Lender ceases to be entitled to them; and

(g) in respect of any breach of a warranty, undertaking, condition or other provision of a Finance Document or any misrepresentation made in or in connection with a Finance Document, the Transferee Lender shall be entitled to recover damages by reference to the loss incurred by it as a result of the breach or misrepresentation, irrespective of whether the original Lender would have incurred a loss of that kind or amount.

The rights and equities of either Borrower or any Security Party referred to above include, but are not limited to, any right of set off and any other kind of cross claim.

26.8 Maintenance of register of Lenders

During the Security Period the Agent shall maintain a register in which it shall record the name, Commitment, Contribution and administrative details (including the lending office) from time to time of each Lender holding a Transfer Certificate and the effective date (in accordance with Clause 26.4) of the Transfer Certificate; and the Agent shall make the register available for inspection by any Lender, the Security Trustee and the Borrowers during normal banking hours, subject to receiving at least 3 Business Days' prior notice.

26.9 Reliance on register of Lenders

The entries on that register shall, in the absence of manifest error, be conclusive in determining the identities of the Lenders and the amounts of their Commitments and Contributions and the effective dates of Transfer Certificates and may be relied upon by the Agent and the other parties to the Finance Documents for all purposes relating to the Finance Documents.

26.10 Authorisation of Agent to sign Transfer Certificates

Each Borrower, the Security Trustee, each Lender and the Swap Bank irrevocably authorise the Agent to sign Transfer Certificates on its behalf.

26.11 Registration fee

In respect of any Transfer Certificate, the Agent shall be entitled to recover a registration fee of \$3,000 from the Transferor Lender or (at the Agent's option) the Transferee Lender.

26.12 Sub-participation; subrogation assignment

A Lender may sub participate all or any part of its rights and/or obligations under or in connection with the Finance Documents without the consent of, or any notice to, either Borrower, any Security Party, the Agent or the Security Trustee or any other Creditor Party; and the Lenders may assign, in any manner and terms agreed by the Majority Lenders, the Agent and the Security Trustee, all or any part of those rights to an insurer or surety who has become subrogated to them.

26.13 Disclosure of information

A Lender may disclose to a potential Transferee Lender or sub participant any information which the Lender has received in relation to either Borrower, any Security Party or their affairs under or in connection with any Finance Document, unless the information is clearly of a confidential nature.

26.14 Change of lending office

A Lender may change its lending office by giving notice to the Agent and the change shall become effective on the later of:

- (a) the date on which the Agent receives the notice; and
- (b) the date, if any, specified in the notice as the date on which the change will come into effect.

26.15 Notification

On receiving such a notice, the Agent shall notify the Borrowers and the Security Trustee; and, until the Agent receives such a notice, it shall be entitled to assume that a Lender is acting through the lending office of which the Agent last had notice.

26.16 Replacement of the Reference Bank

If the Reference Bank ceases to be a Lender or is unable on a continuing basis to supply quotations for the purposes of Clause 5 then, unless the Borrowers, the Agent and the Majority Lenders otherwise agree, the Agent, acting on the instructions of the Majority Lenders, and after consulting the Borrowers, shall appoint another bank (whether or not a Lender) to be a replacement Reference Bank; and, when that appointment comes into effect, the first mentioned Reference Bank's appointment shall cease to be effective.

26.17 Security over Lenders' rights

In addition to the other rights provided to Lenders under this Clause 26, each Lender may without consulting with or obtaining consent from either Borrower or any Security Party, at any time charge, assign or otherwise create a Security Interest in or over (whether by way of collateral or otherwise) all or any of its rights under any Finance Document to secure obligations of that Lender including, without limitation:

- (a) any charge, assignment or other Security Interest to secure obligations to a federal reserve or central bank; and
- (b) in the case of any Lender which is a fund, any charge, assignment or other Security Interest granted to any holders (or trustee or representatives of holders) of obligations owed, or securities issued, by that Lender as security for those obligations or securities,

except that no such charge, assignment or Security Interest shall:

- (i) release a Lender from any of its obligations under the Finance Documents or substitute the beneficiary of the relevant charge, assignment or Security Interest for the Lender as a party to any of the Finance Documents; or
- (ii) require any payments to be made by either Borrower or any Security Party or grant to any person any more extensive rights than those required to be made or granted to the relevant Lender under the Finance Documents.

27 VARIATIONS AND WAIVERS

27.1 Variations, waivers etc. by Majority Lenders

Subject to Clause 27.2, a document shall be effective to vary, waive, suspend or limit any provision of a Finance Document, or any Creditor Party's rights or remedies under such a provision or the general law, only if the document is signed, or specifically agreed to by fax, by the Borrowers, by the Agent on behalf of the Majority Lenders, by the Agent and the Security Trustee in their own rights, and, if the document relates to a Finance Document to which a Security Party is party, by that Security Party.

27.2 Variations, waivers etc. requiring agreement of all Lenders.

However, as regards the following, Clause 27.1 applies as if the words "by the Agent on behalf of the Majority Lenders" were replaced by the words "by or on behalf of every Lender and the Swap Bank":

- (a) a reduction in the Margin;
- (b) a postponement to the date for, or a reduction in the amount of, any payment of principal, interest, fees or other sum payable under this Agreement;
- (c) an increase in any Lender's Commitment;
- (d) a change to the definition of "**Majority Lenders**";
- (e) a change to Clause 3 or this Clause 27;
- (f) any release of, or material variation to, a Security Interest, guarantee, indemnity or subordination arrangement set out in a Finance Document; and
- (g) any other change or matter as regards which this Agreement or another Finance Document expressly provides that each Lender's consent is required.

27.3 Exclusion of other or implied variations

Except for a document which satisfies the requirements of Clauses 27.1 and 27.2 no document, and no act, course of conduct, failure or neglect to act, delay or acquiescence on the part of the Creditor Parties or any of them (or any person acting on behalf of any of them) shall result in the Creditor Parties or any of them (or any person acting on behalf of any of them) being taken to have varied, waived, suspended or limited, or being precluded (permanently or temporarily) from enforcing, relying on or exercising:

- (a) a provision of this Agreement or another Finance Document; or
- (b) an Event of Default; or
- (c) a breach by a Borrower or a Security Party of an obligation under a Finance Document or the general law; or
- (d) any right or remedy conferred by any Finance Document or by the general law,

and there shall not be implied into any Finance Document any term or condition requiring any such provision to be enforced, or such right or remedy to be exercised, within a certain or reasonable time.

28 NOTICES

28.1 General

Unless otherwise specifically provided, any notice under or in connection with any Finance Document shall be given by letter or fax and references in the Finance Documents to written notices, notices in writing and notices signed by particular persons shall be construed accordingly.

28.2 Addresses for communications

A notice by letter or fax shall be sent:

(a) to the Borrowers: c/o Approved Manager
16 Pendelis Street
175 64 Paleo Fa ilo
Athens
Greece
Fax No: +30 210 9470101

(b) to the Lender: At the address below its name in Schedule 1 or (as the case may require) in the relevant Transfer Certificate.

(c) to the Agent: Nordea Bank Finland Plc, London Branch
City Place House
55 Basinghall Street
London EC2V 5NB
England

Fax No: + 44 (0) 20 7726 9188

(d) to the Security Trustee: Nordea Bank Finland Plc, London Branch
City Place House
55 Basinghall Street
London EC2V 5NB
England

Fax No: + 44 (0) 20 7726 9188

(e) to the Swap Bank: Nordea Bank Finland Plc, London Branch
City Place House
55 Basinghall Street
London EC2V 5NB
England

Fax No: + 44 (0) 20 7726 9188

or to such other address as the relevant party may notify the Agent or, if the relevant party is the Agent or the Security Trustee, the Borrowers, the Lenders, the Swap Bank and the Security Parties.

28.3 Effective date of notices

Subject to Clauses 28.4 and 28.5:

- (a) a notice which is delivered personally or posted shall be deemed to be served, and shall take effect, at the time when it is delivered; and
- (b) a notice which is sent by fax shall be deemed to be served, and shall take effect, 2 hours after its transmission is completed.

28.4 Service outside business hours

However, if under Clause 28.3 a notice would be deemed to be served:

- (a) on a day which is not a business day in the place of receipt; or
- (b) on such a business day, but after 5 p.m. local time,

the notice shall (subject to Clause 28.5) be deemed to be served, and shall take effect, at 9 a.m. on the next day which is such a business day.

28.5 Illegible notices

Clauses 28.3 and 28.4 do not apply if the recipient of a notice notifies the sender within 1. hour after the time at which the notice would otherwise be deemed to be served that the notice has been received in a form which is illegible in a material respect.

28.6 Valid notices

A notice under or in connection with a Finance Document shall not be invalid by reason that its contents or the manner of serving it do not comply with the requirements of this Agreement or, where appropriate, any other Finance Document under which it is served if:

- (a) the failure to serve it in accordance with the requirements of this Agreement or other Finance Document, as the case may be, has not caused any party to suffer any significant loss or prejudice; or
- (b) in the case of incorrect and/or incomplete contents, it should have been reasonably clear to the party on which the notice was served what the correct or missing particulars should have been.

28.7 Electronic communication

Any communication to be made between the Agent and a Lender or Swap Bank under or in connection with the Finance Documents may be made by electronic mail or other electronic means, if the Agent and the relevant Creditor Party:

- (a) agree that, unless and until notified to the contrary, this is to be an accepted form of communication;
- (b) notify each other in writing of their electronic mail address and/or any other information required to enable the sending and receipt of information by that means; and
- (c) notify each other of any change to their respective addresses or any other such information supplied to them.

Any electronic communication made between the Agent and a Lender or the Swap Bank will be effective only when actually received in readable form and, in the case of any electronic communication made by a Creditor Party to the Agent, only if it is addressed in such a manner as the Agent shall specify for this purpose.

28.8 English language

Any notice under or in connection with a Finance Document shall be in English.

28.9 Meaning of "notice"

In this Clause 28, "notice" includes any demand, consent, authorisation, approval, instruction, waiver or other communication.

29 JOINT AND SEVERAL LIABILITY

29.1 General

All liabilities and obligations of the Borrowers under this Agreement shall, whether expressed to be so or not, be several and, if and to the extent consistent with Clause 29.2, joint.

29.2 No impairment of Borrower's obligations

The liabilities and obligations of a Borrower shall not be impaired by:

- (a) this Agreement being or later becoming void, unenforceable or illegal as regards any other Borrower;
- (b) any Lender, the Swap Bank or the Security Trustee entering into any rescheduling, refinancing or other arrangement of any kind with any other Borrower;
- (c) any Lender, the Swap Bank or the Security Trustee releasing any other Borrower or any Security Interest created by a Finance Document; or
- (d) any combination of the foregoing.

29.3 Principal debtors

Each Borrower declares that it is and will, throughout the Security Period, remain a principal debtor for all amounts owing under this Agreement and the Finance Documents and neither Borrower shall in any circumstances be construed to be a surety for the obligations of any other Borrower under this Agreement.

29.4 Borrowers' guarantee under the Master Agreement

Each Borrower, unconditionally and irrevocably:

- (a) guarantees as primary obligor and independent and without, in respect of its obligations under this Clause 29.4, any of the rights or defences of a surety, the due payment of all amounts payable by the other Borrower under or in connection with the Master Agreement;
- (b) undertakes to pay to the Agent, on the Agent's demand, any such amount which is not paid by that Borrower when payable; and
- (c) fully indemnifies each Creditor Party, on the Agent's or, as the case may be, that Creditor Party's demand, in respect of all claims, expenses, liabilities and losses which are made or brought against or incurred by that Creditor Party as a result of or in connection with any obligation or liability guaranteed by that Borrower being or becoming unenforceable, invalid, void or illegal; and the amount recoverable under this indemnity shall be equal to the amount which that Creditor Party would otherwise have been entitled to recover.

29.5 Waiver of rights and defences

Without limiting the generality of Clause 29.4, neither Borrower shall be discharged by, or have any claim against any Creditor Party in respect of:

- (a) any amendment or supplement being made to the Master Agreement;
- (b) any arrangement or concession (including a rescheduling or acceptance of partial payments) relating to, or affecting, the Master Agreement;
- (c) any release or loss (even though negligent) of any right or Security Interest created by the Master Agreement;
- (d) any failure (even though negligent) promptly or properly to exercise or enforce any such right or Security Interest, including a failure to realise for its full market value an asset covered by such a Security Interest; or
- (e) any Security Interest now being or later becoming void, unenforceable, illegal or invalid or otherwise defective for any reason, including a neglect to register it

29.6 Subordination

Subject to Clause 29.7, during the Security Period, neither Borrower shall:

- (a) claim any amount which may be due to it from any other Borrower whether in respect of a payment made, or matter arising out of, this Agreement or any Finance Document, or any matter unconnected with this Agreement or any Finance Document; or
- (b) take or enforce any form of security from any other Borrower for such an amount, or in any other way seek to have recourse in respect of such an amount against any asset of any other Borrower; or
- (c) set off such an amount against any sum due from it to any other Borrower; or
- (d) prove or claim for such an amount in any liquidation, administration, arrangement or similar procedure involving any other Borrower or other Security Party; or
- (e) exercise or assert any combination of the foregoing.

29.7 Borrower's required action

If during the Security Period, the Agent, by notice to a Borrower, requires it to take any action referred to in paragraphs (a) to (d) of Clause 29.6, in relation to any other Borrower, that Borrower shall take that action as soon as practicable after receiving the Agent's notice.

30 SUPPLEMENTAL

30.1 Rights cumulative, non-exclusive

The rights and remedies which the Finance Documents give to each Creditor Party are:

- (a) cumulative;
- (b) may be exercised as often as appears expedient; and
- (c) shall not, unless a Finance Document explicitly and specifically states so, be taken to exclude or limit any right or remedy conferred by any law.

30.2 Severability of provisions

If any provision of a Finance Document is or subsequently becomes void, unenforceable or illegal, that shall not affect the validity, enforceability or legality of the other provisions of that Finance Document or of the provisions of any other Finance Document.

30.3 Counterparts

A Finance Document may be executed in any number of counterparts.

30.4 Third Party rights

A person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce or to enjoy the benefit of any term of this Agreement.

31 LAW AND JURISDICTION

31.1 English law

This Agreement and any non-contractual obligations arising out of or in connection with it shall be governed by, and construed in accordance with, English law.

31.2 Exclusive English jurisdiction

Subject to Clause 31.3, the courts of England shall have exclusive jurisdiction to settle any Dispute.

31.3 Choice of forum for the exclusive benefit of Creditor Parties

Clause 31.2 is for the exclusive benefit of the Creditor Parties, each of which reserves the rights:

- (a) to commence proceedings in relation to any Dispute in the courts of any country other than England and which have or claim jurisdiction to that Dispute; and
- (b) to commence such proceedings in the courts of any such country or countries concurrently with or in addition to proceedings in England or without commencing proceedings in England.

Neither Borrower shall commence any proceedings in any country other than England in relation to a Dispute.

31.4 Process agent

Each Borrower irrevocably appoints Nicolaou & Co (for the attention of Antonis Nicolaou) at its registered office for the time being, presently at 25 Heath Drive, Potters Bar, Herts, EN6 1EN, England, to act as its agent to receive and accept on its behalf any process or other document relating to any proceedings in the English courts which are connected with a Dispute.

31.5 Creditor Party rights unaffected

Nothing in this Clause 31 shall exclude or limit any right which any Creditor Party may have (whether under the law of any country, an international convention or otherwise) with regard to the bringing of proceedings, the service of process, the recognition or enforcement of a judgment or any similar or related matter in any jurisdiction.

31.6 Meaning of "proceedings" and "Dispute"

In this Clause 31, "**proceedings**" means proceedings of any kind, including an application for a provisional or protective measure and a "**Dispute**" means any dispute arising out of or in connection with this Agreement (including a dispute relating to the existence, validity or termination of this Agreement) or any non-contractual obligation arising out of or in connection with this Agreement.

THIS AGREEMENT has been entered into on the date stated at the beginning of this Agreement.

SCHEDULE 1
LENDERS AND COMMITMENTS

Lender	Lending Office	Commitment (US Dollars)
Nordea Bank Finland plc, London Branch	City Place House 55 Basinghall Street London EC2V 5NB England	20,000,000

SCHEDULE 2

DRAWDOWN NOTICE

To: Nordea Bank Finland Plc, London Branch
City Place House
55 Basinghall Street
London EC2V 5NB
England

Attention: [Loans Administration]

December 2012

DRAWDOWN NOTICE

- 1 We refer to the loan agreement (the "Loan Agreement") dated 20 December 2012 and made between ourselves, as joint and several Borrowers, the Lenders referred to therein, and yourselves as Agent, as Security Trustee and as Swap Bank in connection with a facility of US\$20,000,000. Terms defined in the Loan Agreement have their defined meanings when used in this Drawdown Notice.
- 2 We request to borrow as follows:
 - (a) Amount of Loan: US\$20,000,000;
 - (b) Drawdown Date: [*] December 2012;
 - (c) [Duration of the first Interest Period shall be [1][3] months;] and
 - (d) Payment instructions: account in our name and numbered [*] with [*] of [*].
- 3 We represent and warrant that:
 - (a) the representations and warranties in Clause 10 of the Loan Agreement would remain true and not misleading if repeated on the date of this notice with reference to the circumstances now existing; and
 - (b) no Event of Default or Potential Event of Default has occurred or will result from the borrowing of the Loan.
- 4 This notice cannot be revoked without the prior consent of the Majority Lenders.

[Name of Signatory]

Director
for and on behalf of
PALAU SHIPIING COMPANY INC. and
GUAM SHIPPING COMPANY INC.

SCHEDULE 3
CONDITION PRECEDENT DOCUMENTS

PART A

The following are the documents referred to in Clause 9.1(a).

- 1 A duly executed original of:
 - (a) this Agreement;
 - (b) the Corporate Guarantee;
 - (c) the Agency and Trust Deed;
 - (d) the Master Agreement;
 - (e) the Shares Pledges;
 - (f) the Master Agreement Assignment; and
 - (g) the Accounts Pledges.
- 2 Copies of the certificate of incorporation and constitutional documents of each Borrower, the Corporate Guarantor and any other Security Party.
- 3 Copies of resolutions of the shareholders and directors of each Borrower and each Security Party (other than the Corporate Guarantor) authorising the execution of each of the Finance Documents to which that Borrower or that Security Party is a party and, in the case of a Borrower, authorising named officers to give the Drawdown Notice.
- 4 Copies of resolutions of the executive committee of the Corporate Guarantor authorising the execution of each of the Finance Documents to which it is a party.
- 5 The original of any power of attorney under which any Finance Document is executed on behalf of a Borrower, the Corporate Guarantor or any other Security Party.
- 6 Copies of all consents which either Borrower, the Corporate Guarantor or any Security Party requires to enter into, or make any payment under, any Finance Document.
- 7 The originals of any mandates or other documents required in connection with the opening or operation of the Earnings Accounts.
- 8 Such documents as the Agent may require for its "Know your customer" and other customary money laundering and sanctions and counter-terrorist financing checks.
- 9 Copy of the Initial Charter and of all documents signed or issued by Borrower B or the Initial Charterer (or both of them) under or in connection with it.
- 10 Documentary evidence that the agent for service of process named in Clause 30 has acceptd its appointment.
- 11 Favourable legal opinions from lawyers appointed by the Agent on such matters concerning the laws of Marshall Islands and such other relevant jurisdictions as the Agent may require.

12 If the Agent so requires, in respect of any of the documents referred to above, a certified English translation prepared by a translator approved by the Agent.

PART B

The following are the documents referred to in Clause 9.1(b) required before the Drawdown Date. In Part B of this Schedule 3, the following definitions have the following meanings:

- (a) **"Relevant Borrower"** means the Borrower which is the owner of the Relevant Ship; and
- (b) **"Relevant Ship"** means the Ship which is to be financed by using the proceeds of the Loan being drawn on the Drawdown Date.

1 A duly executed original of the Mortgage and the General Assignment relating to the Relevant Ship and, in the case of Ship B, the Initial Charter Assignment (and of each document to be delivered under each of them, including without limitation, an acknowledgement from the Initial Charterer).

2 Documentary evidence that:

- (a) the Relevant Ship is definitively and permanently registered in the name of the Relevant Borrower under an Approved Flag;
- (b) the Relevant Ship is in the absolute and unencumbered ownership of the Relevant Borrower save as contemplated by the Finance Documents;
- (c) the Relevant Ship maintains the class specified in Clause 14.3(b);
- (d) the Mortgage relating to the Relevant Ship has been duly registered or recorded against the Relevant Ship as a valid first priority or, as the case may be, preferred statutory ship mortgage in accordance with the laws of the applicable Approved Flag State; and
- (e) the Relevant Ship is insured in accordance with the provisions of this Agreement and all requirements therein in respect of insurances have been complied with.

3 Documents establishing that the Relevant Ship will, as from the Drawdown Date, be managed by the Approved Manager on terms acceptable to the Lenders, together with:

- (a) a copy of the Management Agreement and the Manager's Undertaking duly signed by the Approved Manager; and
- (b) copies of the Approved Manager's Document of Compliance and of the Relevant Ship's Safety Management Certificate (together with any other details of the applicable safety management system which the Agent requires) and ISSC.

4 Favourable legal opinions from lawyers appointed by the Agent on such matters concerning the laws of Marshall Islands, the Approved Flag State and such other relevant jurisdictions as the Agent may require.

5 At the cost of the Borrowers a favourable opinion from an independent insurance consultant acceptable to the Agent on such matters relating to the insurances for the Ship as the Agent may require.

6 If the Agent so requires, in respect of any of the documents referred to above, a certified English translation prepared by a translator approved by the Agent.

Each of the documents specified in paragraphs 2, 3, 5 and 9 of Part A and every other copy document delivered under this Schedule shall be certified as a true and up to date copy by a director or the secretary (or equivalent officer) of each Borrower or a qualified lawyer.

SCHEDULE 4

TRANSFER CERTIFICATE

The Transferor and the Transferee accept exclusive responsibility for ensuring that this Certificate and the transaction to which it relates comply with all legal and regulatory requirements applicable to them respectively.

To: Nordea Bank Finland Plc, London Branch for itself and for and on behalf of the Borrower, [each Security Party], the Security Trustee, each Lender and the Swap Bank, as defined in the Loan Agreement referred to below.

[•]

1 This Certificate relates to a Loan Agreement (the "**Agreement**") dated [•] December 2012 and made between (1) Palau Shipping Company Inc. and Guam Shipping Company Inc. as joint and several borrowers (the "**Borrowers**"), (2) the banks and financial institutions named therein, (3) Nordea Bank Finland Plc, London Branch as Agent, (4) Nordea Bank Finland Plc, London Branch as Security Trustee and (5) Nordea Bank Finland Plc, London Branch as Swap Bank for a loan facility of US\$20,000,000.

2 In this Certificate, terms defined in the Agreement shall, unless the contrary intention appears, have the same meanings when used in this Certificate and:

"Relevant Parties" means the Agent, the Borrower, [each Security Party], the Security Trustee, each Lender and the Swap Bank;

"Transferor" means [full name] of [lending office]; and

"Transferee" means [full name] of [lending office].

3 The effective date of this Certificate is [•]. Provided that this Certificate shall not come into effect unless it is signed by the Agent on or before that date.

4 [The Transferor assigns to the Transferee absolutely all rights and interests (present, future or contingent) which the Transferor has as Lender under or by virtue of the Agreement and every other Finance Document in relation to [•] per cent. of its Contribution, which percentage represents \$[•].]

5 [By virtue of this Transfer Certificate and Clause 26 of the Loan Agreement, the Transferor is discharged [entirely from its Commitment which amounts to \$[•] [from [S] per cent. of its Commitment, which percentage represents \$[•]] and the Transferee acquires a Commitment of \$[•].]

6 The Transferee undertakes with the Transferor and each of the Relevant Parties that the Transferee will observe and perform all the obligations under the Finance Documents which Clause 26 of the Loan Agreement provides will become binding on it upon this Certificate taking effect.

7 The Agent, at the request of the Transferee (which request is hereby made) accepts, for the Agent itself and for and on behalf of every other Relevant Party, this Certificate as a Transfer Certificate taking effect in accordance with Clause 26 of the Agreement.

8 The Transferor:

(a) warrants to the Transferee and each Relevant Party that:

- (i) the Transferor has full capacity to enter into this transaction and has taken all corporate action and obtained all consents which are required in connection with this transaction; and
- (ii) this Certificate is valid and binding as regards the Transferor;

(b) warrants to the Transferee that the Transferor is absolutely entitled, free of encumbrances, to all the rights and interests covered by the assignment in paragraph 4; and

(c) undertakes with the Transferee that the Transferor will, at its own expense, execute any documents which the Transferee reasonably requests for perfecting in any relevant jurisdiction the Transferee's title under this Certificate or for a similar purpose.

9 The Transferee:

- (a) confirms that it has received a copy of the Agreement and each of the other Finance Documents;
- (b) agrees that it will have no rights of recourse on any ground against either the Transferor, the Agent, the Security Trustee, any Lender or the Swap Bank in the event that:
 - (i) any of the Finance Documents prove to be invalid or ineffective;
 - (ii) either Borrower or any Security Party fails to observe or perform its obligations, or to discharge its liabilities, under any of the Finance Documents; and
 - (iii) it proves impossible to realise any asset covered by a Security Interest created by a Finance Document, or the proceeds of such assets are insufficient to discharge the liabilities of the Borrowers or any Security Party under any of the Finance Documents;
- (c) agrees that it will have no rights of recourse on any ground against the Agent, the Security Trustee, any Lender or the Swap Bank in the event that this Certificate proves to be invalid or ineffective;
- (d) warrants to the Transferor and each Relevant Party that:
 - (i) it has full capacity to enter into this transaction and has taken all corporate action and obtained all consents which it needs to take or obtain in connection with this transaction; and
 - (ii) this Certificate is valid and binding as regards the Transferee; and
- (e) confirms the accuracy of the administrative details set out below regarding the Transferee.

10 The Transferor and the Transferee each undertake with the Agent and the Security Trustee severally, on demand, fully to indemnify the Agent and/or the Security Trustee in respect of any claim, proceeding, liability or expense (including all legal expenses) which they or either of them may incur in connection with this Certificate or any matter arising out of it, except such as are shown to have been mainly and directly caused by the gross and culpable negligence or dishonesty of the Agent's or the Security Trustee's own officers or employees.

11 The Transferee shall repay to the Transferor on demand so much of any sum paid by the Transferor under paragraph 9 as exceeds one-half of the amount demanded by the Agent or the Security Trustee in respect of a claim, proceeding, liability or expense which was not reasonably foreseeable at the date of this Certificate; but nothing in this paragraph shall

affect the liability of each of the Transferor and the Transferee to the Agent or the Security Trustee for the full amount demanded by it.

[Name of Transferor]

[Name of Transferee]

By:

By:

Date:

Date:

Agent

Signed for itself and for and on behalf of itself as Agent and for every other Relevant Party

[Name of Agent]

By:

Date:

Administrative Details of Transferee

Name of Transferee:

Lending Office:

Contact Person:

(Loan Administration Department):

Telephone:

Fax:

Contact Person

(Credit Administration Department):

Telephone:

Fax:

Account for payments:

Note: This Transfer Certificate alone may not be sufficient to transfer a proportionate share of the Transferor's interest in the security constituted by the Finance Documents in the Transferor's or Transferee's jurisdiction. It is the responsibility of each Lender to ascertain whether any other documents are required for this purpose.

SCHEDULE 5

DESIGNATION NOTICE

Nordea Bank Finland Plc, London Branch
City Place House
55 Basinghall Street
London EC2V 5NB
England

[•]

Dear Sirs

Loan Agreement dated 20 December 2012 made between (i) Palau Shipping Company Inc. and Guam Shipping Company Inc. as joint and several Borrowers, (ii) the Lenders, (iii) yourselves as Swap Bank, Agent and Security Trustee (the "Loan Agreement").

We refer to:

- 1 The Loan Agreement;
- 2 the Master Agreement dated [•] 2012 made between ourselves and the Swap Bank; and
- 3 a Confirmation delivered pursuant to the said Master Agreement dated [•] and addressed by [•] to us.

In accordance with the terms of the Loan Agreement, we hereby give you notice of the said Confirmation and hereby confirm that the Transaction evidenced by it will be designated as a "Designated Transaction" for the purposes of the Loan Agreement and the Finance Documents.

Yours faithfully,

for and on behalf of

[PALAU SHIPPING COMPANY INC.]|GUAM SHIPPING COMPANY INC.]

SCHEDULE 6

MANDATORY COST FORMULA

- 1 The Mandatory Cost is an addition to the interest rate to compensate Lenders for the cost of compliance with (a) the requirements of the Financial Services Authority (or any other authority which replaces all or any of its functions) or (b) the requirements of the European Central Bank.
- 2 On the first day of each interest Period (or as soon as possible thereafter) the Agent shall calculate, as a percentage rate, a rate (the "Additional Cost Rate") for each Lender, in accordance with the paragraphs set out below. The Mandatory Cost will be calculated by the Agent as a weighted average of the Lenders' Additional Cost Rates (weighted in proportion to the percentage participation of each Lender in the Loan) and will be expressed as a percentage rate per annum.
- 3 The Additional Cost Rate for any Lender lending from a lending office in a Participating Member State will be the percentage notified by that Lender to the Agent. This percentage will be certified by that Lender in its notice to the Agent to be its reasonable determination of the cost (expressed as a percentage of that Lender's participation in the Loan made from that lending office) of complying with the minimum reserve requirements of the European Central Bank in respect of loans made from that lending office.
- 4 The Additional Cost Rate for any Lender lending from a lending office in the United Kingdom will be calculated by the Agent as follows:

$$\frac{E \times 0.01}{300} \text{ per cent. per annum}$$

Where:

- E is designed to compensate Lenders for amounts payable under the Fees Rules and is calculated by the Agent as being the average of the most recent rates of charge supplied by the Reference Bank to the Agent pursuant to paragraph 6 below and expressed in pounds per £1,000,000.

- 5 For the purposes of this Schedule:
 - (a) **"Eligible Liabilities"** and "Special Deposits" have the meanings given to them from time to time under or pursuant to the Bank of England Act 1998 or (as may be appropriate) by the Bank of England;
 - (b) **"Fees Rules"** means the rules on periodic fees contained in the FSA Supervision Manual or such other law or regulation as may be in force from time to time in respect of the payment of fees for the acceptance of deposits;
 - (c) **"Fee Tariffs"** means the fee tariffs specified in the Fees Rules under the activity group A.1 Deposit acceptors (ignoring any minimum fee or zero rated fee required pursuant to the Fees Rules but taking into account any applicable discount rate);

(d) **"Participating Member State"** means any member state of the European Union that adopts or has adopted the euro as its lawful currency in accordance with legislation of the European Union relating to European Monetary Union; and

(e) **"Tariff Base"** has the meaning given to it in, and will be calculated in accordance with, the Fees Rules.

6 If requested by the Agent, the Reference Bank shall, as soon as practicable after publication by the Financial Services Authority, supply to the Agent, the rate of charge payable by the Reference Bank to the Financial Services Authority pursuant to the Fees Rules in respect of the relevant financial year of the Financial Services Authority (calculated for this purpose by the Reference Bank as being the average of the Fee Tariffs applicable to the Reference Bank for that financial year) and expressed in pounds per £1,000,000 of the Tariff Base of the Reference Bank.

7 Each Lender shall supply any information required by the Agent for the purpose of calculating its Additional Cost Rate. In particular, but without limitation, each Lender shall supply the following information in writing on or prior to the date on which it becomes a Lender:

- (a) the jurisdiction of its lending office; and
- (b) any other information that the Agent may reasonably require for such purpose.

Each Lender shall promptly notify the Agent in writing of any change to the information provided by it pursuant to this paragraph.

8 The rates of charge of the Reference Bank for the purpose of E above shall be determined by the Agent based upon the information supplied to it pursuant to paragraph 6 above and on the assumption that, unless a Lender notifies the Agent to the contrary, each Lender's obligations in relation to cash ratio deposits and special Deposits are the same as those of a typical bank from its jurisdiction of incorporation with a lending office in the same jurisdiction as its lending office.

9 The Agent shall have no liability to any person if such determination results in an Additional Cost Rate which over or under compensates any Lender and shall be entitled to assume that the information provided by any Lender or the Reference Bank pursuant to paragraphs 3, 6 and 7 above is true and correct in all respects.

10 The Agent shall distribute the additional amounts received as a result of the Mandatory Cost to the Lenders on the basis of the Additional Cost Rate for each Lender based on the information provided by each Lender and the Reference Bank pursuant to paragraphs 3, 6 and 7 above.

11 Any determination by the Agent pursuant to this Schedule in relation to a formula, the Mandatory Cost, an Additional Cost Rate or any amount payable to a Lender shall, in the absence of manifest error, be conclusive and binding on all parties.

12 The Agent may from time to time, after consultation with the Borrowers and the Lenders, determine and notify to all parties any amendments which are required to be made to this Schedule in order to comply with any change in law, regulation or any requirements from time to time imposed by the Financial Services Authority or the European Central Bank (or, in any case, any other authority which replaces all or any of its functions) and any such determination shall, in the absence of manifest error, be conclusive and binding on all parties.

EXECUTION PAGES

THE BORROWERS

SIGNED BY Andreas Michalopoulos) /s/ Andreas Michalopoulos
)
for and on behalf of)
PALAU SHIPPING COMPANY)
INC.
in the presence of:) /s/ Vassiliki Georgopoulos
 Vassiliki Georgopoulos
 Solicitor
 Watson, Farley & Williams
 89 Akti Miaouli
 Piraeus 185 38 Greece

SIGNED BY Anastassis Margaronis) /s/ Anastassis Margaronis
)
for and on behalf of)
GUAM SHIPPING COMPANY)
INC.
in the presence of:) /s/ Vassiliki Georgopoulos
 Vassiliki Georgopoulos
 Solicitor
 Watson, Farley & Williams
 89 Akti Miaouli
 Piraeus 185 38 Greece

THE LENDERS

SIGNED BY Erica Lacombe) /s/ Erica Lacombe
)
for and on behalf of)
NORDEA BANK FINLAND PLC,)
LONDON BRANCH)
in the presence of:) /s/ Vassiliki Georgopoulos
 Vassiliki Georgopoulos
 Solicitor
 Watson, Farley & Williams
 89 Akti Miaouli
 Piraeus 185 38 Greece

THE AGENT

SIGNED BY Erica Lacombe) /s/ Erica Lacombe
)
for and on behalf of)
NORDEA BANK FINLAND PLC,)
LONDON BRANCH)
in the presence of:) /s/ Vassiliki Georgopoulos
 Vassiliki Georgopoulos
 Solicitor
 Watson, Farley & Williams
 89 Akti Miaouli
 Piraeus 185 38 Greece

THE SECURITY TRUSTEE

SIGNED BY Erica Lacombe) /s/ Erica Lacombe
)
for and on behalf of)
NORDEA BANK FINLAND PLC,)
LONDON BRANCH)
in the presence of:) /s/ Vassiliki Georgopoulos

Vassiliki Georgopoulos
Solicitor
Watson, Farley & Williams
89 Akti Miaouli
Piraeus 185 38 Greece

THE SWAP BANK

SIGNED BY Erica Lacombe) /s/ Erica Lacombe
)
for and on behalf of)
NORDEA BANK FINLAND PLC,)
LONDON BRANCH)
in the presence of:) /s/ Vassiliki Georgopoulos
 Vassiliki Georgopoulos
 Solicitor
 Watson, Farley & Williams
 89 Akti Miaouli
 Piraeus 185 38 Greece

Dated 21 June 2012

**SUPPLEMENTAL AGREEMENT
relating to an (originally)
US\$16,125,000 loan
to (originally)
JEMO SHIPPING COMPANY INC.**

**provided by
THE BANKS AND FINANCIAL INSTITUTIONS SET OUT IN SCHEDULE 1**

**Arranger, Agent, Security Agent and Account Bank
NORDEA BANK FINLAND PLC, LONDON BRANCH**

**Swap Provider
NORDEA BANK FINLAND PLC**

NORTON ROSE

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THIS SUPPLEMENTAL AGREEMENT is dated 21 June 2012 and made **BETWEEN**:

- (1) **JEMO SHIPPING COMPANY INC.**, a corporation incorporated in the Republic of the Marshall Islands with its registered office at Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro, Republic of the Marshall Islands MH96960 (the "Original **Borrower**");
- (2) **MANDARINGINA INC.**, a corporation incorporated in the Republic of the Marshall Islands with its registered office at Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro, Republic of the Marshall Islands MH96960 (the "New **Borrower**" and, together with the Original Borrower, the "**Borrowers**");
- (3) **THE BANKS AND FINANCIAL INSTITUTIONS** whose names and addresses are set out in schedule 1 (together, the "**Banks**");
- (4) **NORDEA BANK FINLAND PLC, LONDON BRANCH**, a company incorporated in Finland having its registered office at Aleksanterinkatu 36B, FI-00020 Helsinki, Finland, acting through its branch at 8th Floor, City Place House, 55 Basinghall Street, London EC2V 5NB, England in its capacity as arranger (the "Arranger");
- (5) **NORDEA BANK FINLAND PLC, LONDON BRANCH**, a company incorporated in Finland having its registered office at Aleksanterinkatu 36B, FI-00020 Helsinki, Finland, acting through its branch at 8th Floor, City Place House, 55 Basinghall Street, London EC2V 5NB, England, in its capacity as agent for the Banks and the Swap Provider (the "Agent");
- (6) **NORDEA BANK FINLAND PLC, LONDON BRANCH**, a company incorporated in Finland having its registered office at Aleksanterinkatu 36B, FI-00020 Helsinki, Finland, acting through its branch at 8th Floor, City Place House, 55 Basinghall Street, London EC2V 5NB, England, in its capacity as account bank (the "Account Bank");
- (7) **NORDEA BANK FINLAND PLC**, a company incorporated in Finland having its registered office at Aleksanterinkatu 36B, FI-00020 Helsinki, Finland, acting through its branch at 8th Floor, City Place House, 55 Basinghall Street, London EC2V 5NB, England, in its capacity as swap provider (the "Swap Provider");
- (8) **NORDEA BANK FINLAND PLC, LONDON BRANCH**, a company incorporated in Finland having its registered office at Aleksanterinkatu 36B, FI-00020 Helsinki, Finland, acting through its branch at 8th Floor, City Place House, 55 Basinghall Street, London EC2V 5NB, England, in its capacity as security agent and trustee for and on behalf of the Agent, the Banks and the Swap Provider (the "Security Agent");
- (9) **DIANA SHIPPING INC.** a corporation incorporated in the Republic of the Marshall Islands with its registered office at Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro, Republic of the Marshall Islands MH96960 (the "Corporate **Guarantor**"); and
- (10) **DIANA SHIPPING SERVICES S.A.** a company established under the laws of the Republic of Panama with its registered agent's registered office at Edificio Universal, Piso 12, Avenida Federico Boyd, Panama (the "Manager").

WHEREAS:

- (A) this Agreement is supplemental to the loan agreement dated 7 February 2012 (the "Principal Agreement") made between (1) the Original Borrower as borrower, (2) the Banks, (3) the Agent, (4) the Account Bank, (5) the Arranger, (6) the Security Agent and (7) the Swap Provider relating to a loan of up to Sixteen million one hundred and twenty five thousand Dollars (\$16,125,000), of which the principal amount outstanding at the date hereof is Fifteen million eight hundred and seventy three thousand Dollars (\$15,873,000), advanced by the Banks to the Original Borrower; and

(B) this Agreement sets out the terms and conditions upon which the Creditors (as defined below) shall, at the request of the Original Borrower, provide their consent to:

- (a) the New Borrower becoming an additional borrower under the Principal Agreement and an additional counterparty of the Swap Provider under the Principal Master Agreement (as defined below);
- (b) the increase and upsizing of the loan amount by Ten million three hundred and twenty five thousand Dollars (\$10,325,000), namely from (originally) Sixteen million one hundred and twenty five thousand Dollars (\$16,125,000) to an amount of up to Twenty six million four hundred and fifty thousand Dollars (\$26,450,000), for the purpose of financing part of the acquisition cost of an additional ship; and
- (c) certain consequential changes to the Principal Agreement and the Principal Master Agreement (as defined below) in each case required in connection with the above and agreed to by the Borrowers and the Creditors (as defined below).

NOW IT IS HEREBY AGREED as follows:

1 Definitions

1.1 Defined expressions

Words and expressions defined in the Principal Agreement shall, unless the context otherwise requires or unless otherwise defined herein, have the same meanings when used in this Agreement.

1.2 Definitions

In this Agreement, unless the context otherwise requires:

"Borrowers" means, together, the Original Borrower and the New Borrower and **"Borrower"** means either of them;

"Creditors" means, together, the Agent, the Account Bank, the Arranger, the Security Agent, the Swap Provider and the Banks and **"Creditor"** means any of them;

"Effective Date" means the date, no later than 25 June 2012, on which the Agent notifies the Borrowers in writing that the Agent has received the documents and evidence specified in clause 6 and schedule 2 in a form and substance satisfactory to it;

"ISDA Amendment Agreement" means the amendment agreement to the Principal Master Agreement made or (as the context may require) to be made between the Swap Provider and the Borrowers in the form set out in schedule 4;

"Loan Agreement" means the Principal Agreement as amended and restated by this Agreement;

"Master Swap Agreement" means the Principal Master Agreement as amended and supplemented by the ISDA Amendment Agreement;

"New Corporate Guarantee" means the guarantee executed or (as the context may require) to be executed by the Corporate Guarantor in favour of Security Agent in respect of the obligations of the Borrowers under the Loan Agreement in the form set out in schedule 6;

"New Jemo Deed of Covenant" means the deed of covenant in respect of m.v. *Leto* executed or (as the context may require) to be executed by the Original Borrower in favour of the Security Agent in the form set out in schedule 8;

"New Jemo Mortgage" means the first priority Bahamas mortgage in respect of m.v. *Leto* executed or (as the context may require) to be executed by the Original Borrower in favour of the Security Agent in the form set out in schedule 7;

"New Swap Assignment" means the swap assignment executed or (as the context may require) to be executed by the Borrowers and the Security Agent in the form set out in schedule 5.

"Principal Master Agreement" means the 2002 ISDA Master Agreement and its schedule both dated as of 7 February 2012 and made between the Original Borrower and the Swap Provider;

"Relevant Documents" means this Agreement, the New Corporate Guarantee, the New Swap Assignment, the ISDA Amendment Agreement, the New Jemo Deed of Covenant and the New Jemo Mortgage; and

"Relevant Parties" means the Original Borrower, the New Borrower, the Corporate Guarantor and the Manager or, where the context so requires or permits, means any or all of them.

1.3 Principal Agreement

References in the Principal Agreement to "this Agreement" shall, with effect from the Effective Date and unless the context otherwise requires, be references to the Principal Agreement as amended by this Agreement and words such as "herein", "hereof", "hereunder", "hereafter", "hereby" and "hereto", where they appear in the Principal Agreement, shall be construed accordingly.

1.4 Headings

Clause headings and the table of contents are inserted for convenience of reference only and shall be ignored in the interpretation of this Agreement.

1.5 Construction of certain terms

In this Agreement, unless the context otherwise requires:

- 1.5.1 references to clauses and schedules are to be construed as references to clauses of, and schedules to, this Agreement and references to this Agreement includes its schedules;
- 1.5.2 references to (or to any specified provision of) this Agreement or any other document shall be construed as references to this Agreement, that provision or that document as in force for the time being and as amended in accordance with terms thereof, or, as the case may be, with the agreement of the relevant parties;
- 1.5.3 references to a "regulation" include any present or future regulation, rule, directive, requirement, request or guideline (whether or not having the force of law) of any agency, authority, central bank or government department or any self-regulatory or other national or supra-national authority;
- 1.5.4 words importing the plural shall include the singular and vice versa;
- 1.5.5 references to a time of day are to London time;
- 1.5.6 references to a person shall be construed as references to an individual, firm, company, corporation, unincorporated body of persons or any Government Entity;
- 1.5.7 references to a "guarantee" include references to an indemnity or other assurance against financial loss including, without limitation, an obligation to purchase assets or services as a consequence of a default by any other person to pay any Indebtedness and "guaranteed" shall be construed accordingly; and

1.5.8 references to any enactment shall be deemed to include references to such enactment as re-enacted, amended or extended.

1.6 Third Party Rights

A person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce or to enjoy the benefit of any term of this Agreement.

2 Agreement of the Creditors

The Creditors, relying upon the representations and warranties on the part of the Relevant Parties contained in clause 5 agree with the Borrowers that, with effect on the Effective Date and subject to the terms and conditions of this Agreement and in particular, but without prejudice to the generality of the foregoing, fulfilment on or before 25 June 2012 of the conditions contained in clause 6 and schedule 2, the Creditors agree:

- 2.1 to the requests of the Original Borrower set out in Recital (B) above; and
- 2.2 to the amendment of the Principal Agreement on the terms set out in clause 4.

3 Assumption of liability and obligations

3.1 Additional party

It is hereby agreed that, as and with effect from the Effective Date, the New Borrower shall be, and is hereby made, an additional party to the Principal Agreement, as joint and several borrower with the Original Borrower, and the Principal Agreement shall henceforth be construed and treated in all respects as if references therein to "Borrower" included reference to the New Borrower in addition to the Original Borrower.

3.2 Assumption of Liability

The New Borrower hereby agrees with the Creditors and the Original Borrower that, as and with effect from the Effective Date, it shall, jointly and severally with the Original Borrower:

- 3.2.1 be bound by the terms of the Principal Agreement as if the New Borrower had at all times been named therein as a Borrower;
- 3.2.2 duly and punctually perform all the liabilities and obligations whatsoever from time to time to be performed or discharged by the Original Borrower under the Principal Agreement (and for which the Borrowers hereby agree to be jointly and severally liable); and
- 3.2.3 without prejudice to the generality of clauses 3.2.1 and 3.2.2, be indebted for the full amount of the Loan, interest therein and all other sums which may be or become due to the Creditors or any of them pursuant to the Principal Agreement.

4 Amendments to the Principal Agreement

4.1 Amendments to the Principal Agreement

The Principal Agreement shall, with effect on and from the Effective Date, be (and it is hereby) amended so as to read in accordance with the form of the amended and restated Loan Agreement set out in schedule 3 and will continue to be binding upon each of the parties thereto in accordance with its terms as so amended and restated.

4.2 Continued force and effect

Save as amended by this Agreement, the provisions of the Principal Agreement shall continue in full force and effect and each of the Principal Agreement and this Agreement shall, in either case, be read and construed as one instrument.

5 Representations and warranties

5.1 Primary representations and warranties

Each of the Relevant Parties represents and warrants to the Creditors that:

5.1.1 Existing representations and warranties

the representations and warranties set out in clause 7 of the Principal Agreement and clause 4 of the Corporate Guarantee were true and correct on the date of the Principal Agreement and the Corporate Guarantee, respectively, and are true and correct, including to the extent that they may have been or shall be amended by this Agreement, as if made at the date of this Agreement with reference to the facts and circumstances existing at such date and as if reference therein to "Security Parties" or "Borrower" included reference to the New Borrower;

5.1.2 Corporate power

each of the Relevant Parties has power to execute, deliver and perform its obligations under the Relevant Documents to which it is or is to be a party; all necessary corporate, shareholder and other action has been taken by each of the Relevant Parties to authorise the execution, delivery and performance of the Relevant Documents to which it is or is to be a party and no limitation on the powers of the New Borrower to borrow will be exceeded as a result of the New Borrower becoming indebted to the Banks in respect of the Loan pursuant to this Agreement;

5.1.3 Binding obligations

the Relevant Documents to which it is or is to be a party constitute valid and legally binding obligations of each of the Relevant Parties enforceable in accordance with their respective terms;

5.1.4 No conflict with other obligations

the execution, delivery and performance of the Relevant Documents to which it is or is to be a party by each of the Relevant Parties will not (i) contravene any existing law, statute, rule or regulation or any judgment, decree or permit to which any of the Relevant Parties is subject, (ii) conflict with, or result in any breach of any of the terms of, or constitute a default under, any agreement or other instrument to which any of the Relevant Parties is a party or is subject or by which it or any of its property is bound or (iii) contravene or conflict with any provision of the constitutional documents of any of the Relevant Parties or (iv) result in the creation or imposition of or oblige any of the Relevant Parties to create any Encumbrance (other than a Permitted Encumbrance) on any of the undertaking, assets, rights or revenues of any of the Relevant Parties;

5.1.5 No filings required

save for the registration of the New Jemo Mortgage, it is not necessary to ensure the legality, validity, enforceability or admissibility in evidence of any of the Relevant Documents that they or any other instrument be notarised, filed, recorded, registered or enrolled in any court, public office or elsewhere in any Relevant Jurisdiction or that any stamp, registration or similar tax or charge be paid in any Relevant Jurisdiction on or in relation to the Relevant Documents and each of the Relevant Documents is in proper form for its enforcement in the courts of each Relevant Jurisdiction;

5.1.6 **Choice of law**

the choice of English law to govern the Relevant Documents (other than the New Jemo Mortgage), the choice of Bahamian law to govern the New Jemo Mortgage and the submissions by the Relevant Parties to the non-exclusive jurisdiction of the English courts are valid and binding; and

5.1.7 **Consents obtained**

every consent, authorisation, licence or approval of, or registration or declaration to, governmental or public bodies or authorities or courts required by any of the Relevant Parties in connection with the execution, delivery, validity, enforceability or admissibility in evidence of the Relevant Documents to which it is or will become a party or the performance by any of the Relevant Parties of their respective obligations under such documents has been obtained or made and is in full force and effect and there has been no default in the observance of any conditions or restrictions (if any) imposed in, or in connection with, any of the same.

5.2 Repetition of representations and warranties

Each of the representations and warranties contained in clause 5.1 of this Agreement, clause 7 of the form of the amended and restated Loan Agreement set out in schedule 3 and clause 4 of the Corporate Guarantee shall be deemed to be repeated by the Borrowers and the Corporate Guarantor, respectively, on the Effective Date as if made with reference to the facts and circumstances existing on such day.

6 Conditions

6.1 Documents and evidence

The agreement of the Creditors referred to in clause 2 shall be subject to the receipt by the Agent or its duly authorised representative, on or before 25 June 2012, of the documents and evidence specified in schedule 2 in form and substance satisfactory to the Agent.

6.2 General conditions precedent

The agreement of the Creditors referred to in clause 2 shall be further subject to:

- 6.2.1 the representations and warranties in clause 5 being true and correct on the Effective Date as if each was made with respect to the facts and circumstances existing at such time; and
- 6.2.2 no Default having occurred and continuing at the time of the Effective Date.

6.3 Waiver of conditions precedent

The conditions specified in this clause 6 are inserted solely for the benefit of the Agent and the Banks and may be waived by the Agent (acting on the instructions of the Banks) in whole or in part with or without conditions.

7 Confirmations

7.1 Security Documents

Each of the Relevant Parties hereby confirms its consent to the amendments to (i) the Principal Agreement on the terms set out in this Agreement and (ii) the Principal Master Agreement on the terms set out in the ISDA Amendment Agreement, and agrees that:

- 7.1.1 each of the other Security Documents to which it is a party, and its obligations thereunder, shall remain and continue in full force and effect notwithstanding the said amendments to (i) the Principal Agreement contained in this Agreement (including the increase of the maximum

amount of the Loan from \$16,125,000 to \$26,450,000, interest on such increased amount and any other amount owing to the Creditors in relation to such increased amount) and (ii) the Principal Master Agreement contained in the ISDA Amendment Agreement;

7.1.2 with effect from the Effective Date, the New Borrower shall be and is hereby added as a "Borrower" in each of the other Security Documents to which such Relevant Party is a party and the maximum principal sum of the Loan shall be and is hereby increased from \$16,125,000 to \$26,450,000 and each such Security Document shall henceforth be construed and treated, and each of the Relevant Parties shall be bound by each of the other Security Documents to which it is a party, in all respects as if (a) the New Borrower was a borrower (on a joint and several basis with the Original Borrower) and (b) the maximum principal sum of the Loan advanced or to be advanced referred to in the other Security Documents were "\$26,450,000" instead of "\$16,125,000"; and

7.1.3 with effect from the Effective Date, references in any of the Security Documents to which it is a party to:

- (a) "the Agreement" or "the Loan Agreement" (or equivalent or similar references), shall henceforth be references to the Principal Agreement, as amended and restated by this Agreement and as from time to time hereafter amended and shall also be deemed to include this Agreement and the obligations of the Borrowers hereunder; and
- (b) the "Master Swap Agreement" (or equivalent or similar references), shall henceforth be references to the Principal Master Agreement as amended by the ISDA Amendment Agreement and as from time to time hereafter amended and shall also be deemed to include the ISDA Amendment Agreement and the obligations of the Borrowers thereunder.

8 Fees and expenses

8.1 Fees

The Borrowers agree, jointly and severally, to pay to the Agent for the account of the Arranger, an arrangement fee of \$123,900 on the date of this Agreement.

8.2 Expenses

The Borrowers agree, jointly and severally, to pay to the Agent on a full indemnity basis on demand all expenses (including legal and out-of-pocket expenses) incurred by the Creditors:

8.2.1 in connection with the negotiation, preparation, execution and, where relevant, registration of this Agreement, the other Relevant Documents and of any amendment or extension of or the granting of any waiver or consent under this Agreement and/or the other Relevant Documents or any such discharge or release documents;

8.2.2 in contemplation of, or otherwise in connection with, the enforcement of, or preservation of any rights under this Agreement and/or the other Relevant Documents or otherwise in respect of the monies owing and obligations incurred under this Agreement and/or the other Relevant Documents, together with interest at the rate referred to in clause 3.4 of the Principal Agreement from the date on which such expenses were incurred to the date of payment (as well after as before judgment).

8.3 Value Added Tax

All fees and expenses payable pursuant to this clause 8 shall be paid together with value added tax or any similar tax (if any) properly chargeable thereon. Any value added tax chargeable in respect of any services supplied by the Creditors under this agreement shall, on delivery of the value added tax invoice, be paid in addition to any sum agreed to be paid hereunder.

8.4 Stamp and other duties

The Borrowers agree, jointly and severally, to pay to the Agent on demand all stamp, documentary, registration or other like duties or taxes (including any duties or taxes payable by the Creditors or any of them) imposed on or in connection with this Agreement and the other Relevant Documents and shall indemnify the Creditors against any liability arising by reason of any delay or omission by the Original Borrower and the New Borrower to pay such duties or taxes

9 Miscellaneous and notices

9.1 Notices

The provisions of clause 17.1 of the Principal Agreement shall extend and apply to the giving or making of notices or demands hereunder as if the same were expressly stated herein and for this purpose any notices to be sent to the Relevant Parties or any of them shall be sent to the same address as the address indicated for the "Borrowers" in the said clause 17.1.

9.2 Counterparts

This Agreement may be executed in any number of counterparts and by the different parties on separate counterparts, each of which when so executed and delivered shall be an original but all counterparts shall together constitute one and the same instrument.

9.3 Borrowers' obligations

Notwithstanding anything to the contrary contained in this Agreement, the agreements, obligations and liabilities of the Borrowers herein contained are joint and several and shall be construed accordingly. Each of the Borrowers agrees and consents to be bound by this Agreement notwithstanding that the other Borrower which was intended to sign or be bound may not do so or be effectively bound and notwithstanding that this Agreement may be invalid or unenforceable against the other Borrower whether or not the deficiency is known to the Creditors.

10 Applicable law

10.1 Law

This Agreement and any non-contractual obligations connected with it are governed by and shall be construed in accordance with English law.

10.2 Submission to jurisdiction

Each of the Relevant Parties agrees, for the benefit of the Creditors, that any legal action or proceedings arising out of or in connection with this Agreement or any non-contractual obligations connected with it against any of the Relevant Parties or any of its assets may be brought in the English courts. Each of the Relevant Parties irrevocably and unconditionally submits to the jurisdiction of such courts and irrevocably designates, appoints and empowers Mr Antonis Nicolaou at present of 25 Heath Drive, Potters Bar, Herts EN6 1 EN, England to receive for it and on its behalf, service of process issued out of the English courts in any such legal action or proceedings. The submission to such jurisdiction shall not (and shall not be construed so as to) limit the right of the Creditors or any of them to take proceedings against any of the Relevant Parties in the courts of any other competent jurisdiction nor shall the taking of proceedings in any one or more jurisdictions preclude the taking of proceedings in any other jurisdiction, whether concurrently or not. The parties further agree that only the Courts of England and not those of any other State shall have jurisdiction to determine any claim which any of the Relevant Parties may have against the Creditors or any of them arising out of or in connection with this Agreement.

10.3 Process agent

If Mr Antonis Nikolaou appointed as agent for service of process by the Relevant Parties and referred to in clause 10.2 passes away or cannot be found or is otherwise unable for any reason to act or resigns as agent for service of process, the Relevant Parties hereby undertake within ten (10) days of such event taking place (and the Relevant Parties by way of security hereby irrevocably and unconditionally authorise the Security Agent to do so) to designate, appoint and empower on their behalf, Messrs Cheeswrights (currently of Bankside House, 107 Leadenhall Street, London EC3A 4AF, England) at their then principal place of business in London as substitute process agent of Mr Antonis Nikolaou or another agent on terms acceptable to the Agent.

IN WITNESS whereof the parties to this Agreement have caused this Agreement to be duly executed as a deed on the date first above written.

Schedule

Names and addresses of the Banks

Name	Lending office and contact details
Nordea Bank Finland Plc, London Branch	<p>Lending Office</p> <p>8th Floor, City Place House 55 Basinghall Street London EC2V 5NB England</p> <p>Address for Notices</p> <p>8th Floor, City Place House 55 Basinghall Street London EC2V 5NB England</p> <p>Fax: +44 207 726 9188 Attn: Shipping Department</p> <p>With a copy to:</p> <p>Fax: +44 207 726 9102 Attn: Loan Administration</p>

Schedule 2

Documents and evidence required as conditions precedent

(referred to in clause 6.1)

1 Corporate authorisation

in relation to each of the Relevant Parties:

(i) Constitutional documents

copies certified by an attorney-at-law of each of the Relevant Parties, as a true, complete and up to date copies, of all documents which contain or establish or relate to the constitution of that party or, in the case of the Original Borrower, the Corporate Guarantor and the Manager, a secretary's certificate confirming that there have been no changes or amendments to the constitutional documents certified copies of which were previously delivered to the Agent pursuant to the Principal Agreement;

(ii) Resolutions

copies of resolutions of each of its board of directors and (except in the case of the Corporate Guarantor) its shareholders/stockholders approving such of the Relevant Documents to which it is or is to be a party and the terms and conditions hereof and thereof and authorising the signature, delivery and performance of each such party's obligations thereunder, certified (in a certificate dated no earlier than five (5) Banking Days prior to the date of this Agreement) by an attorney-at-law of such Relevant Party as:

- (A) being true and correct;
- (B) being duly passed at meetings of the directors of such Relevant Party and of the shareholders/stockholders of such Relevant Party, each duly convened and held;
- (C) not having been amended, modified or revoked; and
- (D) being in full force and effect

together with originals or certified copies of any powers of attorney issued by such Relevant Party pursuant to such resolutions; and

(iii) Certificate of incumbency

a list of directors and officers of each Relevant Party specifying the names and positions of such persons, certified (in a certificate dated no earlier than five (5) Banking Days prior to the date of this Agreement) by an officer of such Relevant Party to be true, complete and up to date;

2 Relevant Documents

each of the Relevant Documents, duly executed;

3 New Jemo Mortgage registration

evidence that the New Jemo Mortgage has been registered against m.v. Leto through the relevant Registry;

4 Consents

a certificate (dated no earlier than five (5) Banking Days prior to the date of this Agreement) from an officer of each of the Relevant Parties stating that no consents, authorisations, licences or approvals are necessary for such Relevant Party to authorise, or are required by each of the Relevant Parties or any other party (other than the Creditors) in connection with, the execution, delivery, and performance of the Relevant Documents to which they are or will be a party;

5 Financial statements

the audited consolidated financial statements of the Group in respect of the financial year ended on 31 December 2011;

6 Legal opinions

such favourable legal opinions in relation to the laws of the Republic of the Marshall Islands, Panama, Bahamas and any other jurisdiction as the Agent shall in its reasonable discretion deem appropriate, each in a form acceptable to the Agent in its sole discretion;

7 Process agent

an original or certified true copy of a letter from each Relevant Party's agent for receipt of service of proceedings accepting its appointment under this Agreement and each of the Relevant Documents in which it is or is to be appointed as such Relevant Party's agent;

8 Fee

evidence that the fee payable under clause 8.1 has been paid in full; and

9 Registration forms

such statutory forms duly signed by the Borrowers and any other relevant party to the Relevant Documents as may be required by the Agent to perfect the security contemplated by the Relevant Documents.

Schedule 3

Form of Amended and Restated Loan Agreement

**LOAN AGREEMENT
for a Loan of up to US\$26,450,000
to
JEMO SHIPPING COMPANY INC.
and
MANDARINGINA INC.**

**provided by
THE BANKS AND FINANCIAL INSTITUTIONS SET OUT IN SCHEDULE 1**

**Arranger, Agent, Security Agent
and Account Bank
NORDEA BANK FINLAND PLC, LONDON BRANCH**

**Swap Provider
NORDEA BANK FINLAND PLC**

NORTON ROSE

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THIS AGREEMENT is dated 7 February 2012 as amended and restated by a supplemental agreement dated 21 June 2012 and made **BETWEEN:**

- (1) **JEMO SHIPPING COMPANY INC.** and **MANDARINGINA INC.** as joint and several Borrowers;
- (2) **NORDEA BANK FINLAND PLC, LONDON BRANCH** as Arranger, Agent, Security Agent and Account Bank;
- (3) **THE BANKS AND FINANCIAL INSTITUTIONS** whose names are set out in schedule 1 as Banks; and
- (4) **NORDEA BANK FINLAND PLC** as Swap Provider. **IT IS AGREED** as follows:

1 Purpose and definitions

1.1 Purpose

This Agreement sets out the terms and conditions upon and subject to which the Banks agree, according to their several obligations, to make available to the Borrowers, jointly and severally, in two (2) Advances, a loan of up to Twenty six million four hundred and fifty thousand Dollars (\$26,450,000) to be used for the purpose of (a) financing part of the acquisition cost of the Ships on or after their Delivery and (b) financing certain fees and expenses payable by the Borrowers in connection with this Agreement.

1.2 Definitions

In this Agreement, unless the context otherwise requires:

"Account Assignment" means:

- (a) in relation to the Jemo Ship, the Jemo Operating Account Assignment; or
- (b) in relation to the Mandaringina Ship, the Mandaringina Operating Account Assignment,

and **"Account Assignments"** means either or both of them;

"Account Bank" means Nordea Bank Finland Plc, a company incorporated in Finland with its registered office at Aleksanterinkatou 36B, FI-00020 Helsinki, Finland, acting for the purposes of this Agreement through its branch at 8th Floor, City Place House, 55 Basinghall Street, London EC2V 5NB, England (or of such other address as may last have been notified to the other parties to this Agreement pursuant to clause 17.1.3) or such other bank as may be designated by the Agent as the Account Bank for the purposes of this Agreement and includes its successors in title;

"Advance" means each borrowing of a proportion of the Total Commitment by the Borrowers or (as the context may require) the principal amount of such borrowing outstanding from time to time, being the Jemo Advance and the Mandaringina Advance and:

- (a) in relation to the Jemo Ship, it means the Jemo Advance; or
- (b) in relation to the Mandaringina Ship, it means the Mandaringina Advance,

and **"Advances"** means either or both of them;

"Agent" means Nordea Bank Finland Plc, a company incorporated in Finland with its registered office at Aleksanterinkatou 36B, FI-00020 Helsinki, Finland, acting for the purposes of this Agreement through its branch at 8th Floor, City Place House, 55 Basinghall Street, London

EC2V 5NB, England (or of such other address as may last have been notified to the other parties to this Agreement pursuant to clause 17.1.3) or such other person as may be appointed as agent by the Banks and the Swap Provider pursuant to clause 16.13 and includes its successors in title;

"Applicable Accounting Principles" means the most recent and up-to-date US GAAP applicable at any relevant time;

"Approved Shipbrokers" means, together, H. Clarkson & Co. Ltd. of London, Arrow Sale & Purchase (UK) Limited of London, Braemar Seascopic Ltd. of London, Fearnleys A/S of Oslo, RS Platou Shipbrokers of Oslo, Simpson Spence & Young of London and Maersk Brokers K/S of Copenhagen and includes their respective successors in title and **"Approved Shipbroker"** means any of them;

"Arranger" means Nordea Bank Finland Plc, a company incorporated in Finland with its registered office at Aleksanterinkatu 36B, FI-00020 Helsinki, Finland, acting for the purposes of this Agreement through its branch at 8th Floor, City Place House, 55 Basinghall Street, London EC2V 5NB, England (or, of such other address as may last have been notified to the other parties to this Agreement pursuant to clause 17.1.3), as arranger and includes its successors in title;

"Banking Day" means a day on which dealings in deposits in Dollars are carried on in the London Interbank Eurocurrency Market and (other than Saturday or Sunday) on which banks are open for business in London, Athens and New York City (or any other relevant place of payment under clause 6);

"Banks" means the banks and financial institutions set out in schedule 1 and includes their respective successors in title and Transferee Banks and **"Bank"** means any of them;

"Basel II Accord" means the "International Convergence of Capital Measurement and Capital Standards, a Revised Framework" published by the Basel Committee on Banking Supervision in June 2004 in the form existing on the date of this Agreement;

"Basel II Approach" means, in relation to a Bank, either the Standardised Approach or the relevant Internal Ratings Based Approach (each as defined in the Basel II Accord) adopted by that Bank (or its holding company) for the purposes of implementing or complying with the Basel II Accord;

"Basel II Regulation" means, in relation to a Bank:

- (a) any law or regulation implementing the Basel II Accord; or
- (b) any Basel II Approach adopted by that Bank,

but excludes any law or regulation implementing the Basel III Accord save and to the extent that it is a re-enactment of any law or regulation referred to in paragraph (a) of this definition;

"Basel III Accord" means, together, "Basel III: A global regulatory framework for more resilient banks and banking systems" and "Basel III: International framework for liquidity risk measurement, standards and monitoring" both published by the Basel Committee on Banking Supervision on 16th December, 2010, in either case in the form existing on the date of this Agreement;

"Basel III Regulation" means any law or regulation implementing the Basel III Accord save and to the extent that it re-enacts a Basel II Regulation;

"Borrowed Money" means Indebtedness in respect of (i) money borrowed or raised and debit balances at banks, (ii) any bond, note, loan stock, debenture or similar debt instrument, (iii) acceptance or documentary credit facilities, (iv) receivables sold or discounted (otherwise than on a non-recourse basis), (v) deferred payments for assets or services acquired excluding (1) (in

the case of the Borrowers) any sum payable to any trade creditors of the Borrowers or the Ships arising in the ordinary course of business and (2) (in the case of the Corporate Guarantor) any sum payable to any trade creditors of the Corporate Guarantor or any other member of the Group (except the Borrowers) or any of the Fleet Vessels (except the Ships) (vi) finance leases and hire purchase contracts, (vii) swaps, forward exchange contracts, futures and other derivatives and if the agreement under which any such transaction is entered requires netting of mutual liabilities, the Indebtedness for the net amount shall be taken into account as calculated on a "marked to market" basis, (viii) any other transaction (including without limitation forward sale or purchase agreements) having the commercial effect of a borrowing or raising of money or of any of (ii) to (vii) above and (ix) guarantees in respect of Indebtedness of any person falling within any of (i) to (viii) above;

"Borrower":

- (a) in relation to the Jemo Ship and/or the Jemo Advance, means the Jemo Borrower; or
- (b) in relation to the Mandaringina Ship and/or the Mandaringina Advance, means the Mandaringina Borrower,

and **"Borrowers"** means either or both of them;

"Borrowers' Security Documents" means, at any relevant time, such of the Security Documents as shall have been executed by either of the Borrowers at such time;

"Capital Adequacy Law" means any law or any regulation (whether or not having the force of law, but, if not having the force of law, with which a Bank or, as the case may be, its holding company habitually complies), including (without limitation) those relating to Taxation, capital adequacy, liquidity, reserve assets, cash ratio deposits and special deposits or other banking or monetary controls or requirements which affect the manner in which such Bank allocates capital resources to its obligations hereunder (including, without limitation, those resulting from the implementation or application of or compliance with the Basel II Accord, the Basel III Accord, any Basel II Regulation or any Basel III Regulation);

"Casualty Amount" means, in relation to each Ship, One million Dollars (\$1,000,000) or its equivalent in any other currency;

"Change of Control" means if a person, or persons acting in concert (other than any combination of Permitted Holders) have the right or the ability to control, either directly or indirectly, the affairs or composition of the majority of the board of directors (or equivalent of it) of the Corporate Guarantor or either of the Borrowers any other Security Party at any relevant time;

"Charter" means, in relation to a Ship, any time charter, pool agreement or other contract of employment in respect of that Ship with an original term in excess of twelve (12) months (without taking into account any option to extend or renew contained therein) which is entered into by the relevant Borrower as owner of that Ship and any other person as its counterparty thereunder (including the Initial Charter for that Ship);

"Charter Assignment" means, in relation to each Ship and any Charter relevant to such Ship, a specific assignment of such Charter executed or (as the context may require) to be executed by the relevant Borrower in favour of the Security Agent in such form as may be agreed by the Borrowers and the Agent;

"Charterer" means, in relation to a Ship, any such person which shall enter into a Charter in respect of the relevant Ship as the relevant Borrower's counterparty thereunder, during the Security Period and it includes the Initial Charterer for that Ship;

"Classification" means, in relation to each Ship, the highest class available to a vessel of the same type as the relevant Ship with the relevant Classification Society or such other class as the Agent (acting on the instructions of the Majority Banks) shall, at the request of the Borrower

owning such Ship, have agreed in writing shall be treated as the Classification in relation to such Ship for the purposes of the relevant Ship Security Documents;

"Classification Society" means, in relation to a Ship, Lloyd's Register of Shipping or such other classification society which the Agent (acting on the instructions of the Majority Banks) shall, at the request of the Borrower owning such Ship, have agreed in writing shall be treated as the Classification Society in relation to such Ship for the purposes of the relevant Security Documents;

"Code" means the International Management Code for the Safe Operation of Ships and for Pollution Prevention constituted pursuant to Resolution A. 741(18) of the International Maritime Organisation and incorporated into the International Convention for the Safety of Life at Sea 1974 (as amended) and includes any amendments or extensions thereto and any regulation issued pursuant thereto;

"Commitment" means, in relation to each Bank, the aggregate amount set out opposite such Bank's name in the column headed **"Commitment"** in schedule 1, and/or, in the case of a Transferee Bank, the aggregate amount transferred as specified in the relevant Transfer Certificate, as reduced in each case by any relevant term of this Agreement;

"Compliance Certificate" means a certificate substantially in the form set out in schedule 1 to the Corporate Guarantee;

"Compulsory Acquisition" means, in relation to a Ship, requisition for title or other compulsory acquisition, requisition, appropriation, expropriation, deprivation, forfeiture or confiscation for any reason of such Ship by any Government Entity or other competent authority, whether de jure or de facto, but shall exclude requisition for use or hire not involving requisition of title;

"Confirmation" shall have, in relation to any continuing Designated Transaction, the meaning given to it in the Master Swap Agreement;

"Contract" means:

- (a) in relation to the Jemo Ship, the Jemo Contract; or
- (b) in relation to the Mandaringina Ship, the Mandaringina Contract,

and **"Contracts"** means both of them;

"Contribution" means, in relation to each Bank, the principal amount of the Loan owing to such Bank at any relevant time;

"Corporate Guarantee" means, together, each of the corporate guarantees executed or (as the context may require) to be executed by the Corporate Guarantor in favour of the Security Agent in such form as is agreed between the Borrowers and the Security Agent;

"Corporate Guarantor" means Diana Shipping Inc., a corporation incorporated in the Republic of the Marshall Islands with its registered office at Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro, Marshall Islands MH96960, and includes its successors in title;

"Creditors" means, together, the Arranger, the Agent, the Security Agent, the Account Bank, the Swap Provider and the Banks and **"Creditor"** means any of them;

"Deed of Covenant" means:

- (a) in relation to the Jemo Ship, the Jemo Deed of Covenant; or

(b) in relation to the Mandaringina Ship, the Mandaringina Deed of Covenant,

and "**Deeds of Covenant**" means either or both of them;

"Default" means any Event of Default or any event or circumstance which with the giving of notice or lapse of time or the satisfaction of any other condition (or any combination thereof) would constitute an Event of Default;

"Delivery" means, in relation to each Ship, delivery of such Ship by the relevant Seller to, and the acceptance of the Ship by, the relevant Borrower in accordance with the relevant Contract;

"Delivery Date" means, in relation to each Ship, the date on which its Delivery occurs;

"Designated Transaction" means a Transaction which is entered into by the Borrowers with the Swap Provider pursuant to the Master Swap Agreement as contemplated by clause 2.9;

"DOC" means a document of compliance issued to an Operator in accordance with rule 13 of the Code;

"Dollars" and "**\$**" mean the lawful currency of the United States of America and, in respect of all payments to be made under any of the Security Documents, mean funds which are for same day settlement in the New York Clearing House Interbank Payments System (or such other U.S. dollar funds as may at the relevant time be customary for the settlement of international banking transactions denominated in U.S. dollars);

"Drawdown Date" means any date, being a Banking Day falling within the Drawdown Period, on which an Advance is, or is to be, drawn down;

"Drawdown Notice" means, in relation to each Advance, a notice substantially in the form of schedule 2 in respect of such Advance;

"Drawdown Period" means, in relation to each Advance, the period from the date of this Agreement and ending on the earlier of (a) the Termination Date relevant to such Advance, (b) the date on which the aggregate amount of the Advances is equal to the Total Commitment and (c) the date on which the Total Commitment is reduced to zero pursuant to any of the provisions of this Agreement (including clauses 4.3, 10.2 or 12);

"Early Termination Date" shall have, in relation to any continuing Designated Transaction, the meaning ascribed to it in the Master Swap Agreement;

"Earnings" means, in relation to a Ship, all moneys whatsoever from time to time due or payable to the relevant Borrower during the Security Period arising out of the use or operation of such Ship including (but without limiting the generality of the foregoing) all freight, hire and passage moneys, income arising out of pooling arrangements, compensation payable to such Borrower in event of requisition of the Ship for hire, remuneration for salvage or towage services, demurrage and detention moneys, and damages for breach (or payment for variation or termination) of any charterparty or other contract for the employment of such Ship;

"Encumbrance" means any mortgage, charge (whether fixed or floating), pledge, lien, hypothecation, assignment, trust arrangement or security interest or other encumbrance of any kind securing any obligation of any person or any type of preferential arrangement (including without limitation title transfer and/or retention arrangements) having a similar effect;

"Environmental Affiliate" means any agent or employee of either Borrower or any other Relevant Party or any person having a contractual relationship with either Borrower or any other Relevant Party in connection with any Relevant Ship or its operation or the carriage of cargo and/or passengers thereon and/or the provision of goods and/or services on or from any Relevant Ship;

"Environmental Approval" means any consent, authorisation, licence or approval of any governmental or public body or authorities or courts applicable to any Relevant Ship or its operation or the carriage of cargo and/or passengers thereon and/or the provision of goods and/or services on or from any Relevant Ship required under any Environmental Law;

"Environmental Claim" means any and all enforcement, clean-up, removal or other governmental or regulatory actions or orders instituted or completed pursuant to any Environmental Law or any Environmental Approval together with claims made by any third party relating to damage, contribution, loss or injury, resulting from any actual or threatened emission, spill, release or discharge of a Pollutant from any Relevant Ship;

"Environmental Laws" means all national, international and state laws, rules, regulations, treaties and conventions applicable to any Relevant Ship pertaining to the pollution or protection of human health or the environment including, without limitation, the carriage of Pollutants and actual or threatened emissions, spills, releases or discharges of Pollutants;

"Event of Default" means any of the events or circumstances described in clause 10.1;

"Fee Letter" means the fee letter made or (as the context may require) to be made between the Arranger, the Agent and the Jemo Borrower in relation to certain of the fees referred to in clause 5.1,

"Final Maturity Date" means;

(a) in relation to the Jemo Advance the earlier of (i) 28 February 2017 and (ii) the date falling sixty (60) months after the Drawdown Date of such Advance; and

(b) in relation to the Mandaringina Advance, the earlier of (i) 29 June 2017 and (ii) the date falling (60) months after the Drawdown Date of such Advance;

"Flag State" means:

(a) in relation to the Jemo Ship, the Commonwealth of the Bahamas; or

(b) in relation to the Mandaringina Ship, the Republic of the Marshall Islands,

or, in each case, such other state or territory designated in writing by the Agent (acting on the instructions of the Majority Banks), at the request of the Borrower owning such Ship, as being the **"Flag State"** of such Ship for the purposes of the relevant Ship Security Documents;

"Government Entity" means and includes (whether having a distinct legal personality or not) any national or local government authority, board, commission, department, division, organ, instrumentality, court or agency and any association, organisation or institution of which any of the foregoing is a member or to whose jurisdiction any of the foregoing is subject or in whose activities any of the foregoing is a participant;

"Group" means the Corporate Guarantor and its Subsidiaries from time to time (and, for the avoidance of doubt, it includes the Borrowers) and **"member of the Group"** shall be construed accordingly (and, for the avoidance of doubt, it is hereby clarified that Diana Containerships Inc. of the Republic of the Marshall Islands and its own Subsidiaries from time to time are not part of the Group);

"Indebtedness" means any obligation for the payment or repayment of money, whether as principal or as surety and whether present or future, actual or contingent;

"Initial Charter" means:

(a) in relation to the Jemo Ship, the Initial Jemo Charter; or

(b) in relation to the Mandaringina Ship, the Initial Mandaringina Charter,

and "**Initial Charters**" means either or both of them;

"Initial Charterer" means:

(a) in relation to the Jemo Ship, the Initial Jemo Charterer; or

(b) in relation to the Mandaringina Ship, the Initial Mandaringina Charterer,

and "**Initial Charterers**" means either or both of them;

"Initial Jemo Charter Assignment" means the Charter Assignment of the Initial Jemo Charter executed or (as the context may require) to be executed by the Jemo Borrower in favour of the Security Agent in such form as may be agreed between the Borrowers and the Agent;

"Initial Jemo Charter" means the time charterparty in respect of the Jemo Ship made between the Initial Jemo Charterer and the Jemo Borrower, which contract is, on the date of this Agreement incorporated in a recapitulation e-mail dated 6 December 2011 from the Initial Jemo Charterer's brokers (LSS Brokers, Singapore) to the Jemo Borrower, as the same may be amended and/or novated from time to time with the prior written consent of the Security Agent;

"Initial Jemo Charterer" means EDF Trading Ltd. of London and includes its successors in title;

"Initial Mandaringina Charter" means the time charterparty in respect of the Mandaringina Ship made between the Initial Mandaringina Charterer and the Mandaringina Borrower, which contract is, on the date of this Agreement incorporated in a recapitulation e-mail dated 5 April 2012 to be documented in more detail in a NYPE 1946 form time-charterparty of even date, as may be amended and/or supplemented from time to time, which recapitulation email is addressed by chartering brokers, Arrow Panamax Athens acting on behalf of the Mandaringina Borrower to the Initial Mandaringina Charterer, as the same may be amended and/or novated from time to time with the prior written consent of the Security Agent;

"Initial Mandaringina Charter Assignment" means the Charter Assignment of the Initial Mandaringina Charter executed or (as the context may require) to be executed by the Mandaringina Borrower in favour of the Security Agent in such form as may be agreed between the Borrowers and the Agent;

"Initial Mandaringina Charterer" means STX Panocean Co., Ltd. of Seoul, South Korea and includes its successors in title;

"Insurances" means, in relation to a Ship, all policies and contracts of insurance (which expression includes all entries of that Ship in a protection and indemnity or war risks association) which are from time to time during the Security Period in place or taken out or entered into by or for the benefit of the Borrower owning such Ship (whether in the sole name of the relevant Borrower, or in the joint names of the relevant Borrower and the Security Agent and/or any other Creditor or otherwise) in respect of such Ship and her Earnings or otherwise howsoever in connection with such Ship and all benefits thereof (including claims of whatsoever nature and return of premiums);

"Interest Payment Date" means the last day of an Interest Period;

"Interest Period" means, in relation to an Advance, each period for the calculation of interest in respect of such Advance, ascertained in accordance with clauses 3.2 and 3.3;

"ISPS Code" means the International Ship and Port Facility Security Code constituted pursuant to resolution A.924(22) of the International Maritime Organization now set out in Chapter XI-2 of the International Convention for the Safety of Life at Sea 1974 (as amended) as adopted by a Diplomatic conference of the International Maritime Organisation on Maritime Security in

December 2002 and includes any amendments or extensions thereto and any regulation issued pursuant thereto;

"ISSC" means, in relation to each Ship, an International Ship Security Certificate issued in respect of such Ship pursuant to the ISPS Code;

"Jemo Advance" means an Advance of Sixteen million one hundred and twenty five thousand Dollars (\$16,125,000) made available to (originally) the Jemo Borrower (but for which, following the Supplemental Agreement, the Mandaringina Borrower is jointly and severally liable) for the purpose of financing part of the acquisition cost of the Jemo Ship by the Jemo Borrower pursuant to the Jemo Contract;

"Jemo Borrower" means Jemo Shipping Company Inc., a corporation incorporated in the Republic of the Marshall Islands with its registered office at Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro, Marshall Islands, MH96960 and includes its successors in title;

"Jemo Contract" means the memorandum of agreement dated 16 November 2011 and made between the relevant Seller and the Jemo Borrower as the same may be amended from time to time, relating to the sale by the relevant Seller and the purchase by the Jemo Borrower, of the Jemo Ship;

"Jemo Contract Price" means the purchase of the Jemo Ship under the Jemo Contract, being Thirty two million two hundred and fifty thousand Dollars (\$32,250,000) or such other sum in Dollars as is determined with the terms and conditions of the Jemo Contract to be the purchase price of the Jemo Ship thereunder;

"Jemo Deed of Covenant" means each of the deeds of covenant collateral respectively to (1) a mortgage over the Jemo Ship dated 7 February 2012 executed by the Jemo Borrower in favour of the Security Agent and (2) the Jemo Mortgage executed or (as the context may require) to be executed by the Jemo Borrower in favour of the Security Agent in such form as may be agreed between the Borrowers and the Agent;

"Jemo Management Agreement" means the agreement made or (as the context may require) to be made between the Jemo Borrower and the Manager approved in writing by the Agent (acting on the instructions of the Majority Banks), providing (*inter alia*) for the Manager to manage the Jemo Ship;

"Jemo Manager's Undertaking" means the undertaking and assignment in respect of the Jemo Ship executed or (as the context may require) to be executed by the Manager in favour of the Security Agent in such form as may be agreed between the Borrowers and the Agent;

"Jemo Mortgage" means the first priority Bahamas ship mortgage over the Jemo Ship executed or (as the context may require) to be executed by the Jemo Borrower in favour of the Security Agent in such form as may be agreed between the Borrowers and the Agent;

"Jemo Operating Account" means an interest bearing Dollar account of the Jemo Borrower opened by the Jemo Borrower with the Account Bank with account number 0045834302 and includes any sub-accounts thereof and any other account designated in writing by the Agent to be the Jemo Operating Account for the purposes of this Agreement;

"Jemo Operating Account Assignment" means a first priority assignment executed or (as the context may require) to be executed by the Jemo Borrower in favour of the Security Agent in respect of the Jemo Operating Account in such form as may be agreed between the Borrowers and the Agent;

"Jemo Ship" means the 81,297 dwt, 2010-built dry bulk carrier *Leto* registered in the ownership of the Jemo Borrower through the relevant Registry under the laws and flag of the relevant Flag State and with IMO Number 9397731, sold and delivered by the relevant Seller to the relevant Borrower under the relevant Contract on the relevant Delivery Date;

"LIBOR" means, in relation to any amount and for any period, the offered rate (if any) for deposits of Dollars for such amount and for the period which is:

- (a) the rate for such period as displayed on Reuters page LIBOR01 (British Bankers' Association Interest Settlement Rate) (or such other page as may replace such page LIBOR01 on such system or on any other system of the information vendor for the time being designated by the British Bankers' Association to calculate the BBA Interest Settlement Rate (as defined in the British Bankers' Association's Recommended Terms and Conditions ("BBAIRS" terms) applicable at the relevant time) at or about 11:00 a.m. (London time) on the Quotation Date for such period; or
- (b) if on such date no such rate is displayed, the rate (rounded upwards to the nearest 1/16th of one per cent) quoted to the Agent by the Reference Bank at the request of the Agent as the Reference Bank's offered rate for deposits of Dollars in an amount equal or approximately equal to the amount in relation to which LIBOR is to be determined and for a period equivalent to such period to prime banks in the London Interbank Market at or about 11:00 a.m. (London time) on the Quotation Date for such period;

"Loan" means the aggregate principal amount owing to the Banks under this Agreement at any relevant time;

"Majority Banks" means, at any relevant time, Banks (a) the aggregate of whose Contributions exceeds Sixty six point six six per cent (66.66%) of the Loan or (b) (if no principal amounts are outstanding under this Agreement) the aggregate of whose Commitments exceeds Sixty six point six six per cent (66.66%) of the Total Commitment;

"Management Agreement" means:

- (a) in relation to the Jemo Ship, the Jemo Management Agreement; or
- (b) in relation to the Mandaringina Ship, the Mandaringina Management Agreement,

and **"Management Agreements"** means either or both of them;

"Manager" means, in relation to each Ship, Diana Shipping Services S.A., a corporation incorporated in the Republic of Panama with its registered agent's registered office at Edificio Universal, Piso 12, Avenida Federico Boyd, Panama or any other person approved in writing by the Majority Banks, and includes its successors in title;

"Manager's Undertaking" means:

- (a) in relation to the Jemo Ship, the Jemo Manager's Undertaking; or
- (b) in relation to the Mandaringina Ship, the Mandaringina Manager's Undertaking,

and **"Manager's Undertakings"** means either or both of them;

"Mandaringina Advance" means an Advance of up to Ten million three hundred and twenty five thousand Dollars (\$10,325,000) made or (as the context may require) to be made available to the Borrowers for the purpose of financing part of the acquisition cost of the Mandaringina Ship by the Mandaringina Borrower pursuant to the Mandaringina Contract;

"Mandaringina Borrower" means Mandaringina Inc., a corporation incorporated in the Republic of the Marshall Islands with its registered office at Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro, Marshall Islands, MH96960 and includes its successors in title;

"Mandaringina Contract" means the memorandum of agreement dated 30 March 2012 as amended by addendum no.1 dated 3 April 2012, each made between (a) Southern Route Maritime S.A. on behalf of Nissen Kaiunco, Ltd. and Southern Route Maritime S.A. as sellers and (b) the Mandaringina Borrower, as the same may be amended from time to time, relating to

the sale by the sellers and the purchase by the Mandaringina Borrower, of the Mandaringina Ship;

"Mandaringina Contract Price" means the purchase of the Mandaringina Ship under the Mandaringina Contract, being Twenty million six hundred and fifty thousand Dollars (\$20,650,000) or such other sum in Dollars as is determined with the terms and conditions of the Mandaringina Contract to be the purchase price of the Mandaringina Ship thereunder;

"Mandaringina Deed of Covenant" means the general assignment collateral to the Mandaringina Mortgage executed or (as the context may require) to be executed by the Mandaringina Borrower in favour of the Security Agent in such form as may be agreed between the Borrowers and the Agent;

"Mandaringina Management Agreement" means the agreement made or (as the context may require) to be made between the Mandaringina Borrower and the Manager approved in writing by the Agent (acting on the instructions of the Majority Banks), providing (*inter alia*) for the Manager to manage the Mandaringina Ship;

"Mandaringina Manager's Undertaking" means the undertaking and assignment in respect of the Mandaringina Ship executed or (as the context may require) to be executed by the Manager in favour of the Security Agent in such form as may be agreed between the Borrowers and the Agent;

"Mandaringina Mortgage" means the first preferred Marshall Islands ship mortgage over the Mandaringina Ship executed or (as the context may require) to be executed by the Mandaringina Borrower in favour of the Security Agent in such form as may be agreed between the Borrowers and the Agent;

"Mandaringina Operating Account" means an interest bearing Dollar account of the Mandaringina Borrower opened by the Mandaringina Borrower with the Account Bank with account number 0046004602 and includes any sub-accounts thereof and any other account designated in writing by the Agent to be the Mandaringina Operating Account for the purposes of this Agreement;

"Mandaringina Operating Account Assignment" means a first priority assignment executed or (as the context may require) to be executed by the Mandaringina Borrower in favour of the Security Agent in respect of the Mandaringina Operating Account in such form as may be agreed between the Borrowers and the Agent;

"Mandaringina Ship" means the 76,225 dwt, 2005-built dry bulk carrier *Melia* registered in the ownership of the Mandaringina Borrower through the relevant Registry under the laws and flag of the relevant Flag State and with IMO Number 9286968, sold and delivered by the relevant Seller to the relevant Borrower under the relevant Contract on the relevant Delivery Date;

"Mandatory Cost" means, in relation to any period, a percentage calculated by the Agent for such period at an annual rate determined by the application of the formula set out in schedule 5;

"Margin" means two point five zero per cent (2.50%) per annum;

"Master Swap Agreement" means the agreement made between the Swap Provider and the Borrowers comprising a 2002 ISDA Master Agreement (including its schedule) dated as of 7 February 2012 and made between the Swap Provider and the Jemo Borrower, as amended by an ISDA amendment agreement dated June 2012 and made between the Swap Provider and the Borrowers and includes any Designated Transactions from time to time entered into and any Confirmations (as defined therein) from time to time exchanged thereunder and governed thereby;

"Material Adverse Effect" means a material adverse effect:

- (a) on the business, assets, nature of assets, operations, prospects, liabilities or condition (financial or otherwise) of any Security Party, any member of the Group or the Group as a whole; or
- (b) on the ability of any of the Borrower, the Corporate Guarantor, the Manager or any other Security Party to comply with any of their respective obligations under the Security Documents or any of them; or
- (c) on the legality, validity or enforceability of any of the Security Documents or any of the rights or remedies of the Creditors or any of them thereunder;

"month" means a period beginning in one calendar month and ending in the next calendar month on the day numerically corresponding to the day of the calendar month on which it started, provided that (a) if the period started on the last Banking Day in a calendar month or if there is no such numerically corresponding day, it shall end on the last Banking Day in such next calendar month and (b) if such numerically corresponding day is not a Banking Day, the period shall end on the next following Banking Day in the same calendar month but if there is no such Banking Day it shall end on the preceding Banking Day and **"months"** and **"monthly"** shall be construed accordingly;

"Mortgage" means:

- (a) in relation to the Jemo Ship, the Jemo Mortgage; or
- (b) in relation to the Mandaringina Ship, the Mandaringina Mortgage,

and **"Mortgages"** means either or both of them;

"Mortgaged Ship" means, at any relevant time, any Ship which is at such time subject to a Mortgage and/or the Earnings, Insurances and Requisition Compensation of which are subject to an Encumbrance pursuant to the relevant Ship Security Documents; and a Ship shall for the purposes of this Agreement be deemed to be a Mortgaged Ship as from whichever shall be the earlier of (a) the drawdown of the Advance relating to that Ship and (b) the date that the Mortgage of that Ship shall have been executed and registered in accordance with this Agreement until whichever shall be the earlier of (i) the payment in full of the amount required by the Agent to be paid pursuant to clause 4.3 following the sale or Total Loss of such Ship and (ii) the date on which all moneys owing under the Security Documents have been repaid in full;

"Operating Account" means:

- (a) in relation to the Jemo Ship, the Jemo Operating Account; or
- (b) in relation to the Mandaringina Ship, the Mandaringina Operating Account,

and **"Operating Accounts"** means either or both of them;

"Operator" means any person who is from time to time during the Security Period concerned in the operation of a Ship and falls within the definition of "Compamf" set out in rule 1.1.2 of the Code;

"Permitted Encumbrance" means any Encumbrance in favour of the Security Agent or any other Creditor created pursuant to the Security Documents and Permitted Liens;

"Permitted Holder" means each of Mr Simeon Palios, his wife and any of his direct lineal descendants;

"Permitted Liens" means, in respect of each Ship, any lien on such Ship for master's, officer's or crew's wages outstanding in the ordinary course of trading, any lien on such Ship for salvage

and any ship repairer's or outfitter's possessory lien on such Ship for a sum not (except with the prior written consent of the Agent) exceeding the Casualty Amount for such Ship;

"Pollutant" means and includes pollutants, contaminants, toxic substances, oil as defined in the United States Oil Pollution Act of 1990 and all hazardous substances as defined in the United States Comprehensive Environmental Response, Compensation and Liability Act 1980;

"Quotation Date" means, in respect of any period in respect of which LIBOR falls to be determined under this Agreement, the day falling two (2) Banking Days before the first day of such period;

"Reference Bank" means, in relation to LIBOR and Mandatory Cost, the principal London office of Nordea Bank Finland Plc or of any other bank appointed from time to time by the Agent pursuant to clause 16.21 and includes its successors in title;

"Registry" means, in respect of a Ship, such registrar, commissioner or representative of the relevant Flag State who is duly authorised and empowered to register such Ship, the relevant Borrower's title to such Ship and the relevant Mortgage under the laws and flag of the relevant Flag State;

"Related Company" of a person means any Subsidiary of such person, any company or other entity of which such person is a Subsidiary and any Subsidiary of any such company or entity;

"Relevant Jurisdiction" means any jurisdiction in which or where any Security Party is incorporated, resident, domiciled, has a permanent establishment, carries on, or has a place of business or is otherwise effectively connected;

"Relevant Party" means each of the Borrowers and each member of the Group;

"Relevant Ship" means the Ships and any other vessel from time to time (whether before or after the date of this Agreement) owned, managed or crewed by, or chartered to, any Relevant Party;

"Repayment Dates" means, subject to clause 6.3:

- (a) in relation to the Jemo Advance, each of the dates falling at three (3) monthly intervals after the Drawdown Date for such Advance, up to and including the Final Maturity Date for such Advance; or
- (b) in relation to the Mandaringina Advance, 7 August 2012 and each of the dates falling at three (3) monthly intervals thereafter, up to and including the Final Maturity Date for such Advance;

"Requisition Compensation" means, in relation to each Ship, all sums of money or other compensation from time to time payable during the Security Period by reason of the Compulsory Acquisition of such Ship;

"Security Agent" means Nordea Bank Finland Plc, a company incorporated in Finland with its registered office at Aleksanterinkatou 36B, FI-00020 Helsinki, Finland acting for the purposes of this Agreement through its branch at 8th Floor, City Place House, 55 Basinghall Street, London EC2V 5NB, England (or of such other address as may last have been notified to the other parties to this Agreement pursuant to clause 17.1.3) or such other person as may be appointed as security agent and trustee by the Banks, the Swap Provider and the Agent pursuant to clause 16.14 and includes its successors in title;

"Security Documents" means this Agreement, the Fee Letter, the Master Swap Agreement, the Mortgages, the Deeds of Covenant, the Manager's Undertakings any Charter Assignments, the Corporate Guarantee, the Account Assignments, the Share Pledges, the Swap Assignment, the Trust Deed, the Supplemental Agreement and any other documents as may have been or shall from time to time after the date of this Agreement be executed to guarantee and/or secure all or

any part of the Loan, interest thereon and other moneys from time to time owing by the Borrowers and/or any other Security Party pursuant to this Agreement or any other Security Documents (whether or not any such document also secures moneys from time to time owing pursuant to any other document or agreement);

"Security Party" means, together, the Borrowers, the Corporate Guarantor, the Manager or any other person who may at any time be a party to any of the Security Documents (other than the Creditors);

"Security Period" means the period commencing on the date of this Agreement and terminating upon discharge of the security created by the Security Documents by payment of all moneys payable thereunder;

"Security Requirement" means the amount in Dollars (as certified by the Agent whose certificate shall, in the absence of manifest error, be conclusive and binding on the Borrowers and the other Creditors) which is, at any relevant time, one hundred and twenty five per cent (125%) of the Loan at that time;

"Security Value" means the amount in Dollars (as certified by the Agent whose certificate shall, in the absence of manifest error, be conclusive and binding on the Borrowers and the other Creditors) which, at any relevant time, is the aggregate of (a) the market value of the Mortgaged Ships as most recently determined in accordance with clause 8.2.2 and (b) the market value of any additional security for the time being actually provided to the Creditors pursuant to clause 8.2 as most recently determined in accordance with clause 8.2.5;

"Seller" means;

- (a) in relation to the Jemo Ship, Bowline Shipping S.A. of 80 Broad Street, Monrovia, Republic of Liberia and includes their successors in title; or
- (b) in relation to the Mandaringina Ship, together, Southern Route Maritime S.A. of Comosa Building, Samuel Lewis Avenue and Manuel Maria Icaza, Panama City, Republic of Panama, and Nissen Kaiunco, Ltd. of Ko 829-1, Kinoura, Hakata-cho, Imabari-City, Ehime Prefecture, Japan,

and **"Sellers"** means either or both of them;

"Share Pledge" means, in relation to each Borrower, the share pledge executed or (as the context may require) to be executed by the Corporate Guarantor in favour of the Security Agent in respect of all of the issued shares in such Borrower in such form as is agreed between the Borrowers and the Agent and **"Share Pledges"** means both of them;

"Ship":

- (a) in relation to the Jemo Borrower and/or the Jemo Advance, means the Jemo Ship; or
- (b) in relation to the Mandaringina Borrower and/or the Mandaringina Advance, means the Mandaringina Ship,

and **"Ships"** means either or both of them; **"Ship Security Documents"**:

- (a) in respect of the Jemo Ship, means the Jemo Mortgage, the Jemo Deed of Covenant, any relevant Charter Assignment and the Jemo Manager's Undertaking; or
- (b) in respect of the Mandaringina Ship, means the Mandaringina Mortgage, the Mandaringina Deed of Covenant, any relevant Charter Assignment and the Mandaringina Manager's Undertaking;

"SMC" means a safety management certificate issued in respect of a Ship in accordance with rule 13 of the Code;

"Subsidiary" of a person means any company or entity directly or indirectly controlled by such person, and for this purpose **"control"** shall have the meaning given to it in clause 1.4.7;

"Supplemental Agreement" means the supplemental agreement dated 21 June 2012 made between the Borrowers, the Manager, the Corporate Guarantor and the Creditors, supplemental to this Agreement;

"Swap Assignment" means the assignment executed or (as the context may require) to be executed by the Borrowers in favour of the Security Agent in the form set out in schedule 5 of the Supplemental Agreement;

"Swap Exposure" means, as at any relevant time, the total sum certified by the Swap Provider to be the aggregate net amount in Dollars which would, in the absolute discretion of the Swap Provider, be an estimate of what would be payable by the Borrowers to the Swap Provider under (and calculated in accordance with) section 6(e) (Payments on Early Termination) of the Master Swap Agreement if an Early Termination Date had occurred under the Master Swap Agreement at the relevant time in relation to all continuing Designated Transactions thereunder;

"Swap Provider" means Nordea Bank Finland Plc, a company incorporated in Finland with its registered office at Aleksanterinkatu 36B, FI-00020 Helsinki, Finland, acting for the purposes of this Agreement and the other Security Documents through its office at 2747 Securities Services, FIN-00020 Nordea, Helsinki, Finland (or of such other address as may last have been notified to the other parties to this Agreement pursuant to clause 17.1.3) and includes its successors in title;

"Taxes" includes all present and future taxes, levies, imposts, duties, fees or charges of whatever nature together with interest thereon and penalties in respect thereof and **"Taxation"** shall be construed accordingly;

"Termination Date" means:

- (a) in relation to the Jemo Advance, 29 February 2012; or
- (b) in relation to the Mandaringina Advance, 30 June 2012,

or such other later date as the Borrower may request and the Agent (acting on the instructions of all the Banks) may in its absolute discretion consent to;

"Total Commitment" means, at any relevant time, the aggregate of the Commitments of all of the Banks at such time;

"Total Loss" in relation to a Ship means:

- (a) actual, constructive, compromised or arranged total loss of such Ship; or
- (b) the Compulsory Acquisition of such Ship; or
- (c) the hijacking, theft, piracy, condemnation, capture, seizure, arrest, detention or confiscation of such Ship (other than where the same amounts to the Compulsory Acquisition of such Ship) by a person (including any Government Entity, or persons acting or purporting to act on behalf of a Government Entity), unless such Ship be released and restored to the relevant Borrower from such hijacking, theft, piracy, condemnation, capture, seizure, arrest, detention or confiscation within thirty (30) days after the occurrence thereof;

"Transaction" has the meaning given to it in the Master Swap Agreement;

"Transfer Certificate" means a certificate substantially in the form set out in schedule 4;

"Transferee Bank" has the meaning given to it in clause 15.3; **"Transferor Bank"** has the meaning given to it in clause 15.3; **"Trust Deed"** means a trust deed dated 7 February 2012;

"Trust Property" means (a) the security, powers, rights, titles, benefits and interests (both present and future) constituted by and conferred on the Security Agent under or pursuant to the Security Documents (including, without limitation, the benefit of all covenants, undertakings, representations, warranties and obligations given, made or undertaken to the Security Agent in the Security Documents); (b) all moneys, property and other assets paid or transferred to or vested in the Security Agent or any agent of the Security Agent or any receiver or received or recovered by the Security Agent or any agent of the Security Agent or any receiver pursuant to, or in connection with, any of the Security Documents whether from any Security Party or any other person; and (c) all money, investments, property and other assets at any time representing or deriving from any of the foregoing, including all interest, income and other sums at any time received or receivable by the Security Agent or any agent of the Security Agent in respect of the same (or any part thereof); and

"Underlying Documents" means, together, the Management Agreements, the Contracts, the Initial Charters and any Charters and **"Underlying Document"** means any of them.

1.3 Headings

Clause headings and the table of contents are inserted for convenience of reference only and shall be ignored in the interpretation of this Agreement.

1.4 Construction of certain terms

In this Agreement, unless the context otherwise requires:

- 1.4.1 references to clauses and schedules are to be construed as references to clauses of, and schedules to, this Agreement and references to this Agreement include its schedules;
- 1.4.2 references to (or to any specified provision of) this Agreement or any other document shall be construed as references to this Agreement, that provision or that document as in force for the time being and as amended in accordance with terms thereof, or, as the case may be, with the agreement of the relevant parties;
- 1.4.3 references to a **"regulation"** include any present or future regulation, rule, directive, requirement, request or guideline (whether or not having the force of law) of any agency, authority, central bank or government department or any self-regulatory or other national or supra-national authority and, for the avoidance of doubt, shall include any Basel II Regulation or any Basel III Regulation;
- 1.4.4 words importing the plural shall include the singular and vice versa;
- 1.4.5 references to a time of day are to London time;
- 1.4.6 references to a person shall be construed as references to an individual, firm, company, corporation, unincorporated body of persons or any Government Entity;

1.4.7 **"control"** means, in relation to a body corporate:

- (a) the power (whether by way of ownership of shares, proxy, contract, agency or otherwise, directly or indirectly) to:
 - (i) cast, or control the casting of, more than 50 per cent of the maximum number of votes that might be cast at a general meeting of such body corporate; or
 - (ii) appoint or remove all, or the majority, of the directors or other equivalent officers of such body corporate; or
 - (iii) give directions with respect to the operating and financial policies of such body corporate with which the directors or other equivalent officers of such body corporate are obliged to comply; or
- (b) the holding beneficially of more than 50 per cent of the issued share capital of such body corporate (excluding any part of that issued share capital that carries no right to participate beyond a specified amount in a distribution of either profits or capital);

1.4.8 two or more persons are **"acting in concert"** if, pursuant to an agreement or understanding (whether formal or informal), they actively co-operate, through the acquisition (directly or indirectly) of shares in the Corporate Guarantor by any of them, either directly or indirectly to obtain or consolidate control of the Corporate Guarantor;

1.4.9 references to a **"guaranteee"** include references to an indemnity or other assurance against financial loss including, without limitation, an obligation to purchase assets or services as a consequence of a default by any other person to pay any Indebtedness and **"guaranteed"** shall be construed accordingly; and

1.4.10 references to any enactment shall be deemed to include references to such enactment as re-enacted, amended or extended.

1.5 Majority Banks

Where this Agreement provides for any matter to be determined by reference to the opinion of the Majority Banks or to be subject to the consent or request of the Majority Banks or for any action to be taken on the instructions in writing of the Majority Banks, such opinion, consent, request or instructions shall (as between the Banks) only be regarded as having been validly given or issued by the Majority Banks if all the Banks shall have received prior notice of the matter on which such opinion, consent, request or instructions are required to be obtained and the relevant majority of Banks shall have given or issued such opinion, consent, request or instructions but so that (as between the Borrowers and the Creditors) the Borrowers shall be entitled (and bound) to assume that such notice shall have been duly received by each Bank and that the relevant majority shall have been obtained to constitute Majority Banks whether or not this is in fact the case.

1.6 Banks' Commitment

For the purposes of the definition of **"Majority Banks"** in clause 1.2 and the relevant provisions of the Security Documents, references to the Commitment of a Bank shall, if the Total Commitment has, at any relevant time, been reduced to zero, be deemed to be a reference to the Commitment of that Bank immediately prior to such reduction to zero.

2 The Total Commitment and the Advances

2.1 Agreement to lend

The Banks, relying upon each of the representations and warranties in clause 7, agree to lend to the Borrowers, jointly and severally, in two (2) Advances and upon and subject to the terms of this Agreement, the principal sum of up to Twenty six million four hundred and fifty thousand

Dollars (\$26,450,000). The obligation of each Bank under this Agreement shall be to contribute that proportion of each Advance which, as at the Drawdown Date of such Advance, such Bank's Commitment bears to the Total Commitment.

2.2 Obligations several

The obligations of the Banks under this Agreement are several according to their respective Commitments and/or Contributions; the failure of any Bank to perform such obligations or the failure of the Swap Provider to perform its obligations under the Master Swap Agreement shall not relieve any other Creditor or the Borrowers or either of them of any of their respective obligations or liabilities under this Agreement or, as the case may be, the Master Swap Agreement nor shall any Creditor be responsible for the obligations of any other Creditors (except for its own obligations, if any, as a Bank or as a Swap Provider) under this Agreement or the Master Swap Agreement, respectively.

2.3 Interests several

Notwithstanding any other term of this Agreement (but without prejudice to the provisions of this Agreement relating to or requiring action by the Majority Banks) the interests of the Creditors are several and the amount due to any Creditor is a separate and independent debt. Each Creditor shall have the right to protect and enforce its rights arising out of this Agreement and it shall not be necessary for any other Creditor to be joined as an additional party in any proceedings for this purpose.

2.4 Drawdown

Subject to the terms and conditions of this Agreement, each Advance shall be advanced on the relevant Drawdown Date to the Borrowers following receipt by the Agent from the Borrowers of a Drawdown Notice not later than 10:00 a.m. on the third Banking Day before the proposed Drawdown Date which shall be a Banking Day falling within the Drawdown Period. A Drawdown Notice (a) shall be effective on actual receipt by the Agent and (b) shall, subject as provided in clause 3.6.1, be irrevocable once given.

2.5 Timing and limitation of Advances

- 2.5.1 The aggregate amount of both Advances shall not exceed the Total Commitment.
- 2.5.2 The Jemo Advance shall not exceed Sixteen million one hundred and twenty five thousand Dollars (\$16,125,000).
- 2.5.3 The Mandaringina Advance shall not exceed Ten million three hundred and twenty five thousand Dollars (\$10,325,000).
- 2.5.4 Each Advance:
 - (a) shall be applied in or towards payment to the relevant Seller of such part of the Contract Price for the Ship relevant to such Advance, which is payable on the Delivery Date for that Ship;
 - (b) shall be drawn down only once the part of the Contract Price referred to in paragraph 2.5.4(a) above has become due and payable; and
 - (c) shall be paid by the Banks to the relevant Seller directly, unless (i) the relevant Borrower has already paid such part of the Contract Price to the relevant Seller when it was due, in which case the relevant Advance (or part thereof) shall be advanced to the Borrowers, or (ii) the relevant Advance exceeds the portion of the Contract Price payable to the relevant Seller on the delivery of the relevant Ship under the relevant Contract, in which case a part of the Advance equal to such portion shall be paid to the relevant Seller and the balance of the Advance shall be advanced to the Borrowers.

2.6 Availability

Upon receipt of a Drawdown Notice complying with the terms of this Agreement the Agent shall promptly notify each Bank and, subject to the provisions of clause 9, on the Drawdown Date for the relevant Advance each of the Banks shall make available to the Agent its portion of such Advance for payment by the Agent in accordance with clause 6.2. The Borrowers acknowledge that payment of any Advance or part thereof to the relevant Seller or either Borrower in accordance with clause 6.2, shall satisfy the obligations of the Banks to lend such Advance (or the relevant part thereof) to the Borrowers.

2.7 Termination of Total Commitment

Any part of the Total Commitment which remains undrawn and uncancelled by the earlier of (a) the relevant Drawdown Date and (b) the end of the relevant Drawdown Period, shall thereupon be automatically cancelled.

2.8 Application of proceeds

Without prejudice to the Borrowers' obligations under clause 8.1.3, no Creditor shall have any responsibility for the application of the proceeds of the Loan or part thereof by the Borrowers or either of them.

2.9 Derivative transactions

- 2.9.1 If, at any time during the Security Period, the Borrowers wish to enter into interest rate swap or other derivative transactions with the Swap Provider for any purpose whatsoever, including for the benefit of the Group and/or for the purpose of hedging all or any part of their exposure under this Agreement to interest rate fluctuations, they shall advise the Swap Provider in writing.
- 2.9.2 Any such swap or other derivative transaction shall be concluded with the Swap Provider under the Master Swap Agreement provided however that no such swap or other derivative transaction shall be concluded unless the Swap Provider first agrees to it in writing. For the avoidance of doubt, other than the Swap Provider's agreement in writing referred to in the preceding sentence no prior approval is required by the Borrowers from any other Creditor before concluding any such swap or other derivative transaction. If and when any such swap or other derivative transaction has been concluded, it shall constitute a Designated Transaction, and the Borrowers shall sign a Confirmation with the Swap Provider and advise the Agent promptly after concluding any Designated Transaction.

3 Interest and Interest Periods

3.1 Normal interest rate

The Borrowers shall pay interest on each Advance in respect of each Interest Period relating thereto on each Interest Payment Date (or, in the case of Interest Periods of more than three (3) months, by instalments, the first instalment being due three (3) months from the commencement of the Interest Period and the subsequent instalments at intervals of three (3) months thereof or, if shorter, the period from the date of the preceding instalment until the Interest Payment Date relative to such Interest Period) at the rate per annum determined by the Agent to be the aggregate of (a) the Margin, (b) LIBOR for such Interest Period and (c) Mandatory Cost (if any).

3.2 Selection of Interest Periods

The Borrowers may by notice received by the Agent not later than 10:00 a.m. on the third Banking Day before the beginning of each Interest Period specify whether such Interest Period shall have a duration of one (1) month, two (2) months, three (3) months, six (6) months or such other period (subject to availability) as the Borrowers may select and the Agent (acting on the instructions of all Banks) may agree.

3.3 Determination of Interest Periods

Every Interest Period shall be of the duration required by, or specified by the Borrowers pursuant to, clause 3.2 but so that:

- 3.3.1 the first Interest Period in respect of each Advance shall commence on the Drawdown Date for such Advance and each subsequent Interest Period for such Advance shall commence on the last day of the previous Interest Period for such Advance;
- 3.3.2 if any Interest Period for an Advance would otherwise overrun a Repayment Date for such Advance, then, in the case of the last Repayment Date for such Advance, such Interest Period shall end on such Repayment Date, and in the case of any other Repayment Date or Repayment Dates for such Advance, the relevant Advance shall be divided into parts so that there is one part in the amount of the repayment instalment or instalments due on each Repayment Date for such Advance falling during that Interest Period and having an Interest Period ending on the relevant Repayment Date and another part in the amount of the balance of the relevant Advance having an Interest Period ascertained in accordance with clause 3.2 and the other provisions of this clause 3.3; and
- 3.3.3 if the Borrowers fail to specify the duration of an Interest Period in accordance with the provisions of clause 3.2 and this clause 3.3 such Interest Period shall have a duration of three (3) months or such other period as shall comply with this clause 3.3.

3.4 Default interest

If the Borrowers or either of them fail to pay any sum (including, without limitation, any sum payable pursuant to this clause 3.4) on its due date for payment under any of the Security Documents (other than the Master Swap Agreement), the Borrowers shall pay interest on such sum on demand from the due date up to the date of actual payment (as well after as before judgment) at a rate determined by the Agent pursuant to this clause 3.4. The period beginning on such due date and ending on such date of payment shall be divided into successive periods of not more than three (3) months as selected by the Agent each of which (other than the first, which shall commence on such due date) shall commence on the last day of the preceding such period. The rate of interest applicable to each such period shall be the aggregate (as determined by the Agent) of (a) two per cent (2%) per annum, (b) the Margin, (c) LIBOR for such period and (d) Mandatory Cost, if any. Such interest shall be due and payable on the last day of each such period as determined by the Agent and each such day shall, for the purposes of this Agreement, be treated as an Interest Payment Date, provided that if such unpaid sum is an amount of principal which became due and payable by reason of a declaration by the Agent under clause 10.2.2 or a prepayment pursuant to clauses 4.3, 8.2.1(a) or 12.1, on a date other than an Interest Payment Date relating thereto, the first such period selected by the Agent shall be of a duration equal to the period between the due date of such principal sum and such Interest Payment Date and interest shall be payable on such principal sum during such period at a rate of two per cent (2%) above the rate applicable thereto immediately before it shall have become so due and payable. If, for the reasons specified in clause 3.6.1, the Agent is unable to determine a rate in accordance with the foregoing provisions of this clause 3.4, each Bank shall promptly notify the Agent of the cost of funds to such Bank, and interest on any sum not paid on its due date for payment shall be calculated at a rate determined by the Agent to be two per cent (2%) per annum above the aggregate of the Margin and the cost of funds to such Bank (including Mandatory Cost, if any).

3.5 Notification of Interest Periods and interest rate

The Agent shall notify the Borrowers and the Banks promptly of the duration of each Interest Period and of each rate of interest (or, as the case may be default interest) determined by it under this clause 3.

3.6 Market disruption; non-availability

3.6.1 If and whenever, at any time prior to the commencement of any Interest Period:

- (a) the Agent shall have determined (which determination shall, in the absence of manifest error, be conclusive) that adequate and fair means do not exist for ascertaining LIBOR during such Interest Period; or
- (b) the Reference Bank does not supply the Agent with a quotation for the purposes of calculating LIBOR (where such a quotation is required having regard to paragraph (b) of the definition of "**LIBOR**" in clause 1.2); or
- (c) the Agent shall have received notification from Banks whose aggregate Contributions are not less than one third (1/3rd) of the Loan or (prior to the first Drawdown Date) whose aggregate Commitments are not less than one third (1/3rd) of the Total Commitment), that deposits in Dollars are not available to such Banks in the London Interbank Market in the ordinary course of business in sufficient amounts to fund their Commitments or their Contributions for such Interest Period, or that LIBOR does not accurately reflect the cost to such Banks of obtaining such deposits,

the Agent shall forthwith give notice (a "**Determination Notice**") thereof to the Borrowers and to each of the Banks and the Swap Provider. A Determination Notice shall contain particulars of the relevant circumstances giving rise to its issue. After the giving of any Determination Notice the undrawn amount of the Total Commitment shall not be borrowed until notice to the contrary is given to the Borrowers by the Agent.

3.6.2 During the period of ten (10) days after any Determination Notice has been given by the Agent under clause 3.6.1, each Bank shall certify an alternative basis (the "**Alternative Basis**") for funding its Commitment and/or for maintaining its Contribution. The Alternative Basis may at the relevant Bank's sole and unfettered discretion (without limitation) include alternative interest periods, alternative currencies or alternative rates of interest but shall include a margin above the cost of funds to such Bank (including Mandatory Cost, if any) equivalent to the Margin. The Agent shall calculate the arithmetic mean of the Alternative Bases provided by the relevant Banks (the "**Substitute Basis**") and certify the same to the Borrowers, the Banks and the Swap Provider. The Substitute Basis so certified shall be binding upon the Borrowers and shall take effect in accordance with its terms from the date specified in the Determination Notice until such time as the Agent notifies the Borrowers that none of the circumstances specified in clause 3.6.1 continues to exist whereupon the normal interest rate fixing provisions of this Agreement shall apply.

4 Repayment and prepayment

4.1 Repayment

4.1.1 The Borrowers shall repay the Jemo Advance by twenty (20) repayment instalments, one such instalment to be repaid on each of the Repayment Dates for such Advance. Subject to the provisions of this Agreement, the amount of each of the first to the nineteenth instalments (inclusive) for the Jemo Advance shall be Two hundred and fifty two thousand Dollars (\$252,000) and the amount of the twentieth and final instalment for the Jemo Advance shall be Eleven million three hundred and thirty seven thousand million Dollars (\$11,337,000) (comprising a repayment instalment of Two hundred and fifty two thousand Dollars (\$252,000) and a balloon payment of Eleven million eighty five thousand Dollars (\$11,085,000)).

4.1.2 The Borrowers shall repay the Mandaringina Advance by twenty (20) repayment instalments, one such instalment to be repaid on each of the Repayment Dates for such Advance. Subject to the provisions of this Agreement the amount of each of the first to the nineteenth instalments (inclusive) for the Mandaringina Advance shall be Two hundred and thirty four thousand six hundred and sixty Dollars (\$234,660) and the amount of the twentieth and final instalment for the Mandaringina Advance shall be Five million eight hundred and sixty six

thousand four hundred and sixty Dollars (\$5,866,460) (comprising a repayment instalment of Two hundred and thirty four thousand six hundred and sixty Dollars (\$234,660) and a balloon payment of Five million six hundred and thirty one thousand eight hundred Dollars (\$5,631,800)).

4.1.3 If the Total Commitment in respect of any Advance or part thereof is not drawn down in full, the amount of each repayment instalment in respect of such Advance (including the relevant balloon payment) referred to above shall be reduced proportionately.

4.2 Voluntary prepayment

The Borrowers may prepay any Advance in whole or in part (being Two hundred and fifty thousand Dollars (\$250,000) or any larger sum which is an integral multiple of Two hundred and fifty thousand Dollars (\$250,000)), in each case, on any Interest Payment Date relating to the Advance to be repaid, without premium or penalty but subject to clause 11.1 and the other provisions of this clause 4.

4.3 Mandatory prepayment on Total Loss or sale

4.3.1 Before drawdown

On a Ship becoming a Total Loss (or suffering damage or being involved in an incident which in the opinion of the Agent may result in such Ship being subsequently determined to be a Total Loss) before the Advance in respect of such Ship is drawn down, the obligations of the Banks to make the Advance for such Ship available shall immediately cease and the Total Commitment shall be reduced by the amount of the Advance for such Ship.

4.3.2 Thereafter

On the date falling one hundred and eighty (180) days after that on which a Mortgaged Ship became a Total Loss or, if earlier, on the date upon which the insurance proceeds in respect of such Total Loss are, or Requisition Compensation is, received by the relevant Borrower (or the Security Agent or any other Creditors pursuant to the relevant Ship Security Documents), or immediately prior to the completion of the sale of a Mortgaged Ship by the relevant Borrower to any person, the Borrowers shall prepay to the Agent the outstanding Advance relevant to that Ship in full.

4.3.3 Interpretation

For the purposes of this Agreement and the other Security Documents, a Total Loss in respect of a Ship shall be deemed to have occurred:

- (a) in the case of an actual total loss of a Ship, on the actual date and at the time such Ship was lost or, if such date is not known, on the date on which such Ship was last reported;
- (b) in the case of a constructive total loss of a Ship, upon the date and at the time notice of abandonment of such Ship is given to the insurers of such Ship for the time being;
- (c) in the case of a compromised or arranged total loss of a Ship, on the date upon which a binding agreement as to such compromised or arranged total loss has been entered into by the insurers of such Ship;
- (d) in the case of Compulsory Acquisition of a Ship, on the date upon which the relevant requisition of title or other compulsory acquisition of such Ship occurs; and
- (e) in the case of hijacking, theft, piracy, condemnation, capture, seizure, arrest, detention or confiscation of a Ship (other than where the same amounts to Compulsory Acquisition of such Ship) by any person (including a Government Entity, or persons purporting to act on behalf of a Government Entity), which deprives the relevant Borrower of the use of such Ship for more than thirty (30) days, upon the expiry of the period of thirty (30) days

after the date upon which the relevant hijacking, theft, piracy, condemnation, capture, seizure, arrest, detention or confiscation occurred.

4.4 Amounts payable on prepayment

Any prepayment of all or part of the Loan under this Agreement shall be made together with accrued interest on the amount to be prepaid to the date of such prepayment, any additional amount payable under clause 6.6 or clause 12.2 and all other sums payable by the Borrowers under this Agreement or any of the other Security Documents including, without limitation, any accrued commitment commission and any amounts payable under clause 11.

4.5 Notice of prepayment; reduction of repayment instalments - re-borrowing

- 4.5.1 No prepayment may be effected under clause 4.2 unless the Borrowers shall have given the Agent at least five (5) Banking Days' prior written notice of their intention to make such prepayment. Every notice of prepayment shall be effective only on actual receipt by the Agent, shall be irrevocable, shall specify the Advance and the amount to be prepaid and shall oblige the Borrowers to make such prepayment on the date specified.
- 4.5.2 Any amount prepaid pursuant to clause 8.2.1 shall be applied against both Advances proportionately as between them. Any amount prepaid pursuant to clause 4.2 or clause 8.2.1(a) in respect of an Advance shall be applied in reducing the repayment instalments of the relevant Advance under clause 4.1 (including the relevant balloon payment) proportionately.
- 4.5.3 No amount prepaid under this Agreement may be reborrowed.
- 4.5.4 The Borrowers may not prepay the Loan or any part thereof save as expressly provided in this Agreement.

4.6 Unwinding of Designated Transactions

On or prior to any repayment or prepayment of all or part of the Loan (including, without limitation, pursuant to clauses 4.2, 4.3 or 8.2.1(a) or any other provision of this Agreement), the Borrowers shall, upon the request of the Agent (acting on the instructions of the Banks), wholly or partially reverse, offset, unwind, cancel, close out, net out or otherwise terminate one or more of the continuing Designated Transactions at that time.

5 Fees, commitment commission and expenses

5.1 Fees

The Borrowers shall pay to the Agent:

- 5.1.1 for the account of the Arranger, an arrangement fee of such amount and payable at such time as specified in the Fee Letter and the Supplemental Agreement;
- 5.1.2 for the account of each Bank (i) if the Drawdown Date of the Jemo Advance occurs by 28 February 2012, on the day falling one day before the Drawdown Date or (ii) if the Drawdown Date of the Jemo Advance does not occur by 28 February 2012, on 28 February 2012 and on the last day of each calendar month thereafter, until the earlier of (a) the Drawdown Date of the Jemo Advance and (b) the Termination Date of the Jemo Advance, and on the earlier of such dates,

commitment commission computed from 22 December 2011 (in the case of the first payment of commission) and from the due date of the preceding payment of commission (in the case of each subsequent payment) at the rate of zero point five zero per cent (0.50%) per annum on the daily undrawn amount of such Bank's Commitment in respect of the Jemo Advance.

The fees and commissions referred to in this clause 5.1 shall be payable by the Borrowers to the Agent, whether or not any part of the Total Commitment is ever advanced and shall be, in each case, non-refundable.

5.2 Expenses

The Borrowers shall pay to the Agent on a full indemnity basis on demand all expenses (including legal, printing and out-of-pocket expenses) incurred by any Creditor:

- 5.2.1 in connection with the negotiation, preparation, execution and, where relevant, registration of the Security Documents and of any amendment or extension of or the granting of any waiver or consent under, any of the Security Documents and the syndication of the Loan; and
- 5.2.2 in contemplation of, or otherwise in connection with, the enforcement of, or preservation of any rights under, any of the Security Documents, or otherwise in respect of the moneys owing under any of the Security Documents,

together with interest at the rate referred to in clause 3.4 from the date on which such expenses were incurred to the date of payment (as well after as before judgment).

5.3 Value added Tax

All fees and expenses payable pursuant to this clause 5 and/or pursuant to the Security Documents shall be paid together with value added tax or any similar tax (if any) properly chargeable thereon. Any value added tax chargeable in respect of any services supplied by the Creditors or any of them under this Agreement shall, on delivery of the value added tax invoice, be paid in addition to any sum agreed to be paid hereunder.

5.4 Stamp and other duties

The Borrowers shall pay all stamp, documentary, registration or other like duties or taxes (including any duties or taxes payable by, or assessed on, the Creditors or any of them) imposed on or in connection with any of the Underlying Documents, the Security Documents or the Loan and shall indemnify the Creditors or any of them against any liability arising by reason of any delay or omission by the Borrowers to pay such duties or taxes.

6 Payments and taxes; accounts and calculations

6.1 No set-off or counterclaim

The Borrowers acknowledge that in performing their respective obligations under this Agreement, the Banks will be incurring liabilities to third parties in relation to the funding of amounts to the Borrowers, such liabilities matching the liabilities of the Borrowers to the Banks and that it is reasonable for the Banks to be entitled to receive payments from the Borrowers gross on the due date in order that the Banks are put in a position to perform their matching obligations to the relevant third parties. Accordingly, all payments to be made by the Borrowers or either of them under any of the Security Documents shall be made in full, without any set-off or counterclaim whatsoever and, subject as provided in clause 6.6, free and clear of any deductions or withholdings, in Dollars on the due date to the account of the Agent at such bank and in such place as the Agent may from time to time specify for this purpose. Save as otherwise provided in this Agreement or any relevant Security Documents, such payments shall be for the account of all the Banks and the Agent or, as the case may be, the Security Agent shall forthwith distribute such payments in like funds as are received by the Agent or, as the case may be, the Security Agent to the Banks rateably in accordance with their respective Commitment or (following the first drawdown) Contribution, as the case may be.

6.2 Payment by the Banks

All sums to be advanced by the Banks to the Borrowers or either of them under this Agreement in respect of the Loan shall be remitted in Dollars on the Drawdown Date for the relevant

Advance to the account of the Agent with such bank as the Agent may have notified to the Banks and shall be paid by the Agent on such date in like funds as are received by the Agent to the account specified in the Drawdown Notice for such Advance.

6.3 Non-Banking Days

When any payment under any of the Security Documents would otherwise be due on a day which is not a Banking Day, the due date for payment shall be extended to the next following Banking Day unless such Banking Day falls in the next calendar month in which case payment shall be made on the immediately preceding Banking Day.

6.4 Calculations

All interest and other payments of an annual nature under any of the Security Documents shall accrue from day to day and be calculated on the basis of actual days elapsed and a three hundred and sixty (360) day year.

6.5 Certificates conclusive

Any certificate or determination of the Agent or the Security Agent or any Bank as to any rate of interest or any other amount pursuant to and for the purposes of any of the Security Documents shall, in the absence of manifest error, be conclusive and binding on the Borrowers and (in the case of a certificate or determination by the Agent or the Security Agent) on the other Creditors.

6.6 Grossing-up for Taxes

6.6.1 If at any time the Borrowers are required to make any deduction or withholding in respect of Taxes from any payment due under any of the Security Documents for the account of any Creditor (or if the Agent or, as the case may be, the Security Agent is required to make any such deduction or withholding from a payment to a Bank), the sum due from the Borrowers in respect of such payment shall be increased to the extent necessary to ensure that, after the making of such deduction or withholding, the relevant Creditor receives on the due date for such payment (and retains, free from any liability in respect of such deduction or withholding), a net sum equal to the sum which it would have received had no such deduction or withholding been required to be made and the Borrowers shall indemnify each Creditor against any losses or costs incurred by it by reason of any failure of the Borrowers to make any such deduction or withholding or by reason of any increased payment not being made on the due date for such payment. The Borrowers shall promptly deliver to the Agent any receipts, certificates or other proof evidencing the amounts (if any) paid or payable in respect of any deduction or withholding as aforesaid.

6.6.2 For the avoidance of doubt, clause 6.6.1 does not apply in respect of sums due from the Borrowers to the Swap Provider under or in connection with the Master Swap Agreement as to which sums the provisions of section 2(d) (Deduction or Withholding for Tax) of the Master Swap Agreement shall apply.

6.7 Loan account

Each Bank shall maintain, in accordance with its usual practice, an account or accounts evidencing the amounts from time to time lent by, owing to and paid to it under the Security Documents. The Agent and the Security Agent shall maintain a control account or accounts (which shall be the "Account current" referred to in the Jemo Mortgage) showing the Loan, interest and other sums owing and/or payable by the Borrowers under the Security Documents. Each such control account shall, in the absence of manifest error, be conclusive as to the amount from time to time owing by the Borrowers under the Security Documents.

6.8 Agent may assume receipt

Where any sum is to be paid under this Agreement to the Agent for the account of another person, the Agent may assume that the payment will be made when due and the Agent may (but

shall not be obliged to) make such sum available to the person so entitled. If it proves to be the case that such payment was not made to the Agent, then the person to whom such sum was so made available shall on request refund such sum to the Agent together with interest thereon sufficient to compensate the Agent for the cost of making available such sum up to the date of such repayment and the person by whom such sum was payable shall indemnify the Agent for any and all loss or expense which the Agent may sustain or incur as a consequence of such sum not having been paid on its due date.

6.9 Partial payments

If, on any date on which a payment is due to be made by the Borrowers under any of the Security Documents, the amount received by the Agent from the Borrowers falls short of the total amount of the payment due to be made by the Borrowers on such date then, without prejudice to any rights or remedies available to the Creditors or any of them under any of the Security Documents, the Agent shall apply the amount actually received from the Borrowers in or towards discharge of the obligations of the Borrowers under the Security Documents in the following order, notwithstanding any appropriation made, or purported to be made, by the Borrowers:

- 6.9.1 firstly, in or towards payment, on a pro-rata basis, of any unpaid costs, expenses and fees owing to the Arranger, the Agent or the Security Agent under, or in relation to, the Security Documents;
- 6.9.2 secondly, in or towards payment, on a pro-rata basis, of any unpaid costs, expenses and fees owing to the Banks or the Account Bank under or in relation to, the Security Documents;
- 6.9.3 thirdly, in or towards payment to the Banks, on a pro-rata basis, of any accrued interest which shall have become due under any of the Security Documents (other than the Master Swap Agreement) but remains unpaid;
- 6.9.4 fourthly, in or towards payment to the Banks, on a pro-rata basis, for any loss suffered by reason of any such payment in respect of principal not being effected on an Interest Payment Date relating to the part of the Loan prepaid and which amounts are so payable under this Agreement;
- 6.9.5 fifthly, in or towards payment to the Banks, on a pro rata basis, of any principal in respect of the Loan which shall have become due but remains unpaid;
- 6.9.6 sixthly, in or towards payment to the Swap Provider of any sums owing to it under the Master Swap Agreement; and
- 6.9.7 seventhly, towards payment to the relevant person of any other sum which shall have become due under any of the Security Documents but remains unpaid (and, if more than one such sum so remains unpaid, on a pro-rata basis).

The order of application set out in clauses 6.9.3 to 6.9.5 may be varied by the Agent if the Banks so direct, without any reference to, or consent or approval from the Borrowers.

7 Representations and warranties

7.1 Continuing representations and warranties

The Borrowers jointly and severally represent and warrant to each Creditor that:

7.1.1 Due incorporation

the Borrowers and each of the other Security Parties are duly incorporated and validly existing in good standing under the laws of their respective countries of incorporation as limited liability companies or (as the case may be) corporations, and have power to carry on

their respective businesses as they are now being conducted and to own their respective property and other assets;

7.1.2 Corporate power

each of the Borrowers has power to execute, deliver and perform its obligations under the Underlying Documents and the Borrowers' Security Documents to which it is or is to be a party and to borrow the Total Commitment and each of the other Security Parties has power to execute and deliver and perform its obligations under the Security Documents and the Underlying Documents to which it is or is to be a party; all necessary corporate, shareholder and other action has been taken to authorise the execution, delivery and performance of the same and no limitation on the powers of either Borrower to borrow will be exceeded as a result of borrowing the Loan or entering into the Master Swap Agreement;

7.1.3 Binding obligations

the Underlying Documents and the Security Documents constitute or will, when executed, constitute valid and legally binding obligations of the relevant Security Parties enforceable in accordance with their respective terms;

7.1.4 No conflict with other obligations

the execution and delivery of, the performance of their obligations under, and compliance with the provisions of, the Underlying Documents and the Security Documents by the relevant Security Parties will not:

- (i) contravene any existing applicable law, statute, rule or regulation or any judgment, decree or permit to which either of the Borrowers or any other Security Party is subject;
- (ii) conflict with, or result in any breach of any of the terms of, or constitute a default under, any agreement or other instrument to which either of the Borrowers or any other Security Party is a party or is subject or by which it or any of its property is bound;
- (iii) contravene or conflict with any provision of the constitutional documents of either of the Borrowers or any other Security Party or
- (iv) result in the creation or imposition of or oblige either of the Borrowers or any member of the Group or any other Security Party to create any Encumbrance (other than a Permitted Encumbrance) on any of the undertakings, assets, rights or revenues of either of the Borrowers or any member of the Group or any other Security Party;

7.1.5 No litigation

no litigation, arbitration, investigation or proceeding (administrative or otherwise) is taking place, pending or, to the knowledge of the officers of either of the Borrowers, threatened against either of the Borrowers or any member of the Group or any other Security Party which could have a Material Adverse Effect;

7.1.6 No filings required

save for the registration of the Mortgages under the laws of the Flag State through the relevant Registries, it is not necessary to ensure the legality, validity, enforceability or admissibility in evidence of any of the Underlying Documents or the Security Documents that they or any other instrument be notarised, filed, recorded, registered or enrolled in any court, public office or elsewhere in any Relevant Jurisdiction or that any stamp, registration or similar tax or charge be paid in any Relevant Jurisdiction on or in relation to any of the Underlying Documents or the Security Documents and each of the Underlying Documents

and the Security Documents is in proper form for its enforcement in the courts of each Relevant Jurisdiction;

7.1.7 Choice of law

the choice of English law to govern the Underlying Documents and the Security Documents (other than the Mortgages) and the choice of Bahamian law to govern the Jemo Mortgage and the choice of Marshall Islands law to govern the Mandaringina Mortgage, and the submissions by the Security Parties therein to the non-exclusive jurisdiction of the English courts are valid and binding;

7.1.8 No immunity

neither of the Borrowers nor any other Security Party nor any of their respective assets is entitled to immunity on the grounds of sovereignty or otherwise from any legal action or proceeding (which shall include, without limitation, suit, attachment prior to judgement, execution or other enforcement);

7.1.9 Financial statements correct and complete

the audited consolidated financial statements of the Group in respect of the financial year ended on 31 December 2010 as delivered to the Agent and/or the Arranger have been prepared in accordance with the Applicable Accounting Principles which have been consistently applied and present fairly and accurately the consolidated financial position of the Group as at such date and the consolidated results of the operations of the Group for the financial year ended on such date and, as at such date, neither the Group nor any member of the Group had any significant liabilities (contingent or otherwise) or any unrealised or anticipated losses which are not disclosed by, or reserved against, or provided for in such financial statements;

7.1.10 Consents obtained

every consent, authorisation, licence or approval of, or registration with or declaration to, governmental or public bodies or authorities or courts required by any Security Party to authorise, or required by any Security Party in connection with, the execution, delivery, validity, enforceability or admissibility in evidence of each of the Underlying Documents and each of the Security Documents to which it is a party or the performance by each Security Party of its obligations under the Underlying Documents and the Security Documents to which it is a party, has been obtained or made and is in full force and effect and there has been no default in the observance of any of the conditions or restrictions (if any) imposed in, or in connection with, any of the same;

7.1.11 Shareholdings

- (a) each of the Borrowers and the Manager is a wholly-owned direct Subsidiary of the Corporate Guarantor; and
- (b) no less than 18% of the issued share capital and of the issued voting share capital of the Corporate Guarantor is ultimately beneficially owned by Permitted Holders;

7.1.12 Compliance with laws and regulations

each of the Borrowers, the Corporate Guarantor and the Manager is in compliance with the terms and conditions of all laws, regulations, agreements, licences and concessions material to the carrying on of its business (including in relation to Taxation);

7.1.13 No Material Adverse Effect

no events, conditions, facts or circumstances exist or have arisen or occurred since 31 December 2010, which have had or could reasonably be expected to have a Material Adverse Effect;

7.1.14 Borrowers' own account

in relation to the borrowing by the Borrowers of the Loan or any part thereof, the performance and discharge of its obligations and liabilities under the Security Documents and the transactions and other arrangements effected or contemplated by this Agreement, each of the Borrowers is acting for its own account and that the foregoing will not involve or lead to a contravention of any law, official requirement or other regulatory measure or procedure which has been implemented to combat "**money laundering**" (as defined in Article 1 of the Directive (91/308/EEC) of the Council of the European Communities (as amended)); and

7.1.15 Solvency

- (a) none of the Borrowers nor any other Relevant Party is unable, or admits or has admitted its inability, to pay its debts or has suspended making payments on any of its debts;
- (b) none of the Borrowers nor any other Relevant Party by reason of actual or anticipated financial difficulties has commenced, or intends to commence, negotiations with one or more of its creditors with a view to rescheduling any of its Indebtedness;
- (c) the value of the assets of the Borrowers and the other Relevant Parties is not less than their respective liabilities (taking into account contingent and prospective liabilities); and
- (d) no moratorium has been, or may, in the reasonably foreseeable future be, declared in respect of any Indebtedness of the Borrowers or any other Relevant Party.

7.2 Initial representations and warranties

The Borrowers jointly and severally further represent and warrant to each Creditor that:

7.2.1 Pari passu and subordinated indebtedness

- (a) the obligations of each Borrower under this Agreement and the Master Swap Agreement and the obligations of the Corporate Guarantor under the Corporate Guarantee are direct, general and unconditional obligations of such Borrower and the Corporate Guarantor, respectively, and rank at least pari passu with all other present and future unsecured and unsubordinated Indebtedness of such Borrower with the exception of any obligations which are mandatorily preferred by law and not by contract;
- (b) any Indebtedness of the Borrowers or the Corporate Guarantor owing to any of its respective shareholders or other members of the Group is subordinated in all respects to the Borrowers' obligations under this Agreement and the Master Swap Agreement (in the case of the Borrowers) and to the Corporate Guarantor's obligations under the Corporate Guarantee (in the case of the Corporate Guarantor);

7.2.2 No default under other Indebtedness

none of the Security Parties is (nor would with the giving of notice or lapse of time or the satisfaction of any other condition or combination thereof be) in breach of or in default under any agreement relating to Indebtedness to which it is a party or by which it may be bound;

7.2.3 Information - full disclosure

the information, exhibits and reports furnished by or on behalf of any Security Party to the Agent and/or the Arranger in connection with the negotiation and preparation of the Security

Documents are true and accurate in all material respects and not misleading and all expressions of opinions contained therein genuinely reflect the opinions of the directors and the senior management of the Borrowers and the Corporate Guarantor and are based on reasonable assumptions, do not omit material facts and all reasonable enquiries have been made to verify the facts and statements contained therein; there are no other facts the omission of which would make any fact or statement therein misleading;

7.2.4 No withholding Taxes

no Taxes are imposed by withholding or otherwise on any payment to be made by any Security Party under the Underlying Documents or the Security Documents or are imposed on or by virtue of the execution or delivery by the Security Parties of the Underlying Documents or the Security Documents or any other document or instrument to be executed or delivered under any of the Security Documents;

7.2.5 No Default

no Default has occurred and is continuing;

7.2.6 The Ships

each Ship will, on the Drawdown Date of the Advance relevant to such Ship, be:

- (a) in the absolute ownership of the relevant Borrower who will, on and after such Drawdown Date, be the sole, legal and beneficial owner of such Ship;
- (b) registered in the name of the relevant Borrower under the laws and flag of the relevant Flag State through the relevant Registry;
- (c) operationally seaworthy and in every way fit for service; and
- (d) classed with the relevant Classification free of all requirements and recommendations from the relevant Classification Society;

7.2.7 Ships' employment

save for the Initial Charters, neither Ship is nor will, on or before the Drawdown Date of the Advance relevant to such Ship, be subject to any charter or contract or to any agreement to enter into any charter or contract which, if entered into after the date of the relevant Mortgage, would have required the consent of the Agent or, as the context may require, the Security Agent or the other Creditors and, on the Drawdown Date of the Advance relevant to such Ship, there will not be any agreement or arrangement whereby the Earnings of such Ship may be shared with any other person;

7.2.8 Freedom from Encumbrances

neither of the Ships, nor its Earnings, Insurances or Requisition Compensation nor the Operating Account for such Ship nor any other properties or rights which are, or are to be, the subject of any of the Security Documents nor any part thereof will be, on the Drawdown Date of the Advance relevant to such Ship, subject to any Encumbrance other than the Permitted Encumbrances;

7.2.9 Compliance with Environmental Laws and Approvals

except as may already have been disclosed by the Borrowers in writing to, and acknowledged in writing by, the Agent and/or the Arranger:

- (a) the Borrowers and the other Relevant Parties and, to the best of the Borrowers' knowledge and belief (having made due enquiry), any of their respective Environmental Affiliates have complied with the provisions of all Environmental Laws;

- (b) the Borrowers and the other Relevant Parties and, to the best of the Borrowers' knowledge and belief (having made due enquiry), any of their respective Environmental Affiliates have obtained all Environmental Approvals and is in compliance with all such Environmental Approvals; and
- (c) neither the Borrowers nor any other Relevant Party nor, to the best of the Borrowers' knowledge and belief (having made due enquiry), any of their respective Environmental Affiliates have received notice of any Environmental Claim that the Borrowers or any other Relevant Party or any such Environmental Affiliate is not in compliance with any Environmental Law or any Environmental Approval;

7.2.10 No Environmental Claims

except as may already have been disclosed by the Borrowers in writing to, and acknowledged in writing by, the Agent and/or the Arranger, there is no Environmental Claim pending or, to the best of the Borrowers' knowledge and belief (having made due enquiry), threatened against either of the Borrowers or either of the Ships or any other Relevant Party or any other Relevant Ship or, to the best of the Borrowers' knowledge and belief (having made due enquiry), any of their respective Environmental Affiliates;

7.2.11 No potential Environmental Claims

except as may already have been disclosed by the Borrowers in writing to, and acknowledged in writing by, the Agent and/or the Arranger, there has been no emission, spill, release or discharge of a Pollutant from either of the Ships or any other Relevant Ship owned by, managed or crewed by or chartered to either of the Borrowers nor, to the best of the Borrowers' knowledge and belief (having made due enquiry), from any Relevant Ship owned, managed or crewed by or chartered to any other Relevant Party which could give rise to an Environmental Claim;

7.2.12 Copies true and complete

the copies of the Underlying Documents delivered or to be delivered to the Agent pursuant to clause 9.1 are, or will when delivered be, true and complete copies of such documents; such documents constitute valid and binding obligations of the parties thereto enforceable in accordance with their respective terms and there have been no amendments or variations thereof or defaults thereunder;

7.2.13 DOC and SMC

on the Drawdown Date of the Advance relevant to a Ship, the Operator will have a DOC for itself and an SMC in respect of such Ship; and

7.2.14 ISPS Code

on the Drawdown Date of the Advance relevant to a Ship, the Borrower owning such Ship shall have a valid and current ISSC in respect of such Ship and such Ship shall be in compliance with the ISPS Code.

7.3 Repetition of representations and warranties

On and as of each Drawdown Date and (except in relation to the representations and warranties in clauses 7.1.11 and 7.2) on each Interest Payment Date, the Borrowers shall:

- (a) be deemed to repeat the representations and warranties in clauses 7.1 and 7.2 as if made with reference to the facts and circumstances existing on such day; and
- (b) be deemed to further represent and warrant to each of the Creditors that the then latest audited financial statements delivered to the Agent and/or the Security Agent by the Borrowers under clause 8.1.5 of this Agreement and clause 5.1.4 of the Corporate

Guarantee have been prepared in accordance with the Applicable Accounting Principles which have been consistently applied and present fairly and accurately the consolidated financial position of the Group as at the end of the financial period to which the same relate and the consolidated results of the operations of the Group for the financial period to which the same relate and, as at the end of such financial period, neither the Borrowers nor the Corporate Guarantor nor any other member of the Group, nor the Group had any significant liabilities (contingent or otherwise) or any unrealised or anticipated losses which are not disclosed by, or reserved against or provided for in, such financial statements.

8 Undertakings

8.1 General

The Borrowers jointly and severally undertake with each Creditor that, from the date of this Agreement and so long as any moneys are owing under any of the Security Documents and while all or any part of the Total Commitment remains outstanding, they will:

8.1.1 Notice of Default and certain other events

promptly inform the Agent of any occurrence of which either of them becomes aware which might adversely affect the ability of any Security Party to perform its obligations under any of the Security Documents or the Underlying Documents and, without limiting the generality of the foregoing, and without prejudice to clause 8.1.6, will inform the Agent of any material litigation involving the Group or any member thereof, any Environmental Claim, any discharge of a Pollutant from a Ship or any other Relevant Ship or any other incident which may give rise to an Environmental Claim and of any Default forthwith upon becoming aware thereof and will from time to time, if so requested by the Agent, confirm to the Agent in writing that, save as otherwise stated in such confirmation, no Default has occurred and is continuing;

8.1.2 Consents and licences; compliance with laws and regulations

- (a) without prejudice to clauses 7.1 and 9, obtain or cause to be obtained, maintain in full force and effect and comply in all material respects with the conditions and restrictions (if any) imposed in, or in connection with, every consent, authorisation, licence or approval of governmental or public bodies or authorities or courts and do, or cause to be done, all other acts and things which may from time to time be necessary or desirable under applicable law for the continued due performance of all the obligations of the Security Parties under each of the Security Documents and the Underlying Documents; and
- (b) comply and will procure that the Corporate Guarantor will comply, with the terms and conditions of all laws, regulations, agreements, licences and concessions material to the carrying out of its business;

8.1.3 Use of proceeds

use the Loan exclusively for the purposes specified in clause 1.1 and clause 2.5;

8.1.4 Pari passu and subordination without prejudice to the provisions of clause 8.3, ensure that:

- (a) their obligations under this Agreement and the Master Swap Agreement shall at all times rank at least pari passu with all their other present and future unsecured and unsubordinated Indebtedness with the exception of any obligations which are mandatorily preferred by law and not by contract; and

(b) their Indebtedness (if any) to their shareholders or any other member of the Group is on terms acceptable to the Agent in its absolute discretion and is and shall remain at all times fully subordinated towards their obligations under this Agreement and the Master Swap Agreement;

8.1.5 Financial statements prepare or cause to be prepared:

(a) consolidated financial statements of the Group (comprising a balance sheet statement, an income statement, a cash flow analysis and accompanying notes) in accordance with the Applicable Accounting Principles consistently applied in respect of each financial year (namely, each 12-month period ending on 31 December of each calendar year) and cause the same to be reported on by the Group's auditors;

(b) unaudited consolidated financial statements of the Group (comprising a balance sheet statement, an income statement, a cash flow analysis and accompanying notes) in accordance with the Applicable Accounting Principles consistently applied in respect of each financial quarter of each financial year (namely, each 3-month, 6-month, 9-month and 12-month periods (including on a year to date basis), respectively, ending on 31 March, 30 June, 30 September and 31 December of each calendar year),

and, in each case, deliver as many copies of the same as the Agent may reasonably require as soon as practicable but not later than:

(i) in the case of audited financial statements, one hundred and eighty (180) days after the end of the financial period to which they relate (namely, not later than 30 June of each calendar year);

(ii) in the case of unaudited financial statements, ninety (90) days after the end of the financial period to which they relate (namely, not later than 30 June, 30 September, 31 December and 31 March, respectively, of each calendar year);

8.1.6 Valuations and Compliance Certificate

(a) at the same time as the Borrowers and/or the Corporate Guarantor provide the Agent and/or the Security Agent with annual audited consolidated financial statements of the Group pursuant to clause 8.1.5 of this Agreement and clause 5.1.4 of the Corporate Guarantee (namely, not later than 30 June of each calendar year) and, if a Default has occurred, at any other time as and when the Agent in its absolute discretion shall require, provide the Agent with valuations of the Ship made in accordance with clause 8.2.2;

(b) at the same time as the Borrowers and/or the Corporate Guarantor provide the Agent and/or the Security Agent with consolidated financial statements of the Group pursuant to clause 8.1.5 of this Agreement and clause 5.1.4 of the Corporate Guarantee (namely, not later than 31 March, 30 June, 30 September and 31 December of each calendar year) and, if a Default has occurred, at any other time as and when the Agent in its absolute discretion shall require, deliver to the Agent a Compliance Certificate (including any supporting schedules or other information and evidence as the Agent may require) duly signed by a director and an authorised signatory of each Borrower and the Corporate Guarantor, and otherwise in accordance with clause 5.1.5 of the Corporate Guarantee;

8.1.7 Delivery of report

deliver to the Agent as many copies as the Agent may reasonably require of every material report, circular, notice or like document issued by either of the Borrowers to its creditors generally.

8.1.8 Provision of further information

provide the Agent with such financial and other information concerning the Borrowers, the other Security Parties, the Group and its members and their respective affairs (including, without limitation, financial projections of the Group on an annual consolidated basis) as the Agent, any Bank or the Swap Provider (acting through the Agent) may from time to time require and keep the Agent advised regularly of all major financial developments in relation to the Borrowers, the other Security Parties and the Group and its members including, without prejudice to the generality of the foregoing, any vessels sales or purchases and any new borrowings;

8.1.9 Obligations under Security Documents

and will procure that each of the other Security Parties will, duly and punctually perform each of the obligations expressed to be assumed by them under the Security Documents and the Underlying Documents;

8.1.10 Compliance with Code

and will procure that any Operator will comply with, and ensure that each Ship and any Operator at all times complies with, the requirements of the Code, including (but not limited to) the maintenance and renewal of valid certificates pursuant thereto throughout the Security Period;

8.1.11 Issuance of DOC and SMC

and will procure that any Operator will, promptly inform the Agent upon the issuance to any Operator of a DOC and to each Ship of an SMC or the receipt by either of the Borrowers or any Operator of notification that its application for the same has been refused;

8.1.12 Withdrawal of DOC and SMC

and will procure that any Operator will, immediately inform the Agent if there is any threatened or actual withdrawal of its Operator's DOC or the SMC in respect of any Ship;

8.1.13 ISPS Code compliance and will procure that the Manager or any Operator will:

- (a) maintain at all times a valid and current ISSC in respect of each Ship;
- (b) immediately notify the Agent in writing of any actual or threatened withdrawal, suspension, cancellation or modification of the ISSC in respect of each Ship; and
- (c) procure that each Ship will comply at all times with the ISPS Code;

8.1.14 Employment

without prejudice to the rights of the Creditors under the provisions of the other Security Documents, advise the Agent promptly of any proposed charterparty, pool agreement or other contract of employment in respect of a Ship (including any Charter) having an original duration of twelve (12) months or longer (excluding any optional extensions thereof) and:

- (a) deliver a certified copy of each such charterparty or other contract to the Agent forthwith after its execution;
- (b) forthwith following a demand made by the Agent (acting on the instructions of the Majority Banks):

- (i) procure that the relevant Borrower will execute a specific assignment (in such form as the Agent (acting on the instructions of the Majority Banks in their absolute discretion) may require) of any such charterparty or other contract in favour of the Security Agent and any notice of assignment required in connection therewith; and
- (ii) procure the service of any such notice of assignment on the relevant charterer or other counterparty of the relevant Borrower, and the acknowledgement of such notice by the relevant charterer or other counterparty;
- (c) upon the Agent's request deliver to the Agent such documents and evidence of the type referred to in schedule 3, in relation to any such assignment or any other related matter referred to in this clause 8.1.14, as the Agent (acting on the instructions of the Majority Banks in their sole discretion) shall require; and
- (d) pay on the Agent's demand all legal costs and other costs incurred by the Agent and/or the Banks and/or the Security Agent in connection with or in relation to any such assignment or any other related matter referred to in this clause 8.1.14;

8.1.15 Know your customer information

deliver to the Agent such documents and evidence as the Agent shall from time to time require relating to the verification of identity and knowledge of the Agent's or any Bank's, the Account Bank's or any Swap Provider's customers and the compliance by the Agent or any Bank or any Swap Provider or the Account Bank with all necessary "know your customer" or similar checks, always on the basis of applicable laws and regulations or the Agent's or any Bank's or the Swap Provider's or the Account Bank's own internal guidelines, in each case as such laws, regulations or internal guidelines apply from time to time; and

8.1.16 Money laundering

ensure that any borrowing by each Borrower and the performance of its obligations hereunder and under the other Security Documents to which each is a party will be for its own account and will not involve any breach by it of any law or regulatory measure relating to money laundering as defined in Article 1 of the directive (2005/60/EC) of the European Parliament and of the Council or any equivalent law or regulatory measure in any other jurisdiction.

8.2 Security value maintenance

8.2.1 Security shortfall

If at any time the Security Value shall be less than the Security Requirement, the Agent may, and if so directed by the Majority Banks shall, give notice to the Borrowers requiring that such deficiency be remedied and then the Borrowers shall within a period of thirty (30) days of the date of receipt by the Borrowers of the Agent's said notice either:

- (a) prepay such sum in Dollars as will result in the Security Requirement after such prepayment (taking into account any other repayment of the Loan made between the date of the notice and the date of such prepayment) being equal to the Security Value; or
- (b) constitute to the satisfaction of the Creditors such further security for the Loan and any amounts owing under the Master Swap Agreement, as shall be acceptable to the Banks, having a value for security purposes (as determined by the Agent in its absolute discretion) at the date upon which such further security shall be constituted which, when added to the Security Value, shall not be less than the Security Requirement as at such date,

and the choice between clause 8.2.1(a) and clause 8.2.1(b) shall be at the Borrowers' option.

The provisions of clause 4.4 and any relevant provisions of clause 4.5 shall apply to any prepayments made under clause 8.2.1(a).

8.2.2 Valuation of Mortgaged Ships

- (a) Each of the Mortgaged Ships shall, for the purposes of this Agreement, be valued in Dollars as and when the Agent shall require (whether for the purpose of testing compliance with clause 8.2.1 or at any other time acting on the instructions of the Majority Banks) by two (2) of the Approved Shipbrokers, selected by the Borrowers or, failing such selection by the Borrowers, selected by the Agent (acting on the instructions of the Majority Banks in their sole discretion). Each such valuation shall not be older than 30 days, shall be addressed to the Agent (with a copy to the Borrowers) and made without, unless required by the Agent, physical inspection, without taking into account the benefit of any charterparty or other engagement concerning such Mortgaged Ship and it shall be made on the basis of a sale for prompt delivery for cash at arm's length on normal commercial terms as between a willing buyer and a willing seller. The arithmetic mean of such two (2) valuations shall constitute the value of such Mortgaged Ship for the purposes of this clause 8.2 and the other provisions of this Agreement and the other Security Documents.
- (b) The value of each Mortgaged Ship determined in accordance with the provisions of this clause 8.2 shall be binding upon the parties hereto until such time as any further such valuations shall be obtained in respect of such Mortgaged Ship.

8.2.3 Information

The Borrowers jointly and severally undertake with each Creditor to supply to the Agent and to any such Approved Shipbrokers such information concerning each Mortgaged Ship and its condition as such Approved Shipbrokers may require for the purpose of making any such valuation.

8.2.4 Costs

All costs in connection with the Agent obtaining any valuations of the Mortgaged Ships referred to in clause 8.2.2, any valuation of the Mortgaged Ships referred to in schedule 3 and any valuation either of any additional security for the purposes of ascertaining the Security Value at any time or necessitated by the Borrowers electing to constitute additional security pursuant to clause 8.2.1(b), shall be borne by the Borrowers.

8.2.5 Valuation of additional security

For the purpose of this clause 8.2, the market value of any additional security provided or to be provided to the Security Agent shall be determined by the Agent in its absolute discretion without any necessity for the Agent assigning any reason thereto.

8.2.6 Documents and evidence

In connection with any additional security provided in accordance with this clause 8.2, the Agent shall be entitled to receive such evidence and documents of the kind referred to in schedule 3 as may in the Agent's opinion, be appropriate and such favourable legal opinions as the Agent shall in its absolute discretion require.

8.3 Negative undertakings

The Borrowers jointly and severally undertake with each Creditor that, from the date of this Agreement and so long as any moneys are owing under the Security Documents and while all or any part of the Total Commitment remains outstanding, the Borrowers will not, without the prior written consent of the Agent (acting on the instructions of the Majority Banks):

8.3.1 Negative pledge

permit any Encumbrance (other than a Permitted Encumbrance) to subsist, arise or be created or extended over all or any part of their present or future undertakings, assets, rights or revenues to secure or prefer any present or future Indebtedness or other liability or obligation of any Security Party or any other person;

8.3.2 No merger

merge or consolidate with any other person or enter into any amalgamation, demerger or corporate reconstruction or redomiciliation of any type;

8.3.3 Disposals

sell, transfer, abandon, lend or otherwise dispose of or cease to exercise direct control over any part (being, either alone or when aggregated with all other disposals falling to be taken into account pursuant to this clause 8.3.3, material in the opinion of the Agent in relation to their respective undertaking, assets, rights and revenues of each Borrower taken as a whole) of their respective present or future undertaking, assets, rights or revenues (otherwise than by transfers, sales or disposals for full consideration in the ordinary course of trading but in any event excluding the assets which are subject to security created by the Security Documents), whether by one or a series of transactions related or not;

8.3.4 Other business

undertake any business other than the ownership and operation of the Ships and the chartering of the Ships to third parties;

8.3.5 Acquisitions

acquire any further assets other than the Ships and rights arising under contracts entered into by or on behalf of the Borrowers in the ordinary course of their business of owning, operating and chartering the Ships;

8.3.6 Other obligations

incur any obligations except for obligations arising under the Underlying Documents or the Security Documents or contracts entered into in the ordinary course of their business of owning, operating and chartering the Ships;

8.3.7 No borrowing

incur any Borrowed Money except for Borrowed Money pursuant to the Security Documents;

8.3.8 Repayment of borrowings

repay the principal of, or pay interest on or any other sum in connection with, any of their Borrowed Money except for Borrowed Money pursuant to the Security Documents;

8.3.9 Guarantees

issue any guarantees or indemnities or otherwise become directly or contingently liable for the obligations of any person, firm, or corporation, except pursuant to the Security Documents and except for guarantees or indemnities from time to time required in the ordinary course by any protection and indemnity or war risks association with which a Ship is entered, guarantees required to procure the release of a Ship from any arrest, detention, attachment or levy or guarantees or undertakings required for the salvage of a Ship;

8.3.10 Loans

make any loans or grant any credit to any person or agree to do so (save for normal trade credit in the ordinary course of business);

8.3.11 Sureties

permit any Indebtedness of either Borrower to any person (other than the Creditors pursuant to the Security Documents) to be guaranteed by any person (save for guarantees or indemnities from time to time required in the ordinary course by any protection and indemnity or war risks association with which a Ship is entered, guarantees required to procure the release of a Ship from any arrest, detention, attachment or levy or guarantees or undertakings required for the salvage of a Ship);

8.3.12 Share capital and distribution

purchase or otherwise acquire for value any shares of their capital or distribute any of their present or future assets, undertaking, rights or revenues to any of their shareholders **provided however** that each Borrower shall be entitled to declare or pay cash dividends to its shareholders, if no Event of Default has occurred and is continuing at the time of declaration or payment of such dividends nor would result from the declaration or payment of such dividends;

8.3.13 Subsidiaries

form or acquire any Subsidiaries or make an equity investment in any person;

8.3.14 Constitutional documents

change, amend or vary, or agree to permit any change, amendment or variation of, their constitutional documents or any change of their corporate or legal name;

8.3.15 Intra-Group transactions

enter into any transactions or agreements with any other member of the Group other than on an arm's length basis and for full consideration;

8.3.16 Designated Transactions

enter into any derivative transactions other than Designated Transactions;

8.3.17 Financial Year

change, permit or agree to any change in, the way of computation of their financial year; and

8.3.18 Shareholdings

change, cause or permit any change in, the legal and/or beneficial ownership of any of the shares in either of the Borrowers or the Manager which would cause any of them to cease to be a wholly-owned direct Subsidiary of the Corporate Guarantor.

9 Conditions

9.1 Documents and evidence

The obligation of each Bank to make its Commitment available shall be subject to the condition that the Agent, or its duly authorised representative, shall have received:

- 9.1.1 on or prior to the giving of the first Drawdown Notice, the documents and evidence specified in Part 1 of schedule 3 in form and substance satisfactory to the Agent; and
- 9.1.2 on or prior to the drawdown of an Advance for a Ship, the documents and evidence specified in Part 2 of schedule 3 in respect of such Advance and the Ship relevant to it in form and substance satisfactory to the Agent.

9.2 General conditions precedent

The obligation of each Bank to contribute to any Advance shall be subject to the further conditions that, at the time of the giving of the Drawdown Notice for such Advance, and at the time of the making of such Advance:

- 9.2.1 the representations and warranties contained in (i) clauses 7.1, 7.2 and 7.3(b), (ii) clause 4 of the Corporate Guarantee and (iii) clause 3 of each Share Pledge, are true and correct on and as of each such time as if each was made with respect to the facts and circumstances existing at such time; and
- 9.2.2 no Default shall have occurred and be continuing or would result from the making of such Advance; and
- 9.2.3 no events, facts, conditions or circumstances shall exist or have arisen or occurred (and neither the Agent nor any Bank shall have become aware of other events, facts, conditions or circumstances not previously known to it), which the Agent (acting on the instructions of the Majority Banks) shall determine, has had or could reasonably be expected to have, a Material Adverse Effect.

9.3 Waiver of conditions precedent

The conditions specified in this clause 9 are inserted solely for the benefit of the Banks and may be waived by the Agent (acting on the instructions of the Majority Banks) in whole or in part and with or without conditions.

10 Events of Default

10.1 Events

There shall be an Event of Default if:

- 10.1.1 **Non-payment:** any Security Party fails to pay any sum payable by it under any of the Security Documents at the time, in the currency and in the manner stipulated in the Security Documents (and so that, for this purpose, sums payable on demand shall be treated as having been paid at the stipulated time if paid within three (3) Banking Days of demand); or
- 10.1.2 **Master Swap Agreement:** (a) an Event of Default or Potential Event of Default (in each case as defined in the Master Swap Agreement) has occurred and is continuing with the Borrowers or either of them as the Defaulting Party (as defined in the Master Swap Agreement) under the Master Swap Agreement or (b) an Early Termination Event (as defined in the Master Swap Agreement) has occurred with the Borrowers or either of them as the sole Affected Party (as defined in the Master Swap Agreement) has occurred or has been or will become capable of being effectively designated under the Master Swap Agreement by the Swap Provider, or
- 10.1.3 **Breach of Insurances and certain other obligations:** either of the Borrowers or the Manager or any other person fails to obtain and/or maintain the Insurances in respect of either Ship in accordance with the requirements of the relevant Ship Security Documents for such Ship or if any insurer in respect of such Insurances in respect of either Ship cancels such Insurances or disclaims liability by reason, in either case, of mis-statement in any proposal for such Insurances or for any other failure or default on the part of either of the Borrowers or any other person, or either of the Borrowers commits any breach of or omits to

observe any of the obligations or undertakings expressed to be assumed by it under clauses 8.2 or 8.3 or the Corporate Guarantor commits any breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under clauses 5.2 or 5.3 of the Corporate Guarantee; or

- 10.1.4 **Breach of other obligations:** any Security Party commits any breach of or omits to observe any of its obligations or undertakings expressed to be assumed by it under any of the Security Documents (other than those referred to in clauses 10.1.1, 10.1.2 and 10.1.3 above) and, in respect of any such breach or omission which in the opinion of the Agent (following consultation with the Banks) is capable of remedy, such action as the Agent (acting on the instructions of the Majority Banks) may require shall not have been taken within thirty (30) days of the Agent notifying the relevant Security Party of such default and of such required action; or
- 10.1.5 **Misrepresentation:** any representation or warranty made or deemed to be made or repeated by or in respect of any Security Party in or pursuant to any of the Security Documents or in any notice, certificate or statement referred to in or delivered under any of the Security Documents is or proves to have been incorrect or misleading in any material respect; or
- 10.1.6 **Cross-default:** any Borrowed Money of any Security Party or any other Relevant Party is not paid when due or any Borrowed Money of any Security Party or any other Relevant Party becomes (whether by declaration or automatically in accordance with the relevant agreement or instrument constituting the same) due and payable prior to the date when it would otherwise have become due (unless as a result of the exercise by the relevant Security Party or other Relevant Party of a voluntary right of prepayment), or any creditor of any Security Party or any other Relevant Party becomes entitled to declare any such Borrowed Money due and payable or any facility or commitment available to any Security Party or any other Relevant Party relating to Borrowed Money is withdrawn, suspended or cancelled by reason of any default (however described) of the person concerned unless the relevant Security Party or other Relevant Party shall have satisfied the Banks that such withdrawal, suspension or cancellation will not affect or prejudice in any way the relevant Security Party's or other Relevant Party's ability to pay its debts as they fall due and fund its commitments, or any guarantee given by any Security Party or any other Relevant Party in respect of Borrowed Money is not honoured when due and called upon **Provided that** the amount or aggregate amount at any one time, of all Borrowed Money of any Security Party or any other Relevant Party in relation to which any of the foregoing events shall have occurred and be continuing, is equal to or greater than Ten million Dollars (\$10,000,000) or its equivalent in the currency which the same is denominated or payable. For the avoidance of doubt for the purpose of this clause 10.1.6 "Borrowed Money" shall exclude Borrowed Money owing under this Agreement and/or the other Security Documents; or
- 10.1.7 **Legal process:** any judgment or order made against any Security Party or other Relevant Party is not stayed or complied with within seven (7) days or a creditor attaches or takes possession of, or a distress, execution, sequestration or other process is levied or enforced upon or sued out against, any of the undertakings, assets, rights or revenues of any Security Party or other Relevant Party and is not discharged within seven (7) days; or
- 10.1.8 **Insolvency:** any Security Party or other Relevant Party is unable or admits inability to pay its debts as they fall due; or suspends making payments on any of its debts or announces an intention to do so; or becomes insolvent; or has assets the value of which is less than the value of its liabilities (taking into account contingent and prospective liabilities); or suffers the declaration of a moratorium in respect of any of its Indebtedness; or any corporate action, legal proceedings or other procedure or step is taken in relation to any of the above; or
- 10.1.9 **Reduction or loss of capital:** a meeting is convened by any Security Party or other Relevant Party for the purpose of passing any resolution to purchase, reduce or redeem any of its share capital; or
- 10.1.10 Winding up: any corporate action, legal proceedings or other procedure or step is taken for the purpose of winding-up any Security Party or other Relevant Party or an order is made or

resolution passed for the winding up of any Security Party or other Relevant Party or a notice is issued convening a meeting for the purpose of passing any such resolution; or

10.1.11 **Administration:** any petition is presented, notice given or other step is taken for the purpose of the appointment of an administrator of any Security Party or other Relevant Party or the Agent believes that any such petition or other step is imminent or an administration order is made in relation to any Security Party or other Relevant Party; or

10.1.12 **Appointment of receivers and managers:** any administrative or other receiver, liquidator, compulsory manager or other similar officer is appointed of any Security Party or other Relevant Party or any part of its assets and/or undertaking or any other steps are taken to enforce any Encumbrance over all or any part of the assets of any Security Party or other Relevant Party; or

10.1.13 **Compositions:** any corporate action, legal proceedings or other procedures or steps are taken, or negotiations commenced, by any Security Party or other Relevant Party or by any of its creditors with a view to the general readjustment or rescheduling of all or part of its indebtedness or to proposing any kind of composition, compromise or arrangement involving such person and any of its creditors; or

10.1.14 **Analogous proceedings:** there occurs, in relation to any Security Party or other Relevant Party, in any country or territory in which any of them carries on business or to the jurisdiction of whose courts any part of their assets is subject, any event which, in the reasonable opinion of the Agent, appears in that country or territory to correspond with, or have an effect equivalent or similar to, any of those mentioned in clauses 10.1.7 to 10.1.13 (inclusive) or any Security Party or other Relevant Party otherwise becomes subject, in any such country or territory, to the operation of any law relating to insolvency, bankruptcy or liquidation; or

10.1.15 **Cessation of business:** any Security Party or any other Relevant Party suspends or ceases or threatens to suspend or cease to carry on its business; or

10.1.16 **Seizure:** all or a material part of the undertaking, assets, rights or revenues of, or shares or other ownership interests in, any Security Party or any other Relevant Party are seized, nationalised, expropriated or compulsorily acquired by or under the authority of any government; or

10.1.17 **Invalidity:** any of the Security Documents shall at any time and for any reason become invalid or unenforceable or otherwise cease to remain in full force and effect, or if the validity or enforceability of any of the Security Documents shall at any time and for any reason be contested by any Security Party which is a party thereto, or if any such Security Party shall deny that it has any, or any further, liability thereunder; or

10.1.18 **Unlawfulness:** it becomes impossible or unlawful at any time for any Security Party, to fulfil any of the covenants and obligations expressed to be assumed by it in any of the Security Documents or for a Creditor to exercise the rights or any of them vested in it under any of the Security Documents or otherwise; or

10.1.19 **Repudiation:** any Security Party repudiates any of the Security Documents or does or causes or permits to be done any act or thing evidencing an intention to repudiate any of the Security Documents; or

10.1.20 **Encumbrances enforceable:** any Encumbrance (other than Permitted Liens) in respect of any of the property (or part thereof) which is the subject of any of the Security Documents becomes enforceable; or

10.1.21 **Material Adverse Effect:** any event, condition, fact or circumstance occurs, arises or exists which, in the opinion of the Agent (acting on the instructions of the Majority Banks), has had or is reasonably expected to have a Material Adverse Effect; or

10.1.22 **Arrest:** either Ship is arrested, confiscated, seized, taken in execution, impounded, forfeited, detained in exercise or purported exercise of any possessory lien or other claim or otherwise taken from the possession of the relevant Borrower and such Borrower shall fail to procure the release of such Ship within a period of ten (10) days thereafter; or

10.1.23 **Registration:** the registration of either Ship under the laws and flag of the relevant Flag State is cancelled or terminated without the prior written consent of the Agent (acting on the instructions of the Majority Banks) or if such registration of such Ship is not renewed at least forty five (45) days prior to the expiry of such registration; or

10.1.24 **Unrest:** the Flag State of either Ship becomes involved in hostilities or civil war or there is a seizure of power in the Flag State of either Ship by unconstitutional means; or

10.1.25 **Environment:** either Borrower and/or any other Relevant Party and/or any Security Party fails to comply with any Environmental Law or any Environmental Approval or either of the Ships or any other Relevant Ship is involved in any incident which gives rise or may give rise to an Environmental Claim; or

10.1.26 **P&I:** either Borrower or the Manager or any other person fails or omits to comply with any requirements of the protection and indemnity association or other insurer with which such Borrower's Ship is entered for insurance or insured against protection and indemnity risks (including oil pollution risks) to the effect that any cover (including, without limitation, any cover in respect of liability for Environmental Claims arising in jurisdictions where such Ship operates or trades) is or may be liable to cancellation, qualification or exclusion at any time; or

10.1.27 **Shareholdings:** at any time

- (a) either of the Borrowers or the Manager ceases to be a wholly-owned direct Subsidiary of the Corporate Guarantor; or
- (b) a Change of Control occurs; or

10.1.28 **Operating Accounts:** moneys are withdrawn from either of the Operating Accounts other than in accordance with clause 14; or

10.1.29 **Manager:** either Ship is managed by a person other than the Manager without the prior written consent of the Agent (acting on the instructions of the Majority Banks); or

10.1.30 **Licenses, etc:** any license, authorisation, consent or approval at any time necessary to enable any Security Party to comply with its obligations under the Security Documents or the Underlying Documents is revoked or withheld or modified or is otherwise not granted or fails to remain in full force and effect or if any exchange control or other law or regulation shall exist which would make any transaction under the Security Documents or the Underlying Documents or the continuation thereof, unlawful or would prevent the performance by any Security Party of any term of any of the Security Documents or the Underlying Documents; or

10.1.31 **Listing:** the shares of the Corporate Guarantor are de-listed or cease to trade permanently on the New York Stock Exchange; or

10.1.32 **Material events:** any other event occurs or circumstance arises which, in the opinion of the Agent (acting on the instructions of the Majority Banks), is likely materially and adversely to affect either (i) the ability of any Security Party to perform all or any of its obligations under or otherwise to comply with the terms of any of the Security Documents or any of the Underlying Documents or (ii) the security created by any of the Security Documents.

10.2 Acceleration

The Agent may, and if so requested by the Majority Banks shall, without prejudice to any other rights of the Agent, at any time after the happening of an Event of Default by notice to the Borrowers declare that:

- 10.2.1 the obligation of each Bank to make its Commitment available shall be terminated, whereupon the Total Commitment shall be reduced to zero forthwith; and/or
- 10.2.2 the Loan and all interest and commitment commission accrued and all other sums payable under the Security Documents have become due and payable, whereupon the same shall, immediately or in accordance with the terms of such notice, become due and payable.

10.3 Demand basis

If, pursuant to clause 10.2.2, the Agent declares the Loan to be due and payable on demand, the Agent may (and if so requested by the Majority Banks shall) by written notice to the Borrowers:

- (a) call for repayment of the Loan on such date as may be specified whereupon the Loan shall become due and payable on the date so specified together with all interest and commitment commission accrued and all other sums payable under this Agreement; or
- (b) withdraw such declaration with effect from the date specified in such notice.

10.4 Position of Swap Provider

Neither the Agent nor the Security Agent shall be obliged, in connection with any action taken or proposed to be taken under or pursuant to the foregoing provisions of this clause 10, to have any regard to the requirements of the Swap Provider except to the extent that the Swap Provider is also a Bank.

11 Indemnities

11.1 Miscellaneous indemnities

The Borrowers shall on demand indemnify each Creditor, without prejudice to any of the Creditors' other rights under any of the Security Documents, against any loss (including loss of Margin) or expense which such Creditor shall certify as sustained or incurred by it as a consequence of:

- 11.1.1 any default in payment by either Borrower of any sum under any of the Security Documents when due; or
- 11.1.2 the occurrence of any other Event of Default; or
- 11.1.3 any prepayment of the Loan (or any part thereof) being made under clauses 4.3, 8.2.1(a) or 12.1, or any other repayment or prepayment of the Loan or part thereof being made otherwise than on an Interest Payment Date relating to the part of the Loan prepaid or repaid; or
- 11.1.4 any Advance not being made for any reason (excluding any default by any Creditor) after the Drawdown Notice for such Advance has been given, including, in any such case, but not limited to, any loss or expense sustained or incurred by a Bank in maintaining or funding its Contribution or, as the case may be, Commitment or any part thereof or in liquidating or re-employing deposits from third parties acquired to effect or maintain its Contribution or, as the case may be, Commitment or any part thereof or any other amount owing to such Bank, or in terminating or reversing, or otherwise in connection with, any open position of a Bank in relation to this Agreement.

11.2 Currency indemnity

If any sum due from the Borrowers or either of them under any of the Security Documents or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under the relevant Security Document or under such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Borrowers or either of them, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to any of the Security Documents, the Borrowers shall indemnify and hold harmless each Creditor from and against any loss suffered as a result of any difference between: (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency, and (ii) the rate or rates of exchange at which the relevant Creditor may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

Any amount due from the Borrowers or either of them under this clause 11.2 shall be due as a separate debt and shall not be affected by judgment being obtained for any other sums due under or in respect of any of the Security Documents and the term "**rate of exchange**" includes any premium and costs of exchange payable in connection with the purchase of the first currency with the second currency.

11.3 Environmental indemnity

The Borrowers shall indemnify each Creditor on demand and hold it harmless from and against all costs, expenses, payments, charges, losses, demands, liabilities, actions, proceedings (whether civil or criminal), penalties, fines, damages, judgements, orders, sanctions or other outgoings of whatever nature which may be suffered, incurred or paid by, or made or asserted against such Creditor at any time, whether before or after the repayment in full of principal and interest under this Agreement, relating to, or arising directly or indirectly in any manner or for any cause or reason whatsoever out of an Environmental Claim made or asserted against such Creditor if such Environmental Claim would not have been, or been capable of being, made or asserted against such Creditor if it had not entered into any of the Security Documents and/or exercised any of its rights, powers and discretions thereby conferred and/or performed any of its obligations thereunder and/or been involved in any of the transactions contemplated by the Security Documents.

11.4 Central Bank or European Central Bank reserve requirements indemnity

The Borrowers shall on demand promptly indemnify each Bank against any cost incurred or loss suffered by such Bank as a result of its complying with the minimum reserve requirements of the European Central Bank and/or with respect to maintaining required reserves with the relevant national Central Bank to the extent that such compliance relates to such Bank's Commitment and/or Contribution or deposits obtained by it to fund the whole or part of that Contribution and to the extent such cost or loss is not recoverable by such Bank under clause 12.2.

11.5 General indemnity

Each of the Borrowers hereby indemnifies and agrees to hold harmless the Creditors and each of their respective Related Companies and each of their respective officers, directors, employees, agents, advisors and representatives (each, an "**Indemnified Party**") from and against any and all claims, damages, losses, liabilities, costs, legal and other expenses (altogether the "**Losses**"), joint or several, that may be incurred by or asserted or awarded against any Indemnified Party, in each case arising out of or in connection with or relating to any claim, investigation, litigation or proceeding (or the preparation of any defence with respect thereto) commenced or threatened in relation to the Security Documents or any of them (or the transactions contemplated hereby or thereby) or any use made or proposed to be made with the proceeds of the Loan. This indemnity shall apply whether or not such claims, investigation, litigation or proceeding is brought by the Borrowers or either of them, any other Security Party, any Relevant Party, any of their respective shareholders or creditors, an Indemnified Party or

any other person, or an Indemnified Party is otherwise a party thereto, except to the extent that such Losses are found in a final, non-appealable judgment by a court of competent jurisdiction to have resulted from such Indemnified Party's gross negligence or wilful misconduct.

12 Unlawfulness and increased costs

12.1 Unlawfulness

If it is or becomes contrary to any law or regulation for any Bank to contribute to an Advance or to maintain its Commitment or fund its Contribution, such Bank shall promptly, through the Agent, give notice to the Borrowers whereupon (a) the Total Commitment shall be reduced to zero and (b) the Borrowers shall be obliged to prepay the Loan either (i) forthwith or (ii) on a future specified date not being earlier than the latest date permitted by the relevant law or regulation together with interest accrued to the date of prepayment and all other sums payable by the Borrowers under this Agreement and/or the Master Swap Agreement.

12.2 Increased costs

If the result of any change in, or in the interpretation or application of, or the introduction of, any Capital Adequacy Law or compliance by a Bank with any Capital Adequacy Law, is to:

- 12.2.1 subject any Bank to Taxes or change the basis of Taxation of any Bank with respect to any payment under any of the Security Documents (other than Taxes or Taxation on the overall net income, profits or gains of such Bank imposed in the jurisdiction in which its principal or lending office under this Agreement is located); and/or
- 12.2.2 increase the cost to, or impose an additional cost on, any Bank or its holding company in making or keeping such Bank's Commitment available or maintaining or funding all or part of such Bank's Contribution; and/or
- 12.2.3 reduce the amount payable or the effective return to any Bank under any of the Security Documents; and/or
- 12.2.4 reduce any Bank's or its holding company's rate of return on its overall capital by reason of a change in the manner in which it is required to allocate capital resources to such Bank's obligations under any of the Security Documents; and/or
- 12.2.5 require any Bank or its holding company to make a payment or forego a return on or calculated by reference to any amount received or receivable by such Bank under any of the Security Documents; and/or
- 12.2.6 require any Bank or its holding company to incur or sustain a loss (including a loss of future potential profits) by reason of being obliged to deduct all or part of its Commitment or its Contribution from its capital for regulatory purposes,

then and in each such case (subject to clause 12.3):

- (a) such Bank shall (through the Agent) notify the Borrowers in writing of such event promptly upon its becoming aware of the same; and
- (b) the Borrowers shall on demand made at any time, whether or not such Bank's Contribution has been repaid, pay to the Agent for the account of such Bank the amount which such Bank specifies (in a certificate setting forth the basis of the computation of such amount but not including any matters which such Bank or its holding company regards as confidential) is required to compensate such Bank and/or (as the case may be) its holding company for such liability to Taxes, cost, reduction, payment, foregone return or loss.

For the purposes of this clause 12.2 "holding company" means, in relation to a Bank, the company or entity (if any) within the consolidated supervision of which such Bank is included.

12.3 **Exception**

Nothing in clause 12.2 shall entitle any Bank to receive any amount in respect of compensation for any such liability to Taxes, increased or additional cost, reduction, payment, foregone return or loss to the extent that the same (a) is taken into account in calculating Mandatory Cost or (b) is the subject of an additional payment under clause 6.6.

12.4 **Mitigation**

If circumstances arise which would, or would upon the giving of notice, result in an increased payment required to be made by the Borrowers under clause 6.6 or clause 12.2 then, without in any way limiting the obligations of the Borrowers under either of these clauses, the relevant Bank shall, following the Borrowers' request, use reasonable endeavours to transfer its obligations, liabilities and rights under this Agreement and the other Security Documents to another of its offices not affected by the circumstances which gave rise to such increased payment, but no Bank shall be under any obligation to take any such action if in its opinion, to do so would or might:

- 12.4.1 be prejudicial to such Bank (or, as the case may be, its holding company); or
- 12.4.2 have an adverse effect on such Bank's or its holding company's business, operations, administration or financial condition; or
- 12.4.3 involve such Bank or its holding company in any activity which is unlawful or prohibited or any activity that is contrary to, or inconsistent, with any regulation or such Bank's general banking policies; or
- 12.4.4 involve such Bank or its holding company in any expense (unless indemnified to its satisfaction) or tax disadvantage.

13 **Security, set-off and pro-rata payments**

13.1 **Application of moneys**

All moneys received by the Creditor under or pursuant to any of the Security Documents and expressed to be applicable in accordance with the provisions of this clause 13.1 shall, if received by a Creditor other than the Agent and the Security Agent, be paid to the Agent for application, and if received by the Agent or the Security Agent shall be applied by the Agent and/or the Security Agent (as the case may be) in the following manner:

- 13.1.1 first in or towards payment of all unpaid costs, expenses and fees which may be owing to the Arranger, the Agent or the Security Agent under any of the Security Documents;
- 13.1.2 secondly, in or towards payment of any unpaid costs, expenses and fees payable to the Banks or the Account Bank or any of them;
- 13.1.3 thirdly, in or towards payment of any arrears of interest owing in respect of the Loan or any
- 13.1.4 fourthly, in or towards payment to any Bank for any loss suffered by reason of any such payment in respect of principal not being effected on an Interest Payment Date relating to the part of the Loan repaid or prepaid and which amounts are so payable under this Agreement;
- 13.1.5 fifthly, in or towards repayment of the Loan (whether the same is due and payable or not);
- 13.1.6 sixthly, in or towards payment to the Swap Provider, on a pro rata basis, of any sums owing to it under the Master Swap Agreement;

13.1.7 seventhly, in or towards payment to any Creditor (other than the Swap Provider) of any other sums owing to it under any of the Security Documents (and if any such sums are owing to more than one Creditor, as between such Creditors on a pro rata basis); and

13.1.8 eighthly, the surplus (if any) shall be paid to the Borrowers or to whomsoever else may be entitled to receive such surplus.

13.2 Pro rata payments

13.2.1 If at any time any Bank (the "**Recovering Bank**") receives or recovers any amount owing to it by the Borrowers under this Agreement by direct payment, set-off or in any manner other than by payment through the Agent pursuant to clauses 6.1 or 6.9 (not being a payment received from a Transferee Bank or a sub-participant in such Bank's Contribution or any other payment of an amount due to the Recovering Bank for its sole account pursuant to clauses 3.6, 5, 6.6, 11.1, 11.2, 12.1 or 12.2) the Recovering Bank shall, within two (2) Banking Days of such receipt or recovery (a "**Relevant Receipt**") notify the Agent of the amount of the Relevant Receipt. If the Relevant Receipt exceeds the amount which the Recovering Bank would have received if the Relevant Receipt had been received by the Agent and distributed pursuant to clauses 6.1 or 6.9 (as the case may be) then:

- (a) within two (2) Banking Days of demand by the Agent, the Recovering Bank shall pay to the Agent an amount equal (or equivalent) to the excess;
- (b) the Agent shall treat the excess amount so paid by the Recovering Bank as if it were a payment made by the Borrowers and shall distribute the same to the Banks (other than the Recovering Bank) in accordance with clause 6.9; and
- (c) as between the Borrowers and the Recovering Bank the excess amount so redistributed shall be treated as not having been paid but the obligations of the Borrowers to the other Banks shall, to the extent of the amount so re-distributed to them, be treated as discharged.

13.2.2 If any part of the Relevant Receipt subsequently has to be wholly or partly refunded by the Recovering Bank (whether to a liquidator or otherwise) each Bank to which any part of such Relevant Receipt was so re-distributed shall on request from the Recovering Bank repay to the Recovering Bank such Bank's pro-rata share of the amount which has to be refunded by the Recovering Bank.

13.2.3 Each Bank shall on request supply to the Agent such information as the Agent may from time to time request for the purpose of this clause 13.2.

13.2.4 Notwithstanding the foregoing provisions of this clause 13.2, no Recovering Bank shall be obliged to share any Relevant Receipt which it receives or recovers pursuant to legal proceedings taken by it to recover any sums owing to it under this Agreement with any other party which has a legal right to, but does not, either join in such proceedings or commence and diligently pursue separate proceedings to enforce its rights in the same or another court (unless the proceedings instituted by the Recovering Bank are instituted by it without prior notice having been given to such party through the Agent).

13.2.5 For the avoidance of doubt it is hereby declared that failure by any Recovering Bank to comply with the provisions of clause 13.2 shall not release any other Recovering Bank from any of its obligations or liabilities under clause 13.2.

13.3 Set-off

13.3.1 Each Borrower authorises the Agent and each Bank (without prejudice to any of the Agent's or such Bank's rights at law, in equity or otherwise), at any time and without notice to such Borrower, to apply any credit balance to which such Borrower is then entitled standing upon any account of such Borrower with any branch of such Bank in or towards satisfaction of any sum due and payable from such Borrower to the Agent or such Bank, as the case may be,

under any of the Security Documents. For this purpose, the Agent and each Bank is authorised to purchase with the moneys standing to the credit of such account such other currencies as may be necessary to effect such application.

13.3.2 No Bank shall be obliged to exercise any right given to it by this clause 13.3. Each Bank shall notify the Agent and the Agent shall notify the relevant Borrower forthwith upon the exercise or purported exercise of any right of set-off giving full details in relation thereto and the Agent shall inform the other Banks.

13.3.3 Nothing in this clause 13.3 shall be effective to create a charge or other Encumbrance

13.4 No charge

The provisions of this clause 13 shall not, and shall not be construed so as to, constitute a charge or other security interest or Encumbrance by a Creditor over all or any part of a sum received or recovered by it in the circumstances mentioned in clause 13.2.

14 Operating Accounts

14.1 General

The Borrowers jointly and severally undertake with each Creditor that they will:

14.1.1 on or before the Drawdown Date of each Advance to be drawn down, open the Operating Account of the Ship relevant to such Advance (and provide the Agent and the Account Bank with any information or documents requested by them under clause 8.1.15 to enable the Account Bank to do so); and

14.1.2 procure that all moneys payable to a Borrower in respect of the Earnings of such Borrower's Ship and any moneys payable to the Borrowers under the Master Swap Agreement shall, unless and until the Agent (acting on the instructions of the Majority Banks) directs to the contrary pursuant to provisions of the relevant Ship Security Documents, be paid to such Borrower's Operating Account Provided however that if any of the moneys paid to either of the Operating Accounts are payable in a currency other than Dollars, the Account Bank shall (and the Borrowers hereby irrevocably and unconditionally instruct the Account Bank to) convert such moneys into Dollars at the Account Bank's spot rate of exchange at the relevant time for the purchase of Dollars with such currency and the term "**spot rate of exchange**" shall include any premium and costs of exchange payable in connection with the purchase of Dollars with such currency.

14.2 Operating Accounts: withdrawals

Unless and until a Default shall occur and be continuing and the Agent (acting on the instructions of the Majority Banks) shall direct to the contrary, each Borrower shall be entitled to withdraw moneys from its Operating Account only for the following purposes:

14.2.1 to pay any amount to the Agent in or towards payments of any instalments of interest or any repayments, reductions or other payments of principal, or any other amounts then payable pursuant to the Security Documents;

14.2.2 to pay the proper and reasonable expenses of its Ship (including management fees under the Management Agreement relevant to its Ship);

14.2.3 to pay the proper and reasonable expenses of administering such Borrower's affairs; and

14.2.4 to make any payments of dividends to the extent permitted by clause 8.3.12 or any other payments on behalf of such Borrower which are not prohibited by this Agreement or any of the other Security Documents.

14.3 Account terms

Amounts standing to the credit of the Operating Accounts shall (unless otherwise agreed between the Account Bank and the Borrowers) bear interest at the rates from time to time offered by the Account Bank to its customers for Dollar deposits in comparable amounts for comparable periods. Interest shall accrue on the Operating Accounts from day to day and be calculated on the basis of actual days elapsed and a three hundred and sixty (360) day year and shall be credited to the Operating Accounts at such times as the Account Bank and the Borrowers shall agree.

14.4 Application of Operating Account

At any time after the occurrence of an Event of Default, the Agent may, and on the instructions of the Majority Banks shall, without notice to the Borrowers, instruct the Account Bank to apply all moneys then standing to the credit of the Operating Accounts or either of them (together with interest from time to time accruing or accrued thereon) in or towards satisfaction of any sums due to the Creditors or any of them under the Security Documents in the manner specified in clause 13.1.

14.5 Charging of Operating Accounts

The Operating Accounts and all amounts from time to time standing to the credit thereof shall be subject to the security constituted and the rights conferred by the Account Assignments.

15 Assignment, transfer and lending office

15.1 Benefit and burden

This Agreement shall be binding upon, and enure for the benefit of, the Creditors and the Borrowers and their respective successors in title.

15.2 No assignment by Borrowers

Neither Borrower may assign or transfer any of its rights or obligations under this Agreement

15.3 Transfers by Banks

Subject to the prior written consent of (a) the Agent and (b) provided no Default has occurred at such time, the Borrowers (the Borrowers' consent not to be unreasonably withheld or delayed), any Bank (the "**Transferor Bank**") may at any time cause all or any part of its rights, benefits and/or obligations under this Agreement and the Security Documents to be transferred to any other bank or financial institution which, in the reasonable opinion of the Agent, has experience in ship finance (a "**Transferee Bank**") by delivering to the Agent a Transfer Certificate duly completed and duly executed by the Transferor Bank and the Transferee Bank Provided however that (a) the Transferor Bank shall pay to the Agent a transfer fee of Three thousand Dollars (\$3,000) in respect of any such transfer and (b) the rights, benefits and/or obligations to be transferred under any such transfer shall be in respect of a minimum amount of Ten million Dollars (\$10,000,000) of the Transferor Bank's Commitment and/or (as the case may be) Contribution. The consent of the Borrowers referred to above shall not be required in relation to any transfer where the relevant Transferee Bank is another Bank or a Related Company of the relevant Transferor Bank or of another Bank. No such transfer is binding on, or effective in relation to, the Borrowers, the Agent or the other Creditors unless (i) it is effected or evidenced by a Transfer Certificate which complies with the provisions of this clause 15.3 and is signed by or on behalf of the Transferor Bank, the Transferee Bank and the Agent (on behalf of itself, the Borrowers and the other Creditors) and (ii) such transfer of rights under the other Security Documents as the Agent or the Transferee Bank may deem necessary has been effected and registered to the satisfaction of the Agent. Upon signature of any such Transfer Certificate by the Agent, which signature shall be effected as promptly as is practicable after such Transfer Certificate has been delivered to the Agent, and subject to the terms of such Transfer Certificate, such Transfer Certificate shall have effect as set out below.

The following further provisions shall have effect in relation to any Transfer Certificate:

15.3.1 a Transfer Certificate may be in respect of a Bank's rights in respect of all, or part of, its Commitment and shall be in respect of the same proportion of its Contribution;

15.3.2 a Transfer Certificate shall only be in respect of rights and obligations of the Transferor Bank in its capacity as a Bank and shall not transfer its rights and obligations as Agent, Security Agent or in any other capacity, as the case may be and such other rights and obligations may only be transferred in accordance with any applicable provisions of this Agreement;

15.3.3 a Transfer Certificate shall take effect in accordance with English law as follows:

- (a) to the extent specified in the Transfer Certificate, the Transferor Bank's payment rights and all its other rights (other than those referred to in clause 15.3.2 above) under this Agreement are assigned to the Transferee Bank absolutely, free of any defects in the Transferor Bank's title and of any rights or equities which the Borrowers or either of them had against the Transferor Bank;
- (b) the Transferor Bank's Commitment is discharged to the extent specified in the Transfer Certificate;
- (c) the Transferee Bank becomes a Bank with a Contribution and a Commitment of the amounts specified in the Transfer Certificate;
- (d) the Transferee Bank becomes bound by all the provisions of this Agreement and the Security Documents which are applicable to the Banks generally, including those about pro-rata sharing and the exclusion of liability on the part of, and the indemnification of, the Agent, the Security Agent and the Arranger in accordance with the provisions of clause 16 and to the extent that the Transferee Bank becomes bound by those provisions, the Transferor Bank ceases to be bound by them;
- (e) an Advance or part of an Advance which the Transferee Bank makes after the Transfer Certificate comes into effect ranks in point of priority and security in the same way as it would have ranked had it been made by the Transferor Bank, assuming that any defects in the Transferor Bank's title and any rights or equities of any Security Party against the Transferor Bank had not existed; and
- (f) the Transferee Bank becomes entitled to all the rights under this Agreement which are applicable to the Banks generally, including but not limited to those relating to the Majority Banks and those under clauses 3.6, 5 and 12 and to the extent that the Transferee Bank becomes entitled to such rights, the Transferor Bank ceases to be entitled to them;

15.3.4 the rights and equities of the Borrowers or of any other Security Party referred to above include, but are not limited to, any right of set-off and any other kind of cross-claim; and

15.3.5 the Borrowers, the Account Bank, the Security Agent, the Swap Provider and the other Creditors hereby irrevocably authorise and instruct the Agent to sign any such Transfer Certificate on their behalf and undertake not to withdraw, revoke or qualify such authority or instruction at any time. Promptly upon its signature of any Transfer Certificate, the Agent shall notify the Borrowers, the Transferor Bank, the Transferee Bank and the other Banks.

15.4 Reliance on Transfer Certificate

15.4.1 The Agent shall be entitled to rely on any Transfer Certificate believed by it to be genuine and correct and to have been presented or signed by the persons by whom it purports to have been presented or signed, and shall not be liable to any of the parties to this Agreement and the Security Documents for the consequences of such reliance.

15.4.2 The Agent shall at all times during the continuation of this Agreement maintain a register in which it shall record the name, Commitments, Contributions and administrative details (including the lending office) from time to time of the Banks holding a Transfer Certificate and the date at which the transfer referred to in such Transfer Certificate held by each Bank was transferred to such Bank, and the Agent shall make the said register available for inspection by any Bank, the Security Agent or either Borrower during normal banking hours upon receipt by the Agent of reasonable prior notice requesting the Agent to do so.

15.4.3 The entries on the said register shall, in the absence of manifest error, be conclusive in determining the identities of the Commitments, the Contributions and the Transfer Certificates held by the Banks from time to time and the principal amounts of such Transfer Certificates and may be relied upon by the Agent, the other Creditors and the other Security Parties for all purposes in connection with this Agreement and the Security Documents.

15.5 Transfer fees and expenses

If any Bank causes the transfer of all or any part of its rights, benefits and/or obligations under the Security Documents, it shall (or it shall ensure that the relevant Transferee Bank shall) pay to the Agent and/or the Security Agent on demand a transfer fee of \$3,000 per transfer for the account of the Agent and all costs, fees and expenses (including, but not limited to, legal fees and expenses), and all value added tax thereon, verified by the Agent or, as the case may be, the Security Agent as having been incurred by it in connection with such transfer.

15.6 Documenting transfers

If any Bank assigns all or any part of its rights or transfers all or any part of its rights, benefits and/or obligations as provided in clause 15.3, the Borrowers jointly and severally undertake with each Creditor, immediately on being requested to do so by the Agent and at the cost of the Transferor Bank, to enter into, and procure that the other Security Parties shall (at the cost of the Transferor Bank) enter into, such documents as may be necessary or desirable to transfer to the Transferee Bank all or the relevant part of such Bank's interest in the Security Documents and all relevant references in this Agreement to such Bank shall thereafter be construed as a reference to the Transferor Bank and/or its Transferee Bank (as the case may be) to the extent of their respective interests.

15.7 Sub-participation

A Bank may sub-participate all or any part of its rights and/or obligations under the Security Documents without the consent of, or notice to, the Borrowers but with the prior written consent of the Agent (such consent not to be unreasonably withheld). **Provided however that** the terms of any relevant sub-participation agreement shall provide that the sub-participant shall not exercise (or be entitled to exercise) any direct or indirect control over the voting rights of such Bank under this Agreement and the other Security Documents (such that such Bank shall be entitled to exercise its rights and discharge its obligations under this Agreement and the other Security Documents, without any prior approval or consent of, or any other reference to, the relevant sub-participant).

15.8 Lending office

Each Bank shall lend through its office at the address specified in schedule 1 or, as the case may be, in any relevant Transfer Certificate or through any other office of such Bank selected from time to time by such Bank through which such Bank wishes to lend for the purposes of this Agreement. If the office through which a Bank is lending is changed pursuant to this clause 15.8, such Bank shall notify the Agent promptly of such change and the Agent shall notify the Borrowers, the Security Agent, the Swap Provider, the Account Bank and the other Banks.

15.9 Disclosure of information

A Bank may, with the prior written consent of the Agent (such consent not to be unreasonably withheld), disclose to a prospective Transferee Bank or to any other person who may propose

entering into contractual relations with such Bank in relation to this Agreement such information about the Borrowers and the other Security Parties, the Group and any members thereof or any of them as such Bank shall consider appropriate provided that such Bank shall ensure that such information shall be disclosed on a confidential basis to any such person.

15.10 Replacement of a Bank

15.10.1 If at any time:

- (a) any Bank becomes an Increased Cost Bank; or
- (b) any Bank becomes a Non-Consenting Bank,

then the Borrowers may: (i) on ten (10) Business Days' prior notice to the Agent and that Bank; and (ii) following consultation with the Agent, replace that Bank by causing it to (and that Bank shall) transfer pursuant to this clause 15 all of its rights and obligations under this Agreement and the other Security Documents to another Bank or other person selected by the Borrowers and acceptable to the Agent (acting reasonably) for a purchase price equal to the outstanding principal amount of that Bank's Contribution and all accrued interest and fees and other amounts payable under this Agreement. If the effective date for that transfer is not an Interest Payment Date, then the Borrowers shall, on the transfer date, indemnify the Increased Cost Bank or the Non-Consenting Bank against any loss which it incurs as a result.

15.10.2 The Borrowers shall have no right to replace the Arranger, the Agent, the Account Bank or the Security Agent and none of the foregoing shall create on any Creditor, nor any Creditor shall have, any obligation towards the Borrowers to find a replacement Bank or such other entity. No member of the Group may make any payment or assume any obligation (whether by way of fees, expenses or otherwise) to or on behalf of the replacement Bank as an inducement for the replacement Bank to become a Bank.

15.10.3 The Borrowers may only replace a Non-Consenting Bank or an Increased Cost Bank if that replacement takes place no later than 60 days after:

- (a) the date on which the Non-Consenting Bank becomes a Non-Consenting Bank; or
- (b) the date on which the Increased Cost Bank demands payment of the relevant additional amounts.

15.10.4 No Bank replaced under this clause 15.10 may be required to pay or surrender to that replacement Bank or other entity any of the fees received by it.

15.10.5 In the case of a replacement of an Increased Cost Bank, the Borrowers shall pay the relevant additional amounts to that Increased Cost Bank prior to it being replaced and the payment of those additional amounts shall be a condition to replacement.

15.10.6 For the purposes of this clause 15.10:

- (a) an "**Increased Cost Bank**" is a Bank to whom the Borrowers become obliged to pay any additional amount under clause 6.6 or clause 12.2 in circumstances where (i) the Borrowers are also obliged to pay such additional amount to other Banks under the same clause and (ii) the additional amounts which such Bank is seeking to recover from the Borrowers under such clause are materially higher than the equivalent amounts sought by the other such Banks under the same clause; and
- (b) a "**Non-Consenting Bank**" is a Bank who does not agree to a waiver, consent or amendment where:
 - (i) the Borrowers or the Agent has requested the Banks to consent to a departure from, or waiver of, any provision of the Security Documents or to agree to any amendment thereto;

- (ii) the waiver, consent or amendment in question requires the agreement of the Majority Banks or all the Banks;
- (iii) a period of not less than 30 days has elapsed from the date the waiver, consent or amendment was requested;
- (iv) the Majority Banks have agreed to such waiver, consent or amendment; and
- (v) the Borrowers have notified such Bank that it will treat it as a Non-Consenting Bank.

16 Arranger, Agent and Security Agent

16.1 Appointment of the Agent

Each Bank and the Swap Provider irrevocably appoints the Agent as its agent for the purposes of this Agreement and such of the Security Documents to which it may be appropriate for the Agent to be party. By virtue of such appointment, each of the Banks and the Swap Provider hereby authorises the Agent:

- 16.1.1 to execute such documents as may be approved by the Majority Banks for execution by the Agent; and
- 16.1.2 (whether or not by or through employees or agents) to take such action on such Bank's or, as the case may be, the Swap Provider's behalf and to exercise such rights, remedies, powers and discretions as are specifically delegated to the Agent by this Agreement and/or any other Security Document, together with such powers and discretions as are reasonably incidental thereto.

16.2 Agent's actions

Any action taken by the Agent under or in relation to this Agreement or any of the other Security Documents whether with requisite authority, or on the basis of appropriate instructions, received from the Banks (or as otherwise duly authorised) shall be binding on all the Banks, the Swap Provider and the other Creditors.

16.3 Agent's duties

The Agent shall:

- 16.3.1 promptly notify each Bank of the contents of each notice, certificate or other document received by it from the Borrowers under or pursuant to clauses 8.1.1, 8.1.5 and 8.1.7; and
- 16.3.2 (subject to the other provisions of this clause 16) take (or instruct the Security Agent to take) such action or, as the case may be, refrain from taking (or authorise the Security Agent to refrain from taking) such action with respect to the exercise of any of its rights, remedies, powers and discretions as agent, as the Majority Banks may direct.

16.4 Agent's rights

The Agent may:

- 16.4.1 in the exercise of any right, remedy, power or discretion in relation to any matter, or in any context, not expressly provided for by this Agreement or any of the other Security Documents, act or, as the case may be, refrain from acting (or authorise the Security Agent to act or refrain from acting) in accordance with the instructions of the Banks, and shall be fully protected in so doing;
- 16.4.2 unless and until it shall have received directions from the Majority Banks, take such action or, as the case may be, refrain from taking such action (or authorise the Security Agent to take

or refrain from taking such action) in respect of a Default of which the Agent has actual knowledge as it shall deem advisable in the best interests of the Banks and the Swap Provider (but shall not be obliged to do so);

- 16.4.3 refrain from acting (or authorise the Security Agent to refrain from acting) in accordance with any instructions of the Banks to institute any legal proceedings arising out of or in connection with this Agreement or any of the other Security Documents until it and/or the Security Agent has been indemnified and/or secured to its satisfaction against any and all costs, expenses or liabilities (including legal fees) which it would or might incur as a result;
- 16.4.4 deem and treat (a) each Bank as the person entitled to the benefit of the Contribution of such Bank for all purposes of this Agreement unless and until a Transfer Certificate shall have been filed with the Agent pursuant to clause 15.3 and shall have become effective, and (b) the office set opposite the name of each of the Banks in schedule 1 or, as the case may be, in any relevant Transfer Certificate to be such Bank's lending office unless and until a written notice of change of lending office shall have been received by the Agent and the Agent may act upon any such notice unless and until the same is superseded by a further such notice;
- 16.4.5 rely as to matters of fact which might reasonably be expected to be within the knowledge of any Security Party upon a certificate signed by any director or officer of the relevant Security Party on behalf of the relevant Security Party; and
- 16.4.6 do anything which is in its opinion necessary or desirable to comply with any law or regulation in any jurisdiction.

16.5 No liability of Arranger or Agent

Neither the Arranger nor the Agent nor any of their respective employees and agents shall:

- 16.5.1 be obliged to make any enquiry as to the use of any of the proceeds of any Advance unless (in the case of the Agent) so required in writing by a Bank, in which case the Agent shall promptly make the appropriate request to the Borrowers; or
- 16.5.2 be obliged to make any enquiry as to any breach or default by either of the Borrowers or any other Security Party in the performance or observance of any of the provisions of this Agreement or any of the other Security Documents or as to the existence of a Default unless (in the case of the Agent) the Agent has actual knowledge thereof or has been notified in writing thereof by a Bank, in which case the Agent shall promptly notify the Banks of the relevant event or circumstance; or
- 16.5.3 be obliged to enquire whether or not any representation or warranty made by either of the Borrowers or any other Security Party pursuant to this Agreement or any of the other Security Documents is true; or
- 16.5.4 be obliged to do anything (including, without limitation, disclosing any document or information) which would, or might in its opinion, be contrary to any law or regulation or be a breach of any duty of confidentiality or otherwise be actionable or render it liable to any person; or
- 16.5.5 be obliged to account to any Bank or the Swap Provider for any sum or the profit element of any sum received by it for its own account; or
- 16.5.6 be obliged to institute any legal proceedings arising out of or in connection with this Agreement or any of the other Security Documents other than on the instructions of the Majority Banks; or
- 16.5.7 be liable to any Bank or the Swap Provider for any action taken or omitted under or in connection with this Agreement or any of the other Security Documents unless caused by its gross negligence or wilful misconduct.

For the purposes of this clause 16, neither the Arranger nor the Agent shall be treated as having actual knowledge of any matter of which the corporate finance or any other division outside the agency or loan administration department of the Arranger or the person for the time being acting as the Agent may become aware in the context of corporate finance, advisory or lending activities from time to time undertaken by the relevant Arranger or, as the case may be, the Agent for any Security Party or any other person which may be a trade competitor of any Security Party or may otherwise have commercial interests similar to those of any Security Party.

16.6 Non-reliance on Arranger or Agent

Each Bank and the Swap Provider acknowledges that it has not relied on any statement, opinion, forecast or other representation made by the Arranger or the Agent to induce it to enter into this Agreement or any of the other Security Documents and that it has made and will continue to make, without reliance on the Arranger or the Agent and based on such documents as it considers appropriate, its own appraisal of the creditworthiness of the Security Parties and its own independent investigation of the financial condition, prospects and affairs of the Security Parties in connection with the making and continuation of such Bank's Commitment or Contribution under this Agreement. Neither the Arranger nor the Agent shall have any duty or responsibility, either initially or on a continuing basis, to provide any other Creditor with any credit or other information with respect to any Security Party whether coming into its possession before the making of any Advance or at any time or times thereafter other than as provided in clause 16.3.1.

16.7 No responsibility on Arranger or Agent for Borrowers' performance

Neither of the Arranger nor the Agent shall have any responsibility or liability to any Bank or the Swap Provider:

- 16.7.1 on account of the failure of any Security Party to perform its obligations under any of the Security Documents; or
- 16.7.2 for the financial condition of any Security Party; or
- 16.7.3 for the completeness or accuracy of any statements, representations or warranties in any of the Security Documents or any document delivered under any of the Security Documents; or
- 16.7.4 for the execution, effectiveness, adequacy, genuineness, validity, enforceability or admissibility in evidence of any of the Security Documents or of any certificate, report or other document executed or delivered under any of the Security Documents; or
- 16.7.5 to investigate or make any enquiry into the title of either of the Borrowers or any other Security Party to the Ships or any other security or any part thereof; or
- 16.7.6 for the failure to register any of the Security Documents with any official or regulatory body or office or elsewhere; or
- 16.7.7 for taking or omitting to take any other action under or in relation to any of the Security Documents or any aspect of any of the Security Documents; or
- 16.7.8 on account of the failure of the Security Agent to perform or discharge any of its duties or obligations under the Security Documents; or
- 16.7.9 otherwise in connection with the Agreement or its negotiation or for acting (or, as the case may be, refraining from acting) in accordance with the instructions of the Banks or the Swap Provider.

16.8 Reliance on documents and professional advice

The Arranger and the Agent shall be entitled to rely on any communication, instrument or document believed by it to be genuine and correct and to have been signed or sent by the

proper person and shall be entitled to rely as to legal or other professional matters on opinions and statements of any legal or other professional advisers selected or approved by it (including those in the Arranger's or, as the case may be, the Agent's employment).

16.9 Other dealings

The Arranger and the Agent may, without any liability to account to the Banks or the Swap Provider, accept deposits from, lend money to, and generally engage in any kind of banking or other business with, and provide advisory or other services to, any Security Party or any of its Related Companies or any of the Banks or the Swap Provider as if it were not the Arranger or, as the case may be, the Agent.

16.10 Rights of Agent as Bank; no partnership

With respect to its own Commitment and Contribution (if any) the Agent shall have the same rights and powers under the Security Documents as any other Bank and may exercise the same as though it were not performing the duties and functions delegated to it under this Agreement and the term "**Banks**" shall, unless the context clearly otherwise indicates, include the Agent in its individual capacity as a Bank. This Agreement shall not and shall not be construed so as to constitute a partnership between the parties or any of them.

16.11 Amendments and waivers

16.11.1 Subject to clause 16.11.2, the Agent may, with the consent of the Majority Banks (or if and to the extent expressly authorised by the other provisions of any of the Security Documents) and, if so instructed by the Majority Banks, the Agent shall:

- (a) agree (or authorise the Security Agent to agree) amendments or modifications to any of the Security Documents with any Security Party; and/or
- (b) vary or waive breaches of, or defaults under, or otherwise excuse performance of, any provision of any of the other Security Documents by any Security Party (or authorise the Security Agent to do so).

Any such action so authorised and effected by the Agent shall be documented in such manner as the Agent shall (with the approval of the Majority Banks) determine, shall be promptly notified to the Banks by the Agent and (without prejudice to the generality of clause 16.2) shall be binding on all the Creditors.

16.11.2

Except with the prior written consent of all the Banks, the Agent shall have no authority on behalf of the Banks or the Swap Provider to agree (or authorise the Security Agent to agree) with any Security Party any amendment or modification to any of the Security Documents or to grant (or authorise the Security Agent to grant) waivers in respect of breaches or defaults or to vary or excuse (or authorise the Security Agent to vary or excuse) performance of or under any of the Security Documents by any Security Party, if the effect of such amendment, modification, waiver or excuse would be to:

- (a) reduce the Margin;
- (b) postpone the due date of or reduce the amount of any payment of principal, interest or other amount payable by any Security Party under any of the Security Documents;
- (c) change the currency in which any amount is payable by any Security Party under any of the Security Documents;
- (d) increase any Bank's Commitment;
- (e) extend either Termination Date;

- (f) change any provision of any of the Security Documents which expressly or implied requires the approval or consent of all the Banks such that the relevant approval or consent may be given otherwise than with the sanction of all the Banks;
- (h) change the order of distribution under clause 6.9 or clause 13.1 or change clause 13.2; change this clause 16.11;
- (i) change the definition of "**Majority Banks**" in clause 1.2; or
- (j) release any Security Party from the security constituted by any Security Document (except as required by the terms thereof or by law) or change the terms and conditions upon which such security or guarantee may be, or is required to be, released.

16.12 Reimbursement and indemnity by Banks

Each Bank shall reimburse the Agent (rateably in accordance with such Bank's Commitment or, following the first drawdown, Contribution), to the extent that the Agent is not reimbursed by the Borrowers, for the costs, charges and expenses incurred by the Agent which are expressed to be payable by the Borrowers under clause 5.1 including (in each case) the fees and expenses of legal or other professional advisers. Each Bank shall on demand indemnify the Agent (rateably in accordance with such Bank's Commitment or, following the first drawdown, Contribution) against all liabilities, damages, costs and claims whatsoever incurred by the Agent in connection with any of the Security Documents or the performance of its duties under any of the Security Documents or any action taken or omitted by the Agent under any of the Security Documents, unless such liabilities, damages, costs or claims arise from the Agent's own gross negligence or wilful misconduct.

16.13 Retirement of Agent

16.13.1 The Agent may (having given to the Borrowers, the Swap Provider and each of the Banks not less than thirty (30) days' notice of its intention to do so) retire from its appointment as Agent under this Agreement, provided that no such retirement shall take effect unless there has been appointed by the Banks and the Swap Provider as a successor agent:

- (a) a Related Company of the Agent nominated by the Agent which the Banks and the Swap Provider hereby irrevocably and unconditionally agree to appoint or, failing such a nomination,
- (b) a Bank nominated by the Majority Banks or, failing such a nomination,
- (c) any reputable and experienced bank or financial institution nominated by the retiring Agent; and such successor agent shall have accepted such appointment.

Any corporation into which the retiring Agent may be merged or converted or any corporation with which the Agent may be consolidated or any corporation resulting from any merger, conversion, amalgamation, consolidation or other reorganisation to which the Agent shall be a party shall, to the extent permitted by applicable law, be the successor Agent under this Agreement and the other Security Documents without the execution or filing of any document or any further act on the part of any of the parties to this Agreement and the other Security Documents save that notice of any such merger, conversion, amalgamation, consolidation or other reorganisation shall forthwith be given to each Security Party, the Banks and the Swap Provider. Prior to any such successor being appointed, the Agent agrees to consult with the Borrowers as to the identity of the proposed successor and to take account of any reasonable objections which the Borrowers may raise to such successor being appointed.

16.13.2 Upon any such successor as aforesaid being appointed, the retiring Agent shall be discharged from any further obligation under the Security Documents (but shall continue to have the benefit of this clause 16 in respect of any action it has taken or refrained from taking prior to such discharge) and its successor and each of the other parties to this Agreement

shall have the same rights and obligations among themselves as they would have had if such successor had been a party to this Agreement in place of the retiring Agent. The retiring Agent shall (at the expense of the Borrowers) provide its successor with copies of such of its records as its successor reasonably requires to carry out its functions under the Security Documents.

16.14 Appointment and retirement of Security Agent

16.14.1 Appointment

Each of the Agent, the Swap Provider and the Banks irrevocably appoints the Security Agent as its security agent and trustee for the purposes of this Agreement and the other Security Documents to which the Security Agent is or is to be a party, in each case on the terms set out in this Agreement. By virtue of such appointment, the Agent, the Swap Provider and each of the Banks hereby authorises the Security Agent (whether or not by or through employees or agents) to take such action on its behalf and to exercise such rights, remedies, powers and discretions as are specifically delegated to the Security Agent by this Agreement and/or any of the other Security Documents together with such powers and discretions as are reasonably incidental thereto.

16.14.2 Retirement

Without prejudice to clause 16.13, the Security Agent may, having given to the Borrowers and each of the Banks and the Swap Provider not less than fifteen (15) days' notice of its intention to do so, retire from its appointment as Security Agent under this Agreement and any Trust Deed, provided that no such retirement shall take effect unless there has been appointed by the Banks, the Agent and the Swap Provider as a successor security agent and trustee:

- (a) a Related Company of the Security Agent nominated by the Security Agent which the Banks hereby irrevocably and unconditionally agree to appoint or, failing such nomination,
- (b) a bank or trust corporation nominated by the Majority Banks or, failing such a nomination,
- (c) any bank or trust corporation nominated by the retiring Security Agent,

and, in any case (i) such successor security agent and trustee shall have duly accepted such appointment by delivering to the Agent (A) written confirmation (in a form acceptable to the Agent) of such acceptance agreeing to be bound by this Agreement in the capacity of Security Agent as if it had been an original party to this Agreement and (B) a duly executed Trust Deed and (ii) such successor security agent and trustee shall have duly entered into, whether with the retiring Security Agent and/or with the Borrowers and the other Security Parties and/or with the Creditors or with any of them, such documents in connection with the Security Documents as the Agent shall require in its absolute discretion.

Any corporation into which the retiring Security Agent may be merged or converted or any corporation with which the Security Agent may be consolidated or any corporation resulting from any merger, conversion, amalgamation, consolidation or other reorganisation to which the Security Agent shall be a party shall, to the extent permitted by applicable law, be the successor Security Agent under this Agreement, any Trust Deed and the other Security Documents referred to in clause 16.14.1 without the execution or filing of any document or any further act on the part of any of the parties to this Agreement, any Trust Deed and the other Security Documents save that notice of any such merger, conversion, amalgamation, consolidation or other reorganisation shall forthwith be given to each Security Party, the Banks, the Agent and the Swap Provider.

Upon any such successor as aforesaid being appointed, the retiring Security Agent shall be discharged from any further obligation under the Security Documents (but shall continue to

have the benefit of this clause 16 in respect of any action it has taken or refrained from taking prior to such discharge) and its successor and each of the other parties to this Agreement shall have the same rights and obligations among themselves as they would have had if such successor had been a party to this Agreement in place of the retiring Security Agent. The retiring Security Agent shall (at the expense of the Borrowers) provide its successor with copies of such of its records as its successor reasonably requires to carry out its functions under the Security Documents.

16.15 Powers and duties of the Security Agent

16.15.1 The Security Agent shall have no duties, obligations or liabilities to any of the Banks, the Swap Provider or the Agent beyond those expressly stated in any of the Security Documents. Each of the Banks, the Swap Provider and the Agent hereby authorises the Security Agent to enter into and execute:

- (a) each of the Security Documents to which the Security Agent is or is intended to be a party; and
- (b) any and all such other Security Documents as may be approved by the Agent in writing (acting on the instructions of the Majority Banks) for entry into by the Security Agent,

and, in each and every case, to hold any and all security thereby created upon trust for the Banks, the Swap Provider and the Agent in the manner contemplated by this Agreement.

16.15.2 Subject to clause 16.15.3 the Security Agent may, with the prior consent of the Majority Banks communicated in writing by the Agent, concur with any of the Security Parties to:

- (a) amend, modify or otherwise vary any provision of the Security Documents to which the Security Agent is or is intended to be a party; or
- (b) waive breaches of, or defaults under, or otherwise excuse performance of, any provision of the Security Documents to which the Security Agent is or is intended to be a party.

Any such action so authorised and effected by the Security Agent shall be promptly notified to the Banks, the Swap Provider and the Agent by the Security Agent and shall be binding on the other Creditors.

16.15.3 The Security Agent shall not concur with any Security Party with respect to any of the matters described in clause 16.11.2 without the consent of all the Banks communicated in writing by the Agent.

16.15.4 The Security Agent shall (subject to the other provisions of this clause 16) take such action or, as the case may be, refrain from taking such action, with respect to any of its rights, powers and discretions as security agent and trustee, as the Agent may direct. Subject as provided in the foregoing provisions of this clause, unless and until the Security Agent shall have received such instructions from the Agent, the Security Agent may, but shall not be obliged to, take (or refrain from taking) such action under or pursuant to the Security Documents referred to in clause 16.15.1 as the Security Agent shall deem advisable in the best interests of the Creditors provided that (for the avoidance of doubt), to the extent that this clause might otherwise be construed as authorising the Security Agent to take, or refrain from taking, any action of the nature referred to in clause 16.15.2- and for which the prior consent of the Banks is expressly required under clause 16.15.3 - clauses 16.15.2 and 16.15.3 shall apply to the exclusion of this clause.

16.15.5 None of the Banks nor the Agent nor the Swap Provider shall have any independent power to enforce any of the Security Documents referred to in clause 16.15.1 or to exercise any rights, discretions or powers or to grant any consents or releases under or pursuant to such Security Documents or any of them or otherwise have direct recourse to the security and/or guarantees constituted by such Security Documents or any of them except through the Security Agent.

16.15.6 For the purpose of this clause 16, the Security Agent may, rely and act in reliance upon any information from time to time furnished to the Security Agent by the Agent (whether pursuant to clause 16.15.7 or otherwise) unless and until the same is superseded by further such information, so that the Security Agent shall have no liability or responsibility to any party as a consequence of placing reliance on and acting in reliance upon any such information unless the Security Agent has actual knowledge that such information is inaccurate or incorrect.

16.15.7 Without prejudice to the foregoing, each of the Agent, the Swap Provider and the Banks (whether directly or through the Agent) shall provide the Security Agent with such written information as it may reasonably require for the purpose of carrying out its duties and obligations under the Security Documents referred to in clause 16.15.1.

16.15.8 Each Bank shall reimburse the Security Agent (rateably in accordance with such Bank's Commitment or, following the first drawdown, Contribution), to the extent that the Security Agent is not reimbursed by the Borrowers, for the costs, charges and expenses incurred by the Agent which are expressed to be payable by the Borrowers under clause 5.2 including (in each case) the fees and expenses of legal or other professional advisers. Each Bank shall on demand indemnify the Security Agent (rateably in accordance with such Bank's Commitment or, following the first drawdown, Contribution) against all liabilities, damages, costs and claims whatsoever incurred by the Security Agent in connection with any of the Security Documents or the performance of its duties under any of the Security Documents or any action taken or omitted by the Security Agent under any of the Security Documents, unless such liabilities, damages, costs or claims arise from the Security Agent's own gross negligence or wilful misconduct.

16.16 Trust provisions

16.16.1 The trusts constituted or evidenced in or by this Agreement and the Trust Deed shall remain in full force and effect until whichever is the earlier of:

- (a) the expiration of a period of eighty (80) years from the date of this Agreement; and
- (b) receipt by the Security Agent of confirmation in writing by the Agent that there is no longer outstanding any Indebtedness (actual or contingent) which is secured or guaranteed or otherwise assured by or under any of the Security Documents,

and the parties to this Agreement declare that the perpetuity period applicable to this Agreement and the trusts declared by the Trust Deed shall for the purposes of the Perpetuities and Accumulations Act 1964 be the period of eighty (80) years from the date of this Agreement.

16.16.2 In its capacity as trustee in relation to the Security Documents specified in clause 16.15.1, the Security Agent shall, without prejudice to any of the powers, discretions and immunities conferred upon trustees by law (and to the extent not inconsistent with the provisions of any of those Security Documents), have all the same powers and discretions as a natural person acting as the beneficial owner of such property and/or as are conferred upon the Security Agent by any of those Security Documents.

16.16.3 It is expressly declared that, in its capacity as trustee in relation to the Security Documents specified in clause 16.15.1, the Security Agent shall be entitled to invest moneys forming part of the security and which, in the opinion of the Security Agent, may not be paid out promptly following receipt in the name or under the control of the Security Agent in any of the investments for the time being authorised by law for the investment by trustees of trust moneys or in any other property or investments whether similar to the aforesaid or not or by placing the same on deposit in the name or under the control of the Security Agent as the Security Agent may think fit without being under any duty to diversify its investments and the Security Agent may at any time vary or transpose any such property or investments for or into any others of a like nature and shall not be responsible for any loss due to depreciation in value or otherwise of such property or investments. Any investment of any part or all of the

security may, at the discretion of the Security Agent, be made or retained in the names of nominees.

16.17 Independent action by Creditors

None of the Creditors shall enforce, exercise any rights, remedies or powers or grant any consents or releases under or pursuant to, or otherwise have a direct recourse to the security and/or guarantees constituted by any of the Security Documents without the prior written consent of the Majority Banks but, Provided such consent has been obtained, it shall not be necessary for any other Creditor to be joined as an additional party in any proceedings for this purpose.

16.18 Common Agent and Security Agent

The Agent and the Security Agent have entered into the Security Documents in their separate capacities (a) as agent for the Banks and the Swap Provider under and pursuant to this Agreement (in the case of the Agent) and (b) as security agent and trustee for the Banks, the Agent and the Swap Provider, under and pursuant to this Agreement, to hold the guarantees and/or security created by the other Security Documents specified in clause 16.15.1 on the terms set out in such Security Documents (in the case of the Security Agent). However, from time to time the Agent and the Security Agent may be the same entity. When the Agent and the Security Agent are the same entity and any Security Document provides for the Agent to communicate with or provide instructions to the Security Agent (and vice versa), it will not be necessary for there to be any such formal communications or instructions on those occasions.

16.19 Co-operation to achieve agreed priorities of application

The Banks, the Swap Provider, the Agent and the Account Bank shall co-operate with each other and with the Security Agent and any receiver under the Security Documents in realising the property and assets subject to the Security Documents and in ensuring that the net proceeds realised under the Security Documents after deduction of the expenses of realisation are applied in accordance with clause 13.1.

16.20 Prompt distribution of proceeds

Moneys received by any of the Creditors (whether from a receiver or otherwise) pursuant to the exercise of (or otherwise by virtue of the existence of) any rights and powers under or pursuant to any of the Security Documents shall (after providing for all costs, charges, expenses and liabilities and other payments ranking in priority) be paid to the Agent for distribution in accordance with clause 13.1 if such moneys are so received by any of the Creditors other than the Agent or the Security Agent, and if so received by the Agent or the Security Agent, they shall be distributed by the Agent or, as the case may be, the Security Agent, in accordance with clause 13.1. The Agent or, as the case may be, the Security Agent shall make each such application and/or distribution as soon as is practicable after the relevant moneys are received by, or otherwise become available to, the Agent or, as the case may be, the Security Agent save that (without prejudice to any other provision contained in any of the Security Documents) the Agent or, as the case may be, the Security Agent (acting on the instructions of the Majority Banks) or any receiver may credit any moneys received by it to a suspense account for so long and in such manner as the Agent or such receiver may from time to time determine with a view to preserving the rights of the Agent and/or the Security Agent and/or the Account Bank and/or the Swap Provider and/or the Arranger and/or the Banks or any of them to provide for the whole of their respective claims against the Borrowers or any other person liable.

16.21 Change of Reference Bank

If the Reference Bank ceases to provide quotations to the Agent for the purposes of determining LIBOR or the Mandatory Cost the Agent may terminate the appointment of such Reference Bank and appoint another bank or financial institution to replace it as the Reference Bank.

17 Notices and other matters

17.1 Notices

Every notice, request, demand or other communication under this Agreement or (unless otherwise provided therein) under any of the other Security Documents shall:

- 17.1.1 be in writing delivered personally or by first-class prepaid letter (airmail if available) or facsimile transmission or other means of telecommunication in permanent written form;
- 17.1.2 be deemed to have been received, subject as otherwise provided in the relevant Security Document, in the case of a letter, when delivered personally or three (3) days after it has been put in to the post and, in the case of a facsimile transmission or other means of telecommunication in permanent written form, at the time of despatch (provided that if the date of despatch is not a business day in the country of the addressee or if the time of despatch is after the close of business in the country of the addressee it shall be deemed to have been received at the opening of business on the next such business day); and
- 17.1.3 be sent:

- (a) if to the Borrowers or either of them at:

c/o Diana Shipping Services S.A.
Pendelis 16
Palaio Faliro
175 64 Athens
Greece
Fax no: +30 210 942 4975
Att: Mr Andreas Michalopoulos

- (b) if to the Arranger, the Agent, the Security Agent or the Account Bank at:

Nordea Bank Finland Plc, London Branch
8th Floor, City Place House
55 Basinghall Street
London EC2V 5NB
England
Fax no: +44 207 726 9188
Att: Shipping Department

with a copy to:

Fax no: +44 207 726 9102
Att: Loan Administration

- (c) if to a Bank, to its address or facsimile number specified in schedule 1 or, in the case of a Transferee Bank, in any relevant Transfer Certificate; and
- (d) if to the Swap Provider, to its address or facsimile number specified in paragraph (a) of Part 4 of the Schedule to the Master Swap Agreement,

or, in each case, to such other address and/or numbers as is notified by one party to the other parties under this Agreement.

17.2 Notices through the Agent

Every notice, request, demand or other communication under this Agreement to be given by the Borrowers to any other party shall be given to the Agent for onward transmission as appropriate

and if such notice, request, demand or other communication is to be given to the Borrowers it shall (except if otherwise provided in the Security Documents) be given through the Agent.

17.3 No implied waivers, remedies cumulative

No failure or delay on the part of any Creditor to exercise any power, right or remedy under any of the Security Documents shall operate as a waiver thereof, nor shall any single or partial exercise by any Creditor of any power, right or remedy preclude any other or further exercise thereof or the exercise of any other power, right or remedy. The remedies provided in the Security Documents are cumulative and are not exclusive of any remedies provided by law.

17.4 English language

All certificates, instruments and other documents to be delivered under or supplied in connection with any of the Security Documents shall be in the English language or shall be accompanied by a certified English translation upon which the Creditors or any of them shall be entitled to rely.

17.5 Further assurance

The Borrowers undertake with the Creditors that the Security Documents shall both at the date of execution and delivery thereof and so long as any moneys are owing under any of the Security Documents be valid and binding obligations of the respective parties thereto and rights of the Agent and each of the Banks enforceable in accordance with their respective terms and that it will, at its expense, execute, sign, perfect and do and will procure the execution signing, perfecting and doing each of the other Security Parties of, any and every such further assurance, document, act or thing as in the reasonable opinion of the Agent may be necessary or desirable for perfecting the security contemplated or constituted by the Security Documents.

17.6 Conflicts

In the event of any conflict between this Agreement and any of the other Borrowers' Security Documents (other than the Master Swap Agreement), the provisions of this Agreement shall prevail.

17.7 Borrowers' obligations

17.7.1 Joint and several

Notwithstanding anything to the contrary contained in any of the Security Documents, the agreements, obligations and liabilities of the Borrowers herein contained are joint and several and shall be construed accordingly. Each of the Borrowers agrees and consents to be bound by the Security Documents to which it is, or is to be, a party notwithstanding that the other Borrower which is intended to sign or to be bound may not do so or be effectually bound and notwithstanding that any of the Security Documents may be invalid or unenforceable against the other Borrower, whether or not the deficiency is known to any of the Creditors.

17.7.2 Borrowers as principal debtors

Each Borrower acknowledges and confirms that it is a principal and original debtor in respect of all amounts which may become payable by the Borrowers in accordance with the terms of this Agreement or any of the other Security Documents and agrees that the Creditors may also continue to treat it as such, whether or not any Creditor is or becomes aware that such Borrower is or has become a surety for the other Borrower.

17.7.3 Indemnity

The Borrowers hereby agree jointly and severally to keep the Creditors fully indemnified on demand against all damages, losses, costs and expenses arising from any failure of either Borrower to perform or discharge any purported obligation or liability of a Borrower which would have been the subject of this Agreement or any other Security Document had it been

valid and enforceable and which is not or ceases to be valid and enforceable against a Borrower on any ground whatsoever, whether or not known to a Creditor (including, without limitation, any irregular exercise or absence of any corporate power or lack of authority of, or breach of duty by, any person purporting to act on behalf of a Borrower (or any legal or other limitation, whether under the Limitation Acts or otherwise or any disability or death, bankruptcy, unsoundness of mind, insolvency, liquidation, dissolution, winding up, administration, receivership, amalgamation, reconstruction or any other incapacity of any person whatsoever (including, in the case of a partnership, a termination or change in the composition of the partnership) or any change of name or style or constitution of any Security Party)).

17.7.4 Liability unconditional

None of the obligations or liabilities of the Borrowers under this Agreement or any other Security Document shall be discharged or reduced by reason of:

- (a) the death, bankruptcy, unsoundness of mind, insolvency, liquidation, dissolution, winding-up, administration, receivership, amalgamation, reconstruction or other incapacity of any person whatsoever (including, in the case of a partnership, a termination or change in the composition of the partnership) or any change of name or style or constitution of a Borrower or any other person liable;
- (b) the Agent (acting on the instructions of the Majority Banks) or the Security Agent granting any time, indulgence or concession to, or compounding with, discharging, releasing or varying the liability of, a Borrower or any other person liable or renewing, determining, varying or increasing any accommodation, facility or transaction or otherwise dealing with the same in any manner whatsoever or concurring in, accepting, varying any compromise, arrangement or settlement or omitting to claim or enforce payment from a Borrower or any other person liable; or
- (c) anything done or omitted which but for this provision might operate to exonerate the Borrowers or either of them.

17.7.5 Recourse to other security

The Creditors shall not be obliged to make any claim or demand or to resort to any Security Document or other means of payment now or hereafter held by or available to it for enforcing this Agreement or any of the Security Documents against a Borrower or any other person liable and no action taken or omitted by any Creditor in connection with any such Security Document or other means of payment will discharge, reduce, prejudice or affect the liability of the Borrowers under this Agreement and the Security Documents to which either of them is, or is to be, a party.

17.7.6 Waiver of Borrowers' rights

Each Borrower agrees with each Creditor that, from the date of this Agreement and so long as any moneys are owing under any of the Security Documents and while all or any part of the Total Commitment remains outstanding, it will not, without the prior written consent of the Agent (acting on the instructions of the Majority Banks):

- (a) exercise any right of subrogation, reimbursement and indemnity against the other Borrower or any other person liable under the Security Documents;
- (b) demand or accept repayment in whole or in part of any Indebtedness now or hereafter due to such Borrower from the other Borrower or from any other person liable or demand or accept any guarantee, indemnity or other assurance against financial loss or any document or instrument created or evidencing an Encumbrance in respect of the same or dispose of the same;

- (c) take any steps to enforce any right against any other Borrower or any other person liable in respect of any such moneys; or
- (d) claim any set-off or counterclaim against the other Borrower or any other person liable or claiming or proving in competition with any Creditor in the liquidation of any other Borrower or any other person liable or have the benefit of, or share in, any payment from or composition with, the other Borrower or any other person liable or any other Security Document now or hereafter held by any Creditor for any moneys owing under this Agreement or for the obligations or liabilities of any other person liable but so that, if so directed by the Agent, it will prove for the whole or any part of its claim in the liquidation of any other Borrower or other person liable on terms that the benefit of such proof and all money received by it in respect thereof shall be held on trust for the Banks and applied in or towards discharge of any moneys owing under this Agreement in such manner as the Agent (acting on the instructions of the Majority Banks) shall deem appropriate.

18 Governing law and jurisdiction

18.1 Law

This Agreement and any non-contractual obligations connected with it are governed by, and shall be construed in accordance with, English law.

18.2 Submission to jurisdiction

The Borrowers jointly and severally agree, for the benefit of each of the Creditors, that any legal action or proceedings arising out of or in connection with this Agreement (including any non-contractual obligations connected with it) against the Borrowers or either of them or any of their assets may be brought in the English courts. Each of the Borrowers irrevocably and unconditionally submits to the jurisdiction of such courts and irrevocably designates, appoints and empowers Mr Antonis Nicolaou at present of 25 Heath Drive, Potters Bar, Herts EN6 1EN, England to receive for it and on its behalf, service of process issued out of the English courts in any such legal action or proceedings. The submission to such jurisdiction shall not (and shall not be construed so as to) limit the right of any Creditor to take proceedings against either of the Borrowers in the courts of any other competent jurisdiction nor shall the taking of proceedings in any one or more jurisdictions preclude the taking of proceedings in any other jurisdiction, whether concurrently or not.

The parties further agree that only the Courts of England and not those of any other State shall have jurisdiction to determine any claim which either of the Borrowers may have against any Creditor arising out of or in connection with this Agreement (including any non-contractual obligations in connection with it).

18.3 Process agent

If Mr Antonis Nikolaou appointed as agent for service of process by the Borrowers and referred to in clause 18.2 passes away or cannot be found or is otherwise unable for any reason to act or resigns as agent for service of process, the Borrowers hereby undertake within ten (10) days of such event taking place (and the Borrowers by way of security hereby irrevocably and unconditionally authorise the Security Agent to do so) to designate, appoint and empower on their behalf, Messrs Cheeswrights (currently of Bankside House, 107 Leadenhall Street, London EC3A 4AF, England) at their then principal place of business in London as substitute process agent of Mr Antonis Nikolaou or another agent on terms acceptable to the Agent.

18.4 Contracts (Rights of Third Parties) Act 1999

No term of this Agreement is enforceable under the provisions of the Contracts (Rights of Third Parties) Act 1999 by a person who is not a party to this Agreement.

IN WITNESS whereof the parties to this Agreement have caused this Agreement to be duly executed on the date first above written.

Schedule

The Banks and their Commitments

Name	Lending office and contact details	Commitment \$
Nordea Bank Finland Plc, London Branch	<u>Lending office</u> 8th Floor, City Place House 55 Basinghall Street London EC2V 5NB England <u>Contact details for notices</u> 8th Floor, City Place House 55 Basinghall Street London EC2V 5NB England Fax: +44 207 726 9188 Attn: Shipping Department With a copy to: Fax: +44 207 726 9102 Attn: Loan Administration	26,450,000
<hr/>		
TOTAL COMMITMENT <hr/>		

Schedule 2
Form of Drawdown Notice
(referred to in clause 2.4)

To: Nordea Bank Finland Plc, London Branch
8th Floor, City Place House
55 Basinghall Street
London EC2V 5NB
England
(as Agent)

[•] 2012

U.S.\$26,450,000 Loan

Loan Agreement dated [•] 2012 as amended and restated (together the "Loan Agreement")

We refer to the above Loan Agreement and hereby give you notice that we wish to draw down the

[Jemo] [Mandaringina] Advance, namely \$* on [] 200[•] and select the first Interest Period in respect thereof to expire on [•]. The funds should be credited to [name and number of account] with [details of bank in New York City].

We confirm that:

- (a) no event or circumstance has occurred and is continuing which constitutes a Default;
- (b) the representations and warranties contained in (i) clauses 7.1, 7.2 and 7.3.2 of the Loan Agreement, (ii) clause 4 of the Corporate Guarantee and (iii) clause 3 of each Share Pledge, are true and correct at the date hereof as if made with respect to the facts and circumstances existing at such date;
- (c) the borrowing to be effected by the drawdown of the [Jemo] [Mandaringina] Advance will be within our corporate powers, has been validly authorised by appropriate corporate action and will not cause any limit on our borrowings (whether imposed by statute, regulation, agreement or otherwise) to be exceeded;
- (d) no events, conditions, facts or circumstances exist, have arisen or occurred since 31 December 2010 which have had or could be reasonably expected to have a Material Adverse Effect; and
- (e) we will use the proceeds of the [Jemo] [Mandaringina] Advance for our benefit and under our full responsibility and exclusively for the purpose specified in the Loan Agreement.

Words and expressions defined in the Loan Agreement shall have the same meanings where used herein.

For and on behalf of
JEMO SHIPPING COMPANY INC.

For and on behalf of
MANDARINGINA INC.

Schedule 3
Documents and evidence required as conditions precedent to the Total Commitment being made

(referred to in clause 9.1)

Part 1

(Documents and conditions required as conditions precedent to the Total Commitment being made available)

1 Constitutional documents

Copies, certified by an officer of each Security Party as true, complete and up to date copies of all documents which contain or establish or relate to the constitution of that Security Party;

2 Corporate authorisations

copies of resolutions of the directors and, if required, shareholders of each Security Party approving such of the Underlying Documents and the Security Documents to which such Security Party or such other party is, or is to be, party and authorising the signature, delivery and performance of such Security Party's or such other party's obligations thereunder, certified (in a certificate dated no earlier than five (5) Banking Days prior to the date of this Agreement) by an officer of such Security Party or such other party as

- (a) being true and correct;
- (b) being duly passed at meetings of the directors of such Security Party or such other party and, if required, of the shareholders of such Security Party or such other party each duly convened and held;
- (c) not having been amended, modified or revoked; and
- (d) being in full force and effect,

together with originals or certified copies of any powers of attorney issued by any such Security Party or such other party pursuant to such resolutions;

3 Specimen signatures

copies of the signatures of the persons who have been authorised on behalf of each Security Party to sign such of the Underlying Documents and the Security Documents to which such Security Party is, or is to be, party and to give notices and communications, including notices of drawing, under or in connection with the Security Documents, certified (in a certificate dated no earlier than five (5) Banking Days prior to the date of this Agreement) by an officer of such Security Party as being the true signatures of such persons;

4 Certificates of incumbency

a list of directors and officers of each Security Party specifying the names and positions of such persons, certified (in a certificate dated no earlier than five (5) Banking Days prior to the date of this Agreement) by an officer of such Security Party to be true, complete and up to date;

5 Borrowers' consents and approvals

a certificate (dated no earlier than five (5) Banking Days prior to the date of this Agreement) from an officer of each of the Borrowers that no consents, authorisations, licences or approvals are necessary for that Borrower to authorise or are required by such Borrower in connection with the borrowing by that Borrower of the Loan pursuant to this Agreement or the execution, delivery and performance of that Borrower's Security Documents;

6 Other consents and approvals

a certificate (dated no earlier than five (5) Banking Days prior to the date of this Agreement) from an officer of each Security Party (other than the Borrowers) that no consents, authorisations, licences or approvals are necessary for such Security Party to guarantee and/or grant security for the borrowing by the Borrowers of the Total Commitment pursuant to this Agreement and execute, deliver and perform the Security Documents insofar as such Security Party is a party thereto;

7 Certified copies of the Underlying Documents

a copy, certified (in a certificate dated no earlier than five (5) Banking Days prior to the date of this Agreement) as a true and complete copy by an officer of the relevant Borrower of each of the Underlying Documents, including:

- (a) the Jemo Initial Charter, having a tenor of no less than 24 months and a gross daily charter rate of no less than \$12,900 per day, to be fully assignable to the Security Agent and otherwise on terms acceptable to the Agent; and
- (b) the Mandaringina Initial Charter, having a tenor of no less than 11 months and a gross daily charter rate of no less than \$10,900 per day, to be fully assignable to the Security Agent and otherwise on terms acceptable to the Agent;

8 Financial statements

the audited consolidated financial statements of the Group in respect of the financial year ended on 31 December 2010;

9 Marshall Islands opinion

an opinion of Cozen O' Connor, special legal advisers on matters of Marshall Islands law to the Agent;

10 Further opinions

any such further opinion as may be required by the Agent;

11 Security Documents

the Fee Letter, the Master Swap Agreement, the Swap Assignment, the Corporate Guarantee, the Account Assignments, the Initial Charter Assignments and the Share Pledges (together with the other documents to be delivered to the Agent pursuant thereto), each duly executed;

12 Borrowers' process agent

a letter from each Borrower's agent for receipt of service of proceedings referred to in clause 18.2 accepting its appointment under the said clause and under each of the other Security Documents in which it is or is to be appointed as such Borrower's agent;

13 Corporate Guarantor's process agent

a letter from the Corporate Guarantor's agent for receipt of service of proceedings referred to in clause 9.2 of the Corporate Guarantee accepting its appointment under the said clause;

14 Registration forms

such statutory forms duly signed by the Borrowers and the other Security Parties as may be required by the Agent to perfect the security contemplated by the Security Documents;

15 Bank account

evidence that each of the Operating Accounts has been opened together with mandate forms in respect thereof duly executed and that an amount of at least \$10 is standing to the credit thereof;

16 "KYC"

such documentation and other evidence as is requested by the Agent in order for the Agent or any Bank or the Account Bank to carry out and be satisfied with the results of all necessary "know your client" or other checks which each such Bank or the Account Bank is required to carry out under any applicable law or legislation or by any regulatory or financial services authority (including in the European Union or the U.S.A.), in relation to the transactions contemplated by this Agreement and to the identity of any parties to this Agreement (other than the Creditors) and their directors, officers, shareholders and ultimate beneficial owners;

17 Fees and commitment commission

evidence that any fees and commitment commission due from the Borrowers to any of the Creditors pursuant to the terms of clause 5.1 or any other provision of the Security Documents have been paid in full; and

18 Further conditions precedent

such other conditions precedent as the Agent may require.

Part 2

Documents and evidence required as conditions precedent to each Advance being made

1 Drawdown notice

The Drawdown Notice for the relevant Advance, duly executed;

2 Conditions precedent

evidence that the conditions precedent set out in Part 1 of schedule 3 remain fully satisfied;

3 Ships conditions

evidence that the Ship (the "Relevant Ship") to which the Advance to be drawn down relates (the "Relevant Advance"):

(a) Registration and Encumbrances

is permanently or provisionally registered in the name of the relevant Borrower under the laws and flag of the relevant Flag State through the relevant Registry and that the Relevant Ship and its Earnings, Insurances and Requisition Compensation are free of Encumbrances;

(b) Classification

maintains the relevant Classification as a double-hull ship, free of any requirements and recommendations from the relevant Classification Society; and

(c) Insurance

is insured in accordance with the provisions of the relevant Ship Security Documents and all requirements of such Ship Security Documents in respect of such insurance have been complied with (including without limitation, confirmation from the protection and indemnity association or other insurer with which the Relevant Ship is, or is to be, entered for insurance or insured against protection and indemnity risks (including oil pollution risks) that any necessary declarations required by the association or insurer for the removal of any oil pollution exclusion have been made and that any such exclusion does not apply to the Relevant Ship);

4 Title and no Encumbrances

evidence that the transfer of title to the Relevant Ship from the relevant Seller to the relevant Borrower pursuant to the relevant Contract has been duly recorded with the relevant Registry free from Encumbrances (other than Permitted Encumbrances);

5 Delivery Documents

copies certified by a person acceptable to the Agent, of the bill of sale evidencing the relevant Contract Price, the protocol of delivery and acceptance of the Relevant Ship, commercial invoices of the Relevant Ship and any other delivery documents to be exchanged between the relevant Borrower and the relevant Seller under the relevant Contract in respect of the Relevant Ship on its Delivery, each duly executed and exchanged;

6 Security Documents

the relevant Ship Security Documents duly executed and delivered;

7 Mortgage registration

evidence that the relevant Mortgage over the Relevant Ship has been permanently registered against the Relevant Ship under the laws and flag of the relevant Flag State through the relevant Registry;

8 Notices of assignment

copies of duly executed notices of assignment required by the terms of the relevant Ship Security Documents and in the forms prescribed by the relevant Ship Security Documents;

9 Security Parties' process agent

a letter from each Security Party's agent for receipt of service of proceedings accepting its appointment under each Ship Security Document for the Relevant Ship in which it is to be appointed as agent for service of process;

10 Registration forms

such statutory forms duly signed by the relevant Borrower and the other Security Parties as may be required by the Agent to perfect the security contemplated by the Security Documents;

11 Insurance opinion

an opinion from insurance consultants to the Agent at the cost of the Borrowers on the Insurances effected or to be effected in respect of the Relevant Ship upon and following the Drawdown Date of the Relevant Advance;

12 Panamanian opinion

an opinion of Patton, Moreno & Asvat, special legal advisers on matters of Panamanian law to the Agent;

13 Bahamas opinion

in respect of the Jemo Ship only, an opinion of Lennox Paton, special legal advisers on matters of Bahamian law to the Agent;

14 Marshall Islands opinion

an opinion of Cozen O' Connor, special legal advisers on matters of Marshall Islands law to the Agent;

15 Further opinions

any such further opinions as may be required by the Agent;

16 DOC and application for SMC

a certified copy of the DOC issued to the Operator for the Relevant Ship and evidence satisfactory to the Agent that the Operator has applied for an SMC for the Relevant Ship to be issued pursuant to the Code;

17 ISPS Code Compliance

(a) evidence satisfactory to the Agent that the Relevant Ship is subject to a ship security plan which complies with the ISPS Code; and

(b) a copy certified (in a certificate dated no earlier than five (5) Banking Days prior to the Drawdown Date of the Relevant Advance) as a true and complete copy by an officer of the relevant Borrower of the ISSC for the Relevant Ship and the continuous synopsis record required by the ISPS Code in respect of the Relevant Ship;

18 Fees and commissions

payment of any fees and commissions due from the Borrowers to the Agent pursuant to the terms of clause 5.1 or any other provision of the Security Documents; and

19 Further conditions precedent

such further conditions precedent as the Agent may require.

Schedule 4

Form of Transfer Certificate

(referred to in clause 15.3)

TRANSFER CERTIFICATE

Banks are advised not to employ Transfer Certificates or otherwise to assign or transfer interests in the Loan Agreement without further ensuring that the transaction complies with all applicable laws and regulations, including the Financial Services and Markets Act 2000 and regulations made thereunder and similar statutes which may be in force in other jurisdictions

To: NORDEA BANK FINLAND PLC, LONDON BRANCH as agent on its own behalf and on behalf of the Borrowers, the Banks, the Account Bank, the Arranger, the Swap Provider and the Security Agent defined in the Loan Agreement referred to below.

[Date]

Attention: [•]

This certificate ("Transfer Certificate") relates to a loan agreement dated [•1 2010 (the "Loan Agreement") and made between (1) Jemo Shipping Company Inc. and Mandaringina Inc. as joint and several borrowers (the "Borrowers"), (2) the banks and financial institutions defined therein as banks (the "Banks"), (3) Nordea Bank Finland Plc, London Branch as Agent, Arranger, Security Agent and Account Bank and (4) Nordea Bank Finland Plc as Swap Provider, in relation to a term loan of up to Twenty six million four hundred and fifty thousand Dollars (\$26,450,000). Terms defined in the Loan Agreement shall, unless otherwise defined herein, have the same meanings herein as therein.

In this Certificate:

the "Transferor Bank" means [full name] of [lending office]; and the "Transferee Bank" means [full name] of [lending office].

1 The Transferor Bank with full title guarantee assigns to the Transferee Bank absolutely all rights and interests (present, future or contingent) which the Transferor Bank has as a Bank under or by virtue of the Loan Agreement and all the Security Documents in relation to that part of the [Contribution] [Commitment] of the Transferor Bank (or its predecessors in title) details of which are set out below:

Date of Advance	Amount of Advance	Transferor Bank's Contribution] [Commitment] to Advance	Maturity Date

2 By virtue of this Transfer Certificate and clause 15 of the Loan Agreement, the Transferor Bank is discharged [entirely from its [Contribution] [Commitment] which amounts to \$[]]] [from [] per centum ([]%) of its [Contribution] [Commitment] in respect of both Advances], which percentage represents \$[]].

3 The transferee Bank hereby requests the Agent (on behalf of itself, the Borrowers, the Account Bank, the Arranger, the Security Agent, the Swap Provider and the Banks) to accept the executed copies of this Transfer Certificate as being delivered pursuant to and for the purposes of clause 15.3 of the Loan Agreement so as to take effect in accordance with the terms thereof on **[date of transfer]**.

4 The Transferee Bank:

4.1 confirms that it has received a copy of the Loan Agreement and the other Security Documents together with such other documents and information as it has required in connection with the transaction contemplated thereby;

4.2 confirms that it has not relied and will not hereafter rely on the Transferor Bank, the Agent, the Arranger, the Security Agent, the Swap Provider, the Account Bank or the Banks to check or enquire on its behalf into the legality, validity, effectiveness, adequacy, accuracy or completeness of the Loan Agreement, any of the Security Documents or any such documents or information;

4.3 agrees that it has not relied and will not rely on the Transferor Bank, the Agent, the Arranger, the Security Agent, the Swap Provider, the Account Bank or the Banks to assess or keep under review on its behalf the financial condition, creditworthiness, condition, affairs, status or nature of the Borrowers or either of them or any other Security Party (save as otherwise expressly provided therein);

4.4 warrants that it has power and authority to become a party to the Loan Agreement and has taken all necessary action to authorise execution of this Transfer Certificate and to obtain all necessary approvals and consents to the assumption of its obligations under the Loan Agreement and the Security Documents; and

4.5 if not already a Bank, appoints (i) the Agent to act as its agent and (ii) the Security Agent to act as its security agent and trustee, in each case as provided in the Loan Agreement and the Security Documents and agrees to be bound by the terms of the Loan Agreement and the other Security Documents.

5 The Transferor Bank:

5.1 warrants to the Transferee Bank that it has full power to enter into this Transfer Certificate and has taken all corporate action necessary to authorise it to do so;

5.2 warrants to the Transferee Bank that this Transfer Certificate is binding on the Transferor Bank under the laws of England, the country in which the Transferor Bank is incorporated and the country in which its lending office is located; and

5.3 agrees that it will, at its own expense, execute any documents which the Transferee reasonably requests for perfecting in any relevant jurisdiction the Transferee Bank's title under this Transfer Certificate or for a similar purpose.

6 The Transferee Bank hereby undertakes with the Transferor Bank and each of the other parties to the Loan Agreement and the other Security Documents that it will perform in accordance with its terms all those obligations which by the terms of the Loan Agreement and the other Security Documents will be assumed by it after delivery of the executed copies of this Transfer Certificate to the Agent and satisfaction of the conditions (if any) subject to which this Transfer Certificate is expressed to take effect.

7 By execution of this Transfer Certificate on their behalf by the Agent and in reliance upon the representations and warranties of the Transferee Bank, the Borrowers, the Agent, the Arranger, the Security Agent, the Account Bank, the Swap Provider and the Banks accept the Transferee Bank as a party to the Loan Agreement and the Security Documents with respect to all those rights and/or obligations which by the terms of the Loan Agreement and the Security Documents will be assumed by the Transferee Bank (including those about pro-rata sharing and the exclusion of liability on the part of, and the indemnification of, the Agent, the Arranger, the

Account Bank, the Swap Provider and the Security Agent as provided by the Loan Agreement) after delivery of the executed copies of this Transfer Certificate to the Agent and satisfaction of the conditions (if any) subject to which this Transfer Certificate is expressed to take effect.

- 8 None of the Transferor Bank, the Agent, the Arranger, the Security Agent, the Account Bank, the Swap Provider or the Banks:
 - 8.1 makes any representation or warranty nor assumes any responsibility with respect to the legality, validity, effectiveness, adequacy or enforceability of the Loan Agreement or any of the Security Documents or any document relating thereto; or
 - 8.2 assumes any responsibility for the financial condition of the Borrowers or either of them or any other Security Party or any party to any such other document or for the performance and observance by the Borrowers or either of them or any other Security Party or any party to any such other document (save as otherwise expressly provided therein) and any and all such conditions and warranties, whether express or implied by law or otherwise, are hereby excluded (except as aforesaid).
- 9 The Transferor Bank and the Transferee Bank each undertake that they will on demand fully indemnify the Agent in respect of any claim, proceeding, liability or expense which relates to or results from this Transfer Certificate or any matter concerned with or arising out of it unless caused by the Agent's gross negligence or wilful misconduct, as the case may be.
- 10 The agreements and undertakings of the Transferee Bank in this Transfer Certificate are given to and for the benefit of and made with each of the other parties to the Loan Agreement and the Security Documents.
- 11 This Transfer Certificate shall be governed by, and shall be construed in accordance with,
English law.

Transferor Bank

By: _____
Dated: _____.

Transferee Bank

By: _____
Dated: _____

Agent

Agreed for and on behalf of itself as Agent, the Arranger, the Borrowers, the Security Agent, the Account Bank, the Swap Provider and the Banks.

NORDEA BANK FINLAND PLC, LONDON BRANCH

By: _____
Dated: _____

Note: The execution of this Transfer Certificate alone may not transfer a proportionate share of the Transferor Bank's interest in the security constituted by the Security Documents in the Transferor Bank's or Transferee Bank's jurisdiction. It is the responsibility of the Transferee to ascertain whether any other documents are required to perfect a transfer of such a share in the Transferor Bank's interest in such security in any such jurisdiction and, if so, to seek appropriate advice and arrange for execution of the same.

The Schedule

Outstanding Contribution: \$•

Commitment: \$•

Portion Transferred: •%

Administrative Details of Transferee Bank

Name of Transferee Bank:

Lending Office:

Contact Person

(Loan Administration Department):

Telephone:

Telefax No:

Contact Person:

(Credit Administration Department):

Telephone: Telefax No:

Account for payments:

Schedule 5

Mandatory Cost formula

- 1 The Mandatory Cost is an addition to the interest rate to compensate Banks for the cost of compliance with (a) the requirements of the Bank of England and/or the Financial Services Authority (or, in either case, any other authority which replaces all or any of its functions) or (b) the requirements of the European Central Bank.
- 2 On the first day of each Interest Period (or as soon as possible thereafter) the Agent shall calculate, as a percentage rate, a rate (the "**Additional Cost Rate**") for each Bank, in accordance with the paragraphs set out below. The Mandatory Cost will be calculated by the Agent as a weighted average of the Banks' Additional Cost Rates (weighted in proportion to the percentage participation of each Bank in the Loan or any relevant unpaid sum) and will be expressed as a percentage rate per annum.
- 3 The Additional Cost Rate for any Bank lending from a lending office in a Participating Member State will be the percentage notified by that Bank to the Agent. This percentage will be certified by that Bank in its notice to the Agent to be its reasonable determination of the cost (expressed as a percentage of that Bank's participation in the Loan or the relevant unpaid sum made from that lending office) of complying with the minimum reserve requirements of the European Central Bank in respect of loans made from that lending office.
- 4 The Additional Cost Rate for any Bank lending from a lending office in the United Kingdom will be calculated by the Agent as follows:

$$\frac{E \times 0.01}{300} \text{ per cent per annum}$$

Where E is designed to compensate Banks for amounts payable under the Fees Rules and is calculated by the Agent as being the average of the most recent rates of charge supplied by the Reference Banks to the Agent pursuant to paragraph 6 below and expressed in pounds per £1,000,000.

- 5 For the purposes of this Schedule:
 - (a) "**Fees Rules**" means the rules on periodic fees contained in the FSA Supervision Manual or such other law or regulation as may be in force from time to time in respect of the payment of fees for the acceptance of deposits;
 - (b) "**Fee Tariffs**" means the fee tariffs specified in the Fees Rules under the activity group A.1 Deposit acceptors (ignoring any minimum fee or zero rated fee required pursuant to the Fees Rules but taking into account any applicable discount rate);
 - (c) "**Participating Member State**" means any member of the European Union that adopts or has adopted the euro as its lawful currency in accordance with the legislation of the European Community relating to the Economic and Monetary Union'
 - (d) "**Special Deposits**" has the meaning given to it from time to time under or pursuant to the Bank of England Act 1998 or (as may be appropriate) by the Bank of England; and
 - (e) "**Tariff Base**" has the meaning given to it in, and will be calculated in accordance with, the Fees Rule.
- 6 If requested by the Agent, each Reference Bank shall, as soon as practicable after publication by the Financial Services Authority, supply to the Agent, the rate of charge payable by that Reference Bank to the Financial Services Authority pursuant to the Fees Rules in respect of the

relevant financial year of the Financial Services Authority (calculated for this purpose by that Reference Bank as being the average of the Fee Tariffs applicable to that Reference Bank for that financial year) and expressed in pounds per £1,000,000 of the Tariff Base of that Reference Bank.

7 Each Bank shall supply any information required by the Agent for the purpose of calculating its Additional Cost Rate. In particular, but without limitation, each Bank shall supply the following information on or prior to the date on which it becomes a Bank:

- (a) the jurisdiction of its lending office; and
- (b) any other information that the Agent may reasonably require for such purpose.

Each Bank shall promptly notify the Agent of any change to the information provided by it pursuant to this paragraph.

8 The rates of charge of each Reference Bank for the purpose of *E* above shall be determined by the Agent based upon the information supplied to it pursuant to paragraphs 6 and 7 above and on the assumption that, unless a Bank notifies the Agent to the contrary, each Bank's obligations in relation to cash ratio deposits and Special Deposits are the same as those of a typical bank from its jurisdiction of incorporation with a lending office in the same jurisdiction as its lending office.

9 The Agent shall have no liability to any person if such determination results in an Additional Cost Rate which over or under compensates any Bank and shall be entitled to assume that the information provided by any Bank or Reference Bank pursuant to paragraphs 3, 6 and 7 above is true and correct in all respects.

10 The Agent shall distribute the additional amounts received as a result of the Mandatory Cost to the Banks on the basis of the Additional Cost Rate for each Bank based on the information provided by each Bank and each Reference Bank pursuant to paragraphs 3, 6 and 7 above.

11 Any determination by the Agent pursuant to this schedule in relation to a formula, the Mandatory Cost, an Additional Cost Rate or any amount payable to a Bank shall, in the absence of manifest error, be conclusive and binding on all parties to this Agreement.

12 The Agent may from time to time, after consultation with the Borrowers and the Banks, determine and notify to all parties to this Agreement any amendments which are required to be made to this schedule in order to comply with any change in law, regulation or any requirements from time to time imposed by the Bank of England, the Financial Services Authority or the European Central Bank (or, in any case, any other authority which replaces all or any of its functions) and any such determination shall, in the absence of manifest error, be conclusive and binding on all parties to this Agreement.

Schedule 4
Form of ISDA Amendment Agreement

ISDA®

International Swaps and Derivatives Association, Inc.

AMENDMENT

dated as of June 2012

to the

ISDA MASTER AGREEMENT

dated as of 7 February 2012

between

Nordea Bank Finland Plc
("Party A")

and

Jemo Shipping Company Inc. ("Jemo")
Jemo Shipping Company Inc. ("Jemo")
Mandaringina Inc. ("Mandaringina") (each of them individually
referred to as "Party B")

*Established as a limited liability
company
With company number 1680235-8
under the laws of Finland*

*Jemo is established under the laws of Marshall Islands
with company number 42931*

*Mandaringina is established under the laws of Republic of
Marshall Islands with company number 41566*

(the "Agreement")

The parties have previously entered into the Agreement and have now agreed to amend the Agreement by the terms of this Amendment (this "Amendment").

It is understood and agreed that the terms of the Master Agreement, the Schedule and this Amendment will apply to all Transactions made between Party A and Jemo and Mandaringina, respectively, as specified above. The Master Agreement, the Schedule and this Amendment are produced in the form of one single set of physical documents for convenience only. Party A shall be deemed to have entered into the Master Agreement, the Schedule and this Amendment in relation to each of Jemo and Mandaringina, respectively, to the effect that there will from time to time exist one Master Agreement, Schedule, and this Amendment between Party A and Jemo, and one Master Agreement, Schedule, Confirmations and this Amendment between Party A and Mandaringina (each a "Relevant Agreement"). For the avoidance of doubt, each reference to the Agreement will be construed as a reference to each Relevant Agreement, and no Event of Default or Termination Event under one Relevant Agreement will constitute an Event of Default or Termination Event with respect to any other Relevant Agreement, unless so specifically stipulated. Furthermore, the netting and set-off provisions incorporated herein will apply solely to the Transactions entered into pursuant to a Relevant Agreement notwithstanding the fact that such agreements are included in a single set of physical documents.

1 Credit Support Document

Part 4(1) in the Schedule to the Agreement shall be deleted in its entirety and replaced with the following:

"Credit Support Document. Each of the Security Documents (defined as such in the Loan Agreement) and the Guarantee dated as of June 2012 and made between Diana Shipping Inc. with company number 13671 under the laws of the Republic of the Marshall Islands, as the "Guarantor", and Nordea Bank Finland Plc, London Branch as the Security Agent as beneficiary thereof, which constitutes Credit Support Documents, are incorporated by reference in, and made part of, the Agreement and each Conformation as if set forth in full in the Agreement or such Confirmation,"

2 Credit Support Provider

Part 4(g) in the Schedule to the Agreement shall be deleted in its entirety and replaced with the following: "Credit Support Provider means in relation to Party A: None

Credit Support Provider means in relation to Party B as specified in Annex A: Each of the Security Parties (defined as such in the Loan Agreement) and Diana Shipping Inc. with company number 13671 under the laws of the Republic of the Marshall Islands."

3 Indemnity

Each of Jemo and Mandaringina acknowledges and confirms that they are principal and original debtors in respect of all amounts, which may become payable by either of Jemo and Mandaringina in accordance with the terms of the Relevant Agreement or any of the Transactions under the Relevant Agreement and agrees that Party A may also continue to treat it as such, whether or not Party A is or becomes aware that Jemo or Mandaringina is or has become as surety for the other Borrower.

Each of Jemo and Mandaringina hereby agrees jointly and severally to keep the Party A fully indemnified on demand against all damages, losses, costs and expenses arising from any failure of either of Jemo or Mandaringina to perform or discharge any purported obligation or liability of Jemo or Mandaringina which would have been the subject of the the Relevant Agreement or the Transactions under the Relevant Agreement had it been valid and enforceable and which is not or ceases to be valid and enforceable against either of Jemo or Mandaringina on any ground whatsoever, whether or not known to Party A (including, without limitation, any irregular exercise or absence of any corporate power or lack of authority of, or breach of duty by, any person purporting to act on behalf of Jemo or Mandaringina, as applicable, (or any legal or other limitation, whether under the Limitation Acts or otherwise or any disability or death, bankruptcy, unsoundness of mind, insolvency, liquidation, dissolution, winding up, administration, receivership, amalgamation, reconstruction or any other incapacity of any person whatsoever (including, in the case of a partnership, a termination or change in the composition of the partnership) or any change of name or style or constitution of Party A)).

4 Loan Agreement

Part 4(o) in the Schedule to the Agreement shall be deleted in its entirety and replaced with the following:

"Loan Agreement. In this Agreement, "Loan Agreement" means a loan agreement dated 7 February 2012

(as amended and restated by a supplemental agreement dated June 2012) providing for (inter alia) an increase of the loan amount, and made between (1) Jemo Shipping Company Inc. and Mandaringina Inc, as joint and several borrowers (therein referred to as the "Borrowers"), (2) Nordea Bank Finland plc, London Branch as arranger, agent (in such capacity the "Agent"), Security Agent and account bank, (3) Nordea Bank

Finland plc as swap provider (in such capacity the "Swap Provider") and (4) the banks and financial institutions referred to in schedule 1 thereto as lenders (the "Banks" and, together with the Agent and the Swap Provider, the "Secured Creditors"), whereby the Banks agreed (inter alia) to make available to the Borrowers, upon the terms and conditions therein contained, a term loan of up to \$26,450,000."

5 Notices

Part 4 (a), (Address for notices or communications to Party B), shall be amended by adding the following:

Mandaringina Inc, address: Attention:
Facsimile No:

Telephone:

6 Representations

Each party represents to the other party in respect of the Agreement, that all representations made by it pursuant to the Agreement are true and accurate as of the date of this Amendment.

7 Miscellaneous

(a) ***Entire Agreement; Restatement***

- (i) This Amendment constitutes the entire agreement and understanding of the parties with respect to its subject matter and supersedes all oral communication and prior writings (except as otherwise provided herein) with respect thereto.
- (ii) Except for any amendment to the Agreement made pursuant to this Amendment, all terms and conditions of the Agreement will continue in full force and effect in accordance with its provisions on the date of this Amendment Agreement. References to the Agreement will be to the Agreement, as amended by this Amendment.

(b) ***Amendments.*** No amendment, modification or waiver in respect of the matters contemplated by this Amendment will be effective unless made in accordance with the terms of the Agreement.

(c) ***Counterparts.*** This Amendment may be executed and delivered in counterparts (including by facsimile transmission), each of which will be deemed an original.

(d) ***Headings.*** The headings used in this Amendment are for convenience of reference only and are not to affect the construction of or to be taken into consideration in interpreting this Amendment,

(e) **Governing Law.** This Amendment and any non-contractual obligations arising in connection with it will be governed by and construed in accordance with English law.

IN WITNESS THEREOF, the parties have executed this Amendment on the respective dates specified below with effect from the date specified first above of this Amendment.

Nordea Bank Finland Plc.

By.

Name:
Title:
Date:

Jemo Shipping Company Inc.

By.

Name:
Title:
Date:

Mandaringina

By.

Name:
Title:
Date:

Schedule 5
Form of New Swap Assignment

Dated June 2012

**JEMO SHIPPING COMPANY INC. (1)
and
MANDARINGINA INC.
and
NORDEA BANK FINLAND PLC, LONDON BRANCH (2)**

SWAP ASSIGNMENT

NORTON ROSE

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THIS DEED OF ASSIGNMENT is dated

June 2012 and made **BETWEEN**:

(1) **MANDARINGINA INC.** and **JEMO SHIPPING COMPANY INC.**, each a corporation incorporated under the laws of the Republic of the Marshall Islands whose registered office is at Trust Company Complex, Ajeltake Road, Ajeltake Islands, Majuro, Marshall Islands MH96960 (together the "**Borrowers**"); and

(2) **NORDEA BANK FINLAND PLC, LONDON BRANCH**, a company incorporated in Finland whose registered office is at Aleksanterinkatu 36B, F1-00020 Helsinki, Finland acting for the purposes of this Deed through its branch at 8th Floor, City Place House, 55 Basinghall Street, London EC2V 5NB, England, as security agent and trustee for and on behalf of the Secured Creditors (as defined below) (the "**Security Agent**").

WHEREAS:

(A) by a loan agreement dated 7 February 2012 (the "**Principal Agreement**") as amended and restated by a supplemental agreement dated June 2012 (the "**Supplemental Agreement**" and, together with the Principal Agreement, the "**Loan Agreement**") and made between (1) the Borrowers as joint and several borrowers, (2) Nordea Bank Finland Plc, London Branch as arranger, agent (in such capacity the "**Agent**"), Security Agent and account bank, (3) Nordea Bank Finland Plc as swap provider (in such capacity the "**Swap Provider**") and (4) the banks and financial institutions referred to in schedule 1 thereto as lenders (the "**Banks**" and, together with the Swap Provider and the Agent, the "**Secured Creditors**"), the Banks agreed (*inter alia*) to make available to the Borrowers, upon the terms and conditions therein contained, a loan facility of up to Twenty six million four hundred and fifty thousand United States Dollars (US\$26,450,000);

(B) by an ISDA Master Agreement dated as of 7 February 2012 and made between Jemo Shipping Inc. and the Swap Provider, as amended by an ISDA Amendment Agreement dated June 2012 and made between the Borrowers and the Swap Provider (together the "**Master Swap Agreement**") comprising an ISDA Master Agreement (including the Schedule thereto) and the Confirmations (as defined therein) supplemental thereto and any Transactions governed thereby, the Swap Provider agreed the terms and conditions upon which it would enter into one or more (*inter alia*) interest rate swap or other derivative transactions with the Borrowers, in respect of the Loan, whether in whole or in part (as the case may be) from time to time;

(C) pursuant to clause 16.14 of the Loan Agreement, each of the Secured Creditors has appointed the Security Agent as its security agent and trustee and pursuant to a Trust Deed dated 7 February 2012 and executed by the Security Agent (as trustee) in favour of the Secured Creditors, the Security Agent agreed to hold, receive, administer and enforce this Deed as security agent and trustee for and on behalf of the Secured Creditors;

(D) it is a condition precedent to each of the Banks making its Commitment available under the Loan Agreement that the Borrowers as security for (*inter alia*) their obligations under the Loan Agreement and the Master Swap Agreement shall execute this Deed; and

(E) this Deed is supplemental to the Loan Agreement and to the security thereby created and is the Swap Assignment referred to in the Loan Agreement.

NOW THIS DEED WITNESSETH AND IT IS HEREBY AGREED as follows:

1 Definitions

1.1 Defined expressions

Words and expressions defined in the Loan Agreement shall, unless otherwise defined in this Deed, or the context otherwise requires, have the same meanings when used in this Deed.

1.2 Definitions

In this Deed, unless the context otherwise requires:

"Agent" includes its successors in title and its replacements;

"Assigned Property" means all of the Borrowers' right, title and interest in and to:

- (a) the Swap Payments; and
- (b) all Swap Contract Rights;

"Banks" includes their respective successors in title and/or Transferee Banks; **"Borrowers"** includes the successors in title of the Borrowers;

"Collateral Instruments" means notes, bills of exchange, certificates of deposit and other negotiable and non-negotiable instruments, guarantees, indemnities and other assurances against financial loss and any other documents or instruments which contain or evidence an obligation (with or without security) to pay, discharge or be responsible directly or indirectly for, any indebtedness or liabilities of the Borrowers or either of them or any other person liable under the Security Documents and includes any documents or instruments creating or evidencing a mortgage, charge (whether fixed or floating), pledge, lien, hypothecation, assignment, trust arrangement or security interest of any kind;

"Default" means any Event of Default or any event or circumstance which with the giving of notice or lapse of time or the satisfaction of any other condition (or any combination thereof) would constitute an Event of Default;

"Event of Default" means any of the events or circumstances described in clause 10.1 of the Loan Agreement;

"Expenses" means the aggregate at any relevant time (to the extent that the same have not been received by the Security Agent) of:

- (a) all losses, liabilities, costs, charges, expenses, damages and outgoings of whatever nature (including, without limitation, Taxes, repair costs, registration fees and insurance premiums) suffered, incurred or paid by the Security Agent in connection with the exercise of the powers referred to in or granted by the Loan Agreement, the Master Swap Agreement, this Deed or any other of the Security Documents; and
- (b) interest on all such losses, liabilities, costs, charges, expenses, damages and outgoings from the date on which the same were suffered, incurred or paid by the Security Agent until the date of receipt or recovery thereof (whether before or after judgment) at a rate per annum calculated in accordance with clause 3.4 of the Loan Agreement (as conclusively certified by the Security Agent);

"Loan" means the aggregate principal amount owing to the Banks under the Loan Agreement at any relevant time;

"Loan Agreement" means the loan agreement dated 7 February 2012 as amended and restated by a supplemental agreement dated June 2012 mentioned in recital (A) hereto and as the same may be amended and/or supplemented and/or restated and/or novated from time to time;

"Master Swap Agreement" means the ISDA master swap agreement dated as of 7 February 2012 and made between Jemo Shipping Inc. and the Swap Provider, as amended by an ISDA Amendment Agreement dated June 2012 and made between the Swap Provider and the Borrowers mentioned in recital (B) hereto, comprising an ISDA Master Agreement (and a schedule thereto) together with any Confirmations (as defined therein) supplemental thereto

and any Transactions governed thereby, and as the same may be amended and/or supplemented and/or restated and/or novated from time to time;

"Master Swap Agreement Liabilities" means at any relevant time all liabilities, actual or contingent, present or future, owing to the Swap Provider under the Master Swap Agreement;

"Notice of Assignment" means a notice of assignment in the form set out in schedule 1 or in such other form as may from time to time be agreed in writing by the Security Agent;

"Outstanding Indebtedness" means the aggregate of the Loan and interest accrued and accruing thereon, the Master Swap Agreement Liabilities and all other sums of money from time to time owing by the Borrowers or either of them to the Security Agent, the Secured Creditors or any of them, whether actually or contingently, present or future, under or pursuant to the Loan Agreement, the Master Swap Agreement and the other Security Documents or any of them;

"Security Agent" includes the successors in title and any replacements of the Security Agent;

"Security Documents" means the Loan Agreement, the Master Swap Agreement, this Deed and any other such document as is defined in the Loan Agreement as a Security Document or as may have been or may hereafter be executed to guarantee and/or secure all or any part of the Loan, interest thereon, the Master Swap Agreement Liabilities and other moneys from time to time owing by the Borrowers or either of them pursuant to the Loan Agreement and/or the Master Swap Agreement (whether or not any such document also secures moneys from time to time owing pursuant to any other document or agreement);

"Security Period" means the period commencing on the date hereof and terminating upon discharge of the security created by the Security Documents by payment of all moneys payable thereunder, whether actually or contingently;

"Swap Contract Rights" means all of the rights of the Borrowers under or pursuant to the Master Swap Agreement including (without limitation) the right to receive Swap Payments;

"Swap Payments" means all payments made or to be made to the Borrowers or either of them under the Master Swap Agreement by the Swap Provider including (but without prejudice to the generality of the foregoing) all claims for damages in respect of any breach by the Swap Provider of the Master Swap Agreement; and

"Swap Provider" includes its successors in title.

1.3 Headings

Clause headings and the table of contents are inserted for convenience of reference only and shall be ignored in the interpretation of this Deed.

1.4 Construction of certain terms

In this Deed, unless the context otherwise requires:

- 1.4.1 references to clauses and Schedules are to be construed as references to clauses of and Schedules to this Deed and references to this Deed include its Schedules;
- 1.4.2 references to (or to any specified provision of) this Deed or any other document shall be construed as references to this Deed, that provision or that document as in force for the time being and as amended in accordance with the terms thereof, or, as the case may be, with the agreement of the relevant parties;
- 1.4.3 words importing the plural shall include the singular and vice versa;
- 1.4.4 references to a person shall be construed as references to an individual, firm, company, corporation, unincorporated body of persons or any Government Entity;

1.4.5 references to a "**guarantee**" include references to an indemnity or other assurance against financial loss including, without limitation, an obligation to purchase assets or services as a consequence of a default by any other person to pay any Indebtedness and "**guaranteed**" shall be construed accordingly; and

1.4.6 references to statutory provisions shall *be* construed as references to those provisions as replaced or amended or re-enacted from time to time.

1.5 Conflict with Loan Agreement

This Deed shall *be* read together with the Loan Agreement but in case of any conflict between the two instruments, the provisions of the Loan Agreement shall prevail.

2 Covenant to pay and assignment

2.1 Covenant to pay

The Borrowers hereby jointly and severally covenant that they will pay on demand to the Security Agent for the account of the Secured Creditors and the Security Agent all moneys and discharge all the Outstanding Indebtedness now or hereafter due, owing or incurred to the Security Agent and/or any of the other Creditors under or in connection with the Loan Agreement, the Master Swap Agreement and/or this Deed or any of them when the same become due for payment, whether by acceleration or otherwise.

2.2 Assignment

By way of security for payment of the Outstanding Indebtedness, the Borrowers with full title guarantee hereby assign absolutely and charge to the Security Agent, and agree to assign absolutely and charge to the Security Agent, all their right, title and interest in and to the Assigned Property and all their benefits and interests present and future therein Provided however that the Swap Payments shall be payable to the Operating Accounts or either of them until such time as a Default shall occur and the Security Agent shall direct to the contrary whereupon the Borrowers shall forthwith, and the Security Agent may at any time thereafter, instruct the persons from whom the Swap Payments are then payable to pay the same to the Security Agent or as it may direct and any Swap Payments then in the hands of the Borrowers' agents shall be deemed to have been received by them for the use and on behalf of the Security Agent.

2.3 Notice

The Borrowers hereby jointly and severally covenant and undertake with the Security Agent that they will give a Notice of Assignment in respect of the assignment herein contained to the persons from whom any part of the Assigned Property is or may be due and will procure that the Swap Provider shall deliver to the Security Agent as soon as possible thereafter copies thereof with the acknowledgement thereto duly executed by the Swap Provider.

2.4 Application

All moneys received by the Security Agent in respect of:

- 2.4.1 Swap Payments;
- 2.4.2 other sums paid by the Swap Provider under the Master Swap Agreement (including sums arising from any arbitration award);
- 2.4.3 the enforcement of its rights hereunder;
- 2.4.4 the determination, cancellation or rescission or other termination of the Master Swap Agreement and any Transactions thereunder; or

2.4.5 otherwise in respect of the Assigned Property,

shall be held by it upon trust in the first place to pay or make good the Expenses and the balance shall be applied in the manner specified in clause 13.1 of the Loan Agreement.

2.5 **Shortfalls**

In the event that the balance referred to in clause 2.4 is insufficient to pay in full the whole of the Outstanding Indebtedness, the Security Agent shall be entitled to collect the shortfall from the Borrowers or any other person liable for the time being therefor.

2.6 **Use of Borrowers' name**

Each Borrower covenants and undertakes with the Security Agent to do or permit to be done each and every act or thing which the Security Agent may from time to time reasonably require to be done for the purpose of enforcing the Security Agent's rights under this Deed and to allow its name to be used as and when reasonably required by the Security Agent for that purpose.

2.7 **Reassignment**

Upon payment and discharge in full of the Outstanding Indebtedness, the Security Agent shall at the request and cost of the Borrowers, promptly reassign the Assigned Property to the Borrowers or as they may direct.

3 **Undertakings**

3.1 **Covenants and undertakings**

Each Borrower hereby covenants and undertakes with the Security Agent that throughout the Security Period:

3.1.1 Negative undertakings

it will not, without the previous written consent of the Security Agent:

(a) Variations

agree to any variation of the Master Swap Agreement;

(b) Release and waivers

release the Swap Provider from any of its obligations under the Master Swap Agreement or waive any breach of the Swap Provider's obligations thereunder or consent to any such act or omission of the Swap Provider as would otherwise constitute such breach;

(c) Termination

terminate any Transaction entered into under the Master Swap Agreement for any reason whatsoever; or

(d) Assignments

assign or otherwise dispose of the Assigned Property or any part thereof;

3.1.2 Swap Payments

it will ensure that any Swap Payments shall be paid to the Operating Accounts or either of them provided that, on the occurrence of a Default each Borrower shall forthwith, and the

Security Agent may during such time, instruct the persons from whom any Swap Payments are then payable, to pay the same to the Security Agent or as it may direct and any Swap Payments which are then in the hands of the Borrowers' agents shall be deemed to have been received by them for the use and on behalf of the Security Agent;

3.1.3 **Performance of Master Swap Agreement obligations**

it will perform its obligations under the Master Swap Agreement and use its best endeavours to procure that the Swap Provider shall perform its obligations under the Master Swap Agreement; and

3.1.4 **Information**

it will supply to the Security Agent all reasonable information, accounts and records that may be necessary or of assistance to enable the Security Agent to verify the amounts of all Swap Payments and any other amounts payable under the Master Swap Agreement.

4 Continuing security and other matters

4.1 Continuing security

The security created by this Deed shall:

4.1.1 be held by the Security Agent as a continuing security for the payment of the Outstanding Indebtedness and the performance and observance of and compliance with all of the covenants, terms and conditions contained in the Security Documents, express or implied, and that the security so created shall not be satisfied by any intermediate payment or satisfaction of any part of the amount hereby and thereby secured (or by any settlement of accounts between the Borrowers or either of them or any other person who may be liable to the Security Agent and/or any of the other Creditors in respect of the Outstanding Indebtedness or any part thereof and the Security Agent and/or any of the other Creditors);

4.1.2 be in addition to, and shall not in any way prejudice or affect, and may be enforced by the Security Agent without prior recourse to, the security created by any other of the Security Documents or by any present or future Collateral Instruments, right or remedy held by or available to the Security Agent and/or any of the other Creditors or any right or remedy of the Security Agent and/or any of the other Creditors thereunder; and

4.1.3 not be in any way prejudiced or affected by the existence of any of the other Security Documents or any such Collateral Instrument, rights or remedies or by the same becoming wholly or in part void, voidable or unenforceable on any ground whatsoever or by the Security Agent and/or any of the other Creditors dealing with, exchanging, varying or failing to perfect or enforce any of the same, or giving time for payment or performance or indulgence or compounding with any other person liable.

4.2 Rights additional

All the rights, powers and remedies vested in the Security Agent hereunder shall be an addition to and not a limitation of any and every other right, power or remedy vested in the Security Agent and/or any of the other Creditors under the Loan Agreement, this Deed, the other Security Documents or any Collateral Instrument or at law and all the rights, powers and remedies so vested in the Security Agent and/or any of the other Creditors may be exercised from time to time and as often as the Security Agent and/or any of the other Creditors may deem expedient.

4.3 No enquiry

The Agent shall not be obliged to make any enquiry as to the nature or sufficiency of any payment received by it under this Deed or to make any claim or take any action to collect any

moneys hereby assigned or to enforce any rights or benefits hereby assigned to the Security Agent or to which the Security Agent may at any time be entitled under this Deed.

4.4 Obligations of Borrowers and Security Agent

The Borrowers shall remain liable to perform all the obligations assumed by them in relation to the Assigned Property and the Security Agent shall be under no obligation of any kind whatsoever in respect thereof or be under any liability whatsoever in the event of any failure by the Borrowers to perform their obligations in respect thereof.

5 Powers of Security Agent to protect security

The Agent shall, without prejudice to its other rights, powers and remedies under any of the Security Documents, be entitled (but not bound) at any time, and as often as may be necessary, to take any such action as it deems necessary for the purpose of protecting or maintaining the security created by this Deed and the other Security Documents, and all Expenses attributable thereto shall be payable by the Borrowers on demand.

6 Powers of Security Agent on Event of Default

6.1 Powers

At any time after the occurrence of an Event of Default, the Security Agent shall forthwith become entitled (but not bound) as and when it may see fit, to exercise in relation to the Assigned Property or any part thereof all or any of the rights, powers and remedies possessed by it as assignee and/or chargee of the Assigned Property (whether at law, by virtue of this deed or otherwise) and in particular (without limiting the generality of the foregoing):

- 6.1.1 to collect, recover, compromise and give a good discharge for, all claims then outstanding or thereafter arising under the Assigned Property or the Master Swap Agreement or any part thereof, and to take over or institute (if necessary using the name of the Borrowers) all such proceedings in connection therewith as the Security Agent thinks fit;
- 6.1.2 to discharge, compound, release or compromise claims in respect of the Assigned Property or the Master Swap Agreement or any part thereof which have given or may give rise to any charge or lien or other claim on the Assigned Property or any part thereof or which are or may be enforceable by proceedings against the Assigned Property or any part thereof; and
- 6.1.3 to recover from the Borrower on demand all Expenses incurred or paid by the Security Agent in connection with the exercise of the powers (or any of them) referred to in this clause 6.

7 Attorney

7.1 Appointment

By way of security, the Borrowers hereby irrevocably appoint the Security Agent to be their attorney generally for and *in* the name and on behalf of the Borrowers, and as the act and deed or otherwise of the Borrowers to execute, seal and deliver and otherwise perfect and do all such deeds, assurances, agreements, instruments, acts and things which are required for the full exercise of all or any of the rights, powers or remedies conferred hereby or which may be deemed proper in or in connection with all or any of the purposes aforesaid. The power hereby conferred shall be a general power of attorney under the Powers of Attorney Act 1971, and the Borrowers ratify and confirm, and agree to ratify and confirm, any deed, assurance, agreement, instrument, act or thing which the Security Agent may execute or do pursuant thereto Provided always that such power shall not be exercisable by or on behalf of the Security Agent until the happening of any Event of Default.

7.2 Exercise of power

The exercise of such power by or on behalf of the Security Agent shall not put any person dealing with the Security Agent upon any enquiry as to whether any Event of Default has occurred, nor shall such person be in any way affected by notice that no such Event of Default has happened and the exercise by the Security Agent of such power shall be conclusive evidence of the Security Agent's right to exercise the same.

7.3 Filings

The Borrowers hereby irrevocably authorise and empower the Security Agent to be their attorney in their name and on their behalf and as its act and deed or otherwise of it to agree the form of and to execute and do all deeds, instruments, acts and things in order to file, record, register or enrol this Deed in any court, public office or elsewhere which the Security Agent may deem necessary or advisable, now or in the future, to ensure the legality, validity, enforceability or admissibility in evidence thereof and any other assurance, document, act or thing required to be executed by the Borrowers pursuant to clause 8.

8 Further assurance

The Borrowers hereby further undertake at their own expense from time to time to execute, sign, perfect, do and (if required) register every such further assurance, document, act or thing as in the opinion of the Security Agent may be necessary or desirable for the purpose of more effectually mortgaging and charging the Assigned Property or perfecting the security constituted or intended to be constituted by this Deed.

9 Costs and indemnities

9.1 Costs

The Borrowers shall pay to the Security Agent on demand all expenses (including legal fees, fees of insurance advisers, printing, out-of-pocket expenses, stamp duties, registration fees and other duties or charges) together with any value added tax or similar tax payable in respect thereof incurred by the Security Agent and/or any of the Secured Creditors in connection with the exercise or enforcement of, or preservation of any rights under, this Deed or otherwise in respect of the Outstanding Indebtedness and the security therefor or the preparation, completion, execution or registration, release or reassignment of the Loan Agreement, the Master Swap Agreement, this Deed and any of the other Security Documents.

9.2 Security Agent's indemnity

The Borrowers hereby jointly and severally, agree and undertake to indemnify the Security Agent against all losses, actions, claims, expenses, demands, obligations and liabilities whatever and whenever arising which may now or hereafter be incurred by the Security Agent and/or any of the Secured Creditors or by any manager, agent, officer or employee for whose liability, act or omission the Security Agent and/or any of the Secured Creditors may be answerable in respect of, *in* relation to, or in connection with anything done or omitted in the exercise or purported exercise of the powers contained in this Deed or otherwise in connection with such powers or with any part of the Assigned Property or of the Master Swap Agreement or otherwise howsoever in relation to, or in connection with, any of the matters dealt with in this Deed.

10 Remedies cumulative and other provisions

10.1 No implied waivers; remedies cumulative

No failure or delay on the part of the Security Agent and/or any of the Secured Creditors to exercise any right, power or remedy vested in it or them under this Deed shall operate as a waiver thereof, nor shall any single or partial exercise by the Security Agent and/or any of the

Secured Creditors of any right, power or remedy nor the discontinuance, abandonment or adverse determination of any proceedings taken by the Security Agent and/or any of the Secured Creditors to enforce any right, power or remedy preclude any other or further exercise thereof or proceedings to enforce the same or the exercise of any other right, power or remedy, nor shall the giving by the Security Agent of any consent to any act which by the terms of this Deed requires such consent prejudice the right of the Security Agent to give or withhold consent to the doing of any other similar act. The remedies provided in this Deed are not exclusive of any remedies provided by law.

10.2 Delegation

The Agent shall be entitled, at any time and as often as may be expedient, to delegate all or any of the powers and discretions vested in it by this Deed (including the power vested in it by virtue of clause 7) in such manner, upon such terms, and to such persons as the Security Agent may think fit.

11 Notices

The provisions of clause 17.1 of the Loan Agreement shall apply mutatis mutandis in respect of any certificate, notice, demand or other communication given or made under this Deed.

12 Counterparts

This Deed may be entered into in the form of counterparts, each executed by one of the parties, and, provided each of the parties shall so execute this Deed, each of the executed counterparts, when duly exchanged or delivered, shall be deemed to be an original but, taken together, they shall constitute one instrument.

13 Borrowers' obligations

Notwithstanding anything to the contrary contained in this Deed, the agreements, obligations and liabilities of the Borrowers herein contained are joint and several and shall be construed accordingly. The Borrowers agree and consent to be bound by this Deed notwithstanding that any other party who is intended to sign or to be bound may not do so or be effectually bound and notwithstanding that this Deed may be invalid or unenforceable against either Borrower whether or not the deficiency is known to the Security Agent. The Agent shall be at liberty to release either Borrower from this Deed and to compound with or otherwise vary and agree to vary the liability or to grant time and indulgence to make other arrangements with either Borrower without prejudicing or affecting the rights and remedies of the Security Agent against the other Borrower or increasing or otherwise affecting the nature of the obligations of the other Borrower.

14 Benefit of this Deed

This Deed shall be binding upon the Borrowers and their respective successors in title and shall enure for the benefit of the Security Agent and its successors in title and/or replacements. The Borrowers expressly acknowledge and accept the provisions of clause 16 of the Agreement and agree that any person who replaces the Security Agent in accordance with such clause shall be entitled to the benefit of this Deed.

15 Law and jurisdiction

15.1 Law

This Deed and any non-contractual obligations connected with this Deed are governed by, and shall be construed in accordance with, English law.

15.2 Submission to jurisdiction

For the benefit of the Security Agent, the parties hereto irrevocably agree that any legal action or proceedings in connection with this Deed (including any non-contractual obligations connected with this Deed) may be brought in the English courts, or in the courts of any other country chosen by the Security Agent, each of which shall have jurisdiction to settle any disputes arising out of or in connection with this Deed (including any non-contractual obligations connected with this Deed). The Borrowers irrevocably and unconditionally submit to the jurisdiction of the English courts and the courts of any country chosen by the Security Agent and irrevocably designate, appoint and empower Mr Antonis Nicolaou at present of 25 Heath Drive, Potters Bar, Herts EN6 1EN, England to receive, for them and on their behalf, service of process issued out of the English courts in any legal action or proceedings arising out of or in connection with this Deed (including any non-contractual obligations connected with this Deed). The submission to such jurisdiction shall not (and shall not be construed so as to) limit the right of the Security Agent to take proceedings against the Borrowers or either of them in any other court of competent jurisdiction nor shall the taking of proceedings in any one or more jurisdictions preclude the taking of proceedings in any other jurisdiction, whether concurrently or not.

The parties further agree that only the courts of England and not those of any other state shall have jurisdiction to determine any claim which the Borrowers may have against the Security Agent arising out of or in connection with this Deed (including any non-contractual obligations connected with this Deed).

15.3 Process Agent

If Mr Antonis Nikolaou appointed as agent for service of process by the Borrowers and referred to in clause 15.2 passes away or cannot be found or is otherwise unable for any reason to act or resigns as agent for service of process, the Borrowers hereby undertake within ten (10) days of such event taking place (and the Borrowers by way of security hereby irrevocably and unconditionally authorise the Security Agent to do so) to designate, appoint and empower on its behalf, Messrs Cheeswrights (currently of Bankside House, 107 Leadenhall Street, London EC3A 4AF, England) at their then principal place of business in London as substitute process agent of Mr Antonis Nikolaou or another agent on terms acceptable to the Security Agent.

15.4 Contracts (Rights of Third Parties) Act 1999

No term of this Deed shall be enforceable pursuant to the Contracts (Rights of Third Parties) Act 1999 by a person who is not a party to this Deed.

IN WITNESS whereof this Deed has been duly executed as a deed the day and year first above written.

Schedule 1

Form of Notice of Swap Assignment and Acknowledgement

To: Nordea Bank Finland Plc
2747 Securities Services
FIN-00020 Nordea, Helsinki
Finland
(as Swap Provider)

(Date)

We refer to the Master Swap Agreement dated [•] 2012 as amended by an ISDA Amendment Agreement dated [•] 2012 (together the "**Master Swap Agreement**") and made between ourselves and yourselves (the "**Swap Provider**").

NOW WE HEREBY GIVE YOU NOTICE:

- 1 that, by an Assignment dated Es] 2012 (the "**Assignment**") made between (1) us, Jemo Shipping Company Inc. and Mandaringina Inc. and (2) Nordea Bank Finland Plc, London Branch (the "**Assignee**"), we have assigned to the Assignee absolutely and charged with full title guarantee all our rights, title and interest to and in any moneys whatsoever payable to us under the Master Swap Agreement and all other rights and benefits whatsoever accruing to us under the Master Swap Agreement including (but without prejudice to the generality of the foregoing) all claims for damages in respect of any breach by the Swap Provider of the Master Swap Agreement (the "**Assigned Property**");
- 2 that the Swap Provider is hereby irrevocably authorised and instructed to pay such moneys as aforesaid to the bank accounts with account numbers [•] and [•] or to either of them, which we have opened with Nordea Bank Finland Plc, London Branch or to such other account as the Assignee may from time to time direct;
- 3 that the Swap Provider is hereby irrevocably authorised and instructed not to deal with the Assigned Property except on the instructions of the Assignee and to pay all moneys whatsoever now or at any time hereafter due or owing to us under or by virtue of the Assigned Property to the Assignee on request by the Assignee (whose receipt shall be full and sufficient discharge to you for such payment); and
- 4 that the said Assignment includes provisions that no variations shall be made to the Master Swap Agreement (nor shall the Swap Provider be released from the Swap Provider's obligations thereunder) without the previous written consent of the Assignee and the Assignee shall be under no obligation of any kind whatsoever in respect thereof.

The authority and instructions herein contained cannot be revoked or varied by us without the consent of the Assignee.

This letter and any non-contractual obligations connected with it are governed by English law.

duly authorised representative
for and on behalf of
JEMO SHIPPING COMPANY INC.
and
MANDARINGINA INC.

Dated: [•] 2012

To: Nordea Bank Finland Plc, London Branch

(as Security Agent)

Cc: Jemo Shipping Company Inc.

Mandaringina Inc.

We acknowledge receipt of the notice set out above and consent to the assignment referred to therein and, in consideration of US\$10 and other good and valuable consideration (the receipt and adequacy of which we hereby acknowledge), we hereby undertake with, and confirm to the Assignee as follows:

- (a) to pay all amounts due from us under the Master Swap Agreement in full in Dollars in accordance with the terms of the Master Swap Agreement to the bank accounts referred to in the said notice set out above or to the Assignee or its order;
- (b) to permit the Assignee to enforce all rights and benefits whatsoever accrued or accruing to Jemo Shipping Company Inc. and Mandaringina Inc. (together, the "**Borrowers**") under the Master Swap Agreement and for this purpose to take over or institute proceedings in respect thereof;
- (c) not, without the prior written consent of the Assignee, to agree to any variation of the Master Swap Agreement; and
- (d) that we have not received any notice of any prior charge, assignment or encumbrance over the Borrowers' right, title and interest in and to the Assigned Property or the Master Swap Agreement and hereby agree not to consent or agree to any other assignment of the Assigned Property or the Master Swap Agreement or the moneys payable by us thereunder and to advise you forthwith of any such attempted assignment, charge or disposal by the Borrowers or either of them that come to our attention.

This letter and any non-contractual obligations in connection with it are governed by English law.

duly authorised signatory
for and on behalf of

NORDEA BANK FINLAND PLC
(as Swap Provider)

Dated: [•] 2012

The Borrowers
EXECUTED as a **DEED**)
by)
for and on behalf of)
JEMO SHIPPING COMPANY INC.) Attorney-in-Fact
in the presence of:)
Witness
Name:
Address:
Occupation:
EXECUTED as a **DEED**)
by)
for and on behalf of)
MANDARINGINA INC.) Attorney-in-Fact
in the presence of:)
Witness
Name:
Address:
Occupation:
The Security Agent
EXECUTED as a **DEED**)
by)
for and on behalf of)
NORDEA BANK FINLAND PLC,) Attorney-in-Fact
LONDON BRANCH)
in the presence of:)
Witness
Name:
Address:
Occupation:

Schedule 6
Form of New Corporate Guarantee

Dated **June 2012**

DIANA SHIPPING (1)

and

NORDEA BANK FINLAND PLC, LONDON (2)

CORPORATE GUARANTEE

NORTON ROSE

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THIS GUARANTEE is dated

June 2012 and made **BETWEEN:**

- (1) **DIANA SHIPPING INC.** (the "Guarantor"); and
- (2) **NORDEA BANK FINLAND PLC, LONDON BRANCH** as security agent and trustee for and on behalf of the Secured Creditors (as defined below) (the "Security Agent").

WHEREAS:

- (A) by a loan agreement dated 7 February 2012 as amended and restated by a supplemental agreement dated June 2012 (together the "Agreement") providing for (inter alia) an increase of the loan amount, and made between (1) Jemo Shipping Company Inc. and Mandaringina Inc. as joint and several borrowers (therein referred to as the "Borrowers"), (2) Nordea Bank Finland Plc, London Branch as arranger, agent (in such capacity the "Agent"), Security Agent and account bank, (3) Nordea Bank Finland Plc as swap provider (in such capacity the "Swap Provider") and (4) the banks and financial institutions referred to in schedule 1 thereto as lenders (the "Banks" and, together with the Agent and the Swap Provider, the "Secured Creditors"), the Banks agreed (inter alia) to make available to the Borrowers, upon the terms and conditions therein contained, a term loan of up to \$26,450,000;
- (B) by an ISDA master swap agreement dated as of 7 February 2012 made between Jemo Shipping Company Inc. and the Swap Provider as amended by an ISDA amendment agreement dated June 2012 made between the Borrowers and the Swap Provider (together the "Master Swap Agreement") (comprising an ISDA Master Agreement (including the Schedule thereto and a credit support annex thereto), the Confirmations (as defined therein) supplemental thereto and any Transactions governed thereby), the Swap Provider agreed the terms and conditions upon which it would enter into (inter alia) one or more interest rate swap or other derivative transactions with the Borrowers in respect of the Loan, whether in whole or in part (as the case may be) from time to time, or otherwise;
- (C) pursuant to clause 16.14 of the Agreement, each of the Secured Creditors has **appointed** the Security Agent as its security agent and trustee and pursuant to a Trust Deed dated 7 February 2012 and executed by the Security Agent (as trustee) in favour of the Secured Creditors, the Security Agent agreed to hold, receive, administer and enforce this Guarantee for and on behalf of itself and the Secured Creditors; and
- (D) the execution and delivery of this Guarantee (referred to as the Corporate Guarantee in the Agreement) is one of the conditions precedent to each of the Banks making its Commitment available under the Agreement.

IT IS AGREED as follows:

1 **Interpretation**

1.1 **Defined expressions**

In this Guarantee, unless the context otherwise requires or unless otherwise defined in this Guarantee, words and expressions defined in the Agreement and used in this Guarantee shall have the same meanings where used in this Guarantee.

1.2 **Definitions**

In this Guarantee, unless the context otherwise requires:

"Accounting Information" means (a) the annual audited consolidated financial statements of the Group and (b) the quarterly unaudited consolidated financial statements of the Group, each as provided or (as the context may require) to be provided to the Security Agent in accordance with clause 5.1.4 (and each including, without limitation, a balance sheet, a statement of income and a statement of cash flows and accompanying notes thereto);

"Accounting Period" means (a) each financial year of the Guarantor and (b) each financial quarter of each financial year of the Guarantor, for which Accounting Information is required to be delivered pursuant to this Guarantee;

"Agent" includes its successors in title and its replacements;

"Applicable Accounting Principles" means the most recent and up-to-date US GAAP applicable at any relevant time;

"Banks" includes their respective successors in title and Transferee Banks;

"Borrowed Money" means Indebtedness in respect of (a) money borrowed or raised and debit balances at banks, (b) any bond, note, loan stock, debenture or similar debt instrument, (c) acceptance or documentary credit facilities, (d) receivables sold or discounted (otherwise than on a non-recourse basis), (e) deferred payments for assets or services acquired excluding any sum payable to any trade creditors of any member of the Group or any Fleet Vessel arising in the ordinary course of business, (f) finance leases and hire purchase contracts, (g) swaps, forward exchange contracts, futures and other derivatives (and if the agreement under which any such transaction is entered requires netting of mutual liabilities, the Indebtedness, for the net amount shall be taken into account as calculated on a "marked to market" basis), (h) any other transaction (including without limitation forward sale or purchase agreements) having the commercial effect of a borrowing or raising of money or of any of (b) to (i) above and (i) guarantees in respect of Indebtedness of any person falling within any of (a) to (h) above;

"Cash and Cash Equivalents" means, at any relevant time:

- (a) cash in hand legally and beneficially owned by any member of the Group; and
- (b) cash deposits legally and beneficially owned by any member of the Group and which are deposited with (i) any of the Banks, (ii) any other prime deposit taking institution or (iii) any other lender or financial institution approved by the Security Agent,

which in each case:

- (i) is free from any Encumbrance; and
- (ii) is otherwise at the free and unrestricted disposal of the relevant member of the Group by which it is owned,

Provided however that restricted cash of the Group which represents minimum liquidity required to be maintained under borrowing arrangements shall be taken into account as "Cash and Cash Equivalents" if and for as long as it is free from Encumbrances;

"Collateral Instruments" means notes, bills of exchange, certificates of deposit and other negotiable and non-negotiable instruments, guarantees, indemnities and other assurances against financial loss and any other documents or instruments which contain or evidence an obligation (with or without security) to pay, discharge or be responsible directly or indirectly for, any indebtedness or liabilities of the Borrowers or either of them or any other person liable and includes any documents or instruments creating or evidencing a mortgage, charge (whether fixed or floating), pledge, lien, hypothecation, assignment, trust arrangement or security interest of any kind;

"Compliance Certificate" means a certificate in the form set out in schedule 1;

"Equity Ratio" means, at any relevant time, the ratio of (a) the Shareholders' Equity to (b) the Total Assets;

"Fleet Market Value" means, as of the date of calculation, the aggregate market value of:

- (a) the Ship, as most recently determined pursuant to valuations obtained by the Agent (at the cost of the Borrowers) and made in accordance with the provisions of clauses 8.1.6 and/or 8.2.2 of the Agreement; and
- (b) all other Fleet Vessels (other than the Ship), as shown in the then most recent Compliance Certificate delivered to the Security Agent, unless the Security Agent has obtained valuations of the Fleet Vessels under clause 5.1.5 (at the cost of the Guarantor) following the delivery of, and in relation to that Compliance Certificate, in which case the market value of the Fleet Vessels (other than the Ship) shall be that determined by the Security Agent pursuant to such valuations;

"Fleet Vessels" means all the vessels (including, but not limited to, the Ship, but excluding vessels under construction which are not yet delivered to a member of the Group) from time to time owned by the members of the Group and **"Fleet Vessel"** means any of them;

"Group" means, together, the Guarantor and its Subsidiaries from time to time (which, for the avoidance of doubt, includes the Borrowers) and **"member of the Group"** shall only mean the Guarantor or any of its Subsidiaries (and, for the avoidance of doubt, it is hereby clarified that Diana Containerships Inc. of the Republic of the Marshall Islands and its own Subsidiaries from time to time are not part of the Group);

"Guarantee" includes each separate or independent stipulation or agreement by the Guarantor contained in this Guarantee;

"Guaranteed Liabilities" means all moneys, obligations and liabilities expressed to be guaranteed by the Guarantor in clause 2.1;

"Guarantor" includes the successors in title of the Guarantor;

"Incapacity" means, in relation to a person, the death, bankruptcy, unsoundness of mind, insolvency, liquidation, dissolution, winding-up, administration, receivership, amalgamation, reconstruction or other incapacity of that person whatsoever (and, in the case of a partnership, includes the termination or change in the composition of the partnership);

"Master Swap Agreement" means the ISDA Master Agreement dated 7 February 2012 made between Jemo Shipping Company Inc. and the Swap Provider as amended by an ISDA amendment agreement dated June 2012, made between the Borrowers and the Swap Provider mentioned in recital (B) hereto and comprising an ISDA Master Swap Agreement (including the Schedule thereto and a credit support annex thereto) together with any Confirmations (as defined therein) supplemental thereto and governed thereby and any Transactions governed thereby;

"Material Adverse Effect" means a material adverse effect:

- (a) on the business, assets, nature of assets, operations, prospects, liabilities or condition (financial or otherwise) of any Security Party, any member of the Group or the Group as a whole; or
- (b) on the ability of any of the Borrowers, the Guarantor, the Manager or any other Security Party to comply with any of their respective obligations under the Security Documents or any of them; or
- (c) on the legality, validity or enforceability of any of the Security Documents or any of the rights or remedies of the Creditors or any of them thereunder;

"Relevant Jurisdiction" means any jurisdiction in which or where the Guarantor is incorporated, resident, domiciled, has a permanent establishment, carries on, or has a place of business or is otherwise effectively connected;

"Security Agent" includes the successors in title and replacements of the Security Agent;

"Shareholders' Equity" means, at any time, the shareholders' equity for the Group as shown in the then most recent Accounting Information, adjusted at any relevant time to take account of the difference between the aggregate book values of the Fleet Vessels and the Fleet Market Value;

"Swap Provider" includes the successors in title of the Swap Provider;

"Tangible Net Worth" means, as at any relevant time, the issued share capital of the Guarantor plus reserves of the Group, each as shown in the then most recent Accounting Information but:

- (a) after adding any credit balance on the Guarantor's relevant consolidated profit and loss account (known as "Retained Earnings"); and
- (b) after subtracting:
 - (iii) any debit balance on the Guarantor's relevant consolidated profit and loss account (known as "Retained Losses");
 - (iv) any amount shown in the relevant Accounting Information for goodwill, including on consolidation, or any other intangible property;
 - (v) distributions or proposed distributions not provided for in the relevant Accounting Information; and
 - (vi) in the event that the Fleet Market Value is less than the book values of the Fleet Vessels as shown in the relevant Accounting Information, the relevant shortfall; and

"Total Assets" means, at any time, the total assets of the Group (as shown in, and calculated in accordance with, the then most recent Accounting Information) adjusted at any relevant time to take account of the difference between the aggregate book values of the Fleet Vessels and the Fleet Market Value.

1.3 Headings

Clause headings and the table of contents are inserted for convenience of reference only and shall be ignored in the interpretation of this Guarantee.

1.4 Construction of certain terms

Clause 1.4 of the Agreement shall apply to this Guarantee as if set out herein.

2 Guarantee

2.1 Covenant to pay

In consideration of (a) the Banks making or continuing loans or advances to, or otherwise giving credit or granting banking facilities or accommodation or granting time to, the Borrowers pursuant to the Agreement, (b) the Swap Provider agreeing to enter into the Master Swap Agreement with the Borrowers and (c) other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by the Guarantor, the Guarantor hereby irrevocably and unconditionally guarantees to pay to the Security Agent, for the account of the Secured Creditors, on demand by the Security Agent all moneys and discharge all obligations and liabilities now or hereafter due, owing or incurred by the Borrowers or either of them to the Secured Creditors or any of them under or pursuant to the Agreement, the Master Swap Agreement and the other Security Documents or any of them, when the same become due for payment or discharge whether by acceleration or otherwise, and whether such moneys, obligations or liabilities are express or implied, present, future or contingent, joint or several,

incurred as principal or surety, originally owing to the Secured Creditors or any of them or purchased or otherwise acquired by any of them, denominated in Dollars or in any other currency, or incurred on any banking account or in any other manner whatsoever.

Such liabilities shall, without limitation, include interest (as well after as before judgment) to date of payment at such rates and upon such terms as may from time to time be agreed, commission, fees and other charges and all legal and other costs, charges and expenses on a full and unqualified indemnity basis which may be incurred by the Secured Creditors or any of them in relation to any such moneys, obligations or liabilities or generally in respect of the Borrowers or either of them, the Guarantor or any Collateral Instrument.

2.2 Guarantor as principal debtor; indemnity

As a separate and independent stipulation, the Guarantor agrees that if any purported obligation or liability of the Borrowers or either of them which would have been the subject of this Guarantee had it been valid and enforceable is not or ceases to be valid or enforceable against the Borrowers or either of them on any ground whatsoever whether or not known to the Security Agent and/or the Secured Creditors or any of them (including, without limitation, any irregular exercise or absence of any corporate power or lack of authority of, or breach of duty by, any person purporting to act on behalf of the Borrowers or either of them or any legal or other limitation, whether under the Limitation Acts or otherwise or any disability or Incapacity or any change in the constitution of the Borrowers) the Guarantor shall nevertheless be liable to the Security Agent in respect of that purported obligation or liability as if the same were fully valid and enforceable and the Guarantor were the principal debtor in respect thereof. The Guarantor hereby agrees to keep the Security Agent fully indemnified on demand against all damages, losses, costs and expenses arising from any failure of the Borrowers or either of them to perform or discharge any such purported obligation or liability.

2.3 Statements of account conclusive

Any statement of account, signed as correct by an officer of the Security Agent, showing the amount of the Guaranteed Liabilities shall, in the absence of manifest error, be *prima facie* evidence against the Guarantor.

2.4 No security taken by Guarantor

The Guarantor warrants that it has not taken or received, and undertakes that until all the Guaranteed Liabilities of the Borrowers have been paid or discharged in full, it will not take or receive, **the** benefit of any security from the Borrowers or either of them or any other person in respect of its obligations under this Guarantee.

2.5 Interest

The Guarantor agrees to pay interest on each amount demanded of it under this Guarantee from the date of such demand until payment (as well after as before judgment) at the rate specified in clause 3.4 of the Agreement which shall apply to this Guarantee *mutatis mutandis*. Such interest shall be compounded at the end of each period determined for this purpose by the Security Agent in the event of it not being paid when demanded but without prejudice to any Secured Creditor's right to require payment of such interest.

2.6 Continuing security and other matters

This Guarantee shall:

- 2.6.1 secure the ultimate balance from time to time owing to the Secured Creditors or any of them by the Borrowers or either of them and shall be a continuing security, notwithstanding any settlement of account or other matter whatsoever;
- 2.6.2 be in addition to any present or future Collateral Instrument, right or remedy held by or available to the Security Agent or any of the Secured Creditors; and

2.6.3 not be in any way prejudiced or affected by the existence of any such Collateral Instrument, rights or remedies or by the same becoming wholly or in part void, voidable or unenforceable on any ground whatsoever or by the Security Agent or any of the Secured Creditors dealing with, exchanging, varying or failing to perfect or enforce any of the same or giving time for payment or indulgence or compounding with any other person liable.

2.7 **Liability unconditional**

The liability of the Guarantor shall not be affected nor shall this Guarantee be discharged or reduced by reason of:

- 2.7.1 the Incapacity or any change in the name, style or constitution of the Borrowers or either of them or any other person liable;
- 2.7.2 the Security Agent or any of the Secured Creditors granting any time, indulgence or concession to, or compounding with, discharging, releasing or varying the liability of, the Borrowers or any other person liable or renewing, determining, varying or increasing any accommodation, facility or transaction or otherwise dealing with the same in any manner whatsoever or concurring in, accepting or varying any compromise, arrangement or settlement or omitting to claim or enforce payment from the Borrowers or either of them or any other person liable; or
- 2.7.3 any act or omission which would have discharged or affected the liability of the Guarantor had it been a principal debtor instead of a guarantor or by anything done or omitted which but for this provision might operate to exonerate the Guarantor.

2.8 **Collateral Instruments**

Neither the Security Agent nor any of the Secured Creditors shall be obliged to make any claim or demand on the Borrowers or either of them or to resort to any Collateral Instrument or other means of payment now or hereafter held by or available to it before the Security Agent enforcing this Guarantee and no action taken or omitted by the Security Agent or any of the Secured Creditors in connection with any such Collateral Instrument or other means of payment shall discharge, reduce, prejudice or affect the liability of the Guarantor under this Guarantee nor shall the Security Agent or any of the Secured Creditors be obliged to apply any moneys or other property received or recovered in consequence of any enforcement or realisation of any such Collateral Instrument or other means of payment in reduction of the Guaranteed Liabilities.

2.9 **Waiver of Guarantor's rights**

Until all the Guaranteed Liabilities have been paid, discharged or satisfied in full (and notwithstanding payment of a dividend in any liquidation or under any compromise or arrangement) the Guarantor agrees that, without the prior written consent of the Security Agent (acting on the instructions of the Majority Banks), it will not:

- 2.9.1 exercise its rights of subrogation, reimbursement and indemnity against the Borrowers or either of them or any other person liable;
- 2.9.2 demand or accept repayment in whole or in part of any Indebtedness now or hereafter due to the Guarantor from the Borrowers or either of them or from any other person liable or demand or accept any Collateral Instrument in respect of the same or dispose of the same;
- 2.9.3 take any step to enforce any right against the Borrowers or either of them or any other person liable in respect of any Guaranteed Liabilities; or
- 2.9.4 claim any set-off or counterclaim against the Borrowers or either of them or any other person liable or claim or prove in competition with the Security Agent or any of the Secured Creditors in the liquidation of the Borrowers or either of them or any other person liable or have the benefit of, or share in, any payment from or composition with the Borrowers or either of them or any other person liable or any other Collateral Instrument now or hereafter

held by the Security Agent or any of the Secured Creditors for any Guaranteed Liabilities or for the obligations or liabilities of any other person liable but so that, if so directed by the Security Agent, it will prove for the whole or any part of its claim in the liquidation of the Borrowers or either of them or any other person liable on terms that the benefit of such proof and of all money received by it in respect thereof shall be held on trust for the Security Agent and applied in or towards discharge of the Guaranteed Liabilities in such manner as the Security Agent shall deem appropriate.

2.10 Suspense accounts

Any moneys received in connection with this Guarantee (whether before or after any Incapacity of the Borrowers or either of them or the Guarantor) may be placed to the credit of a suspense account with a view to preserving the rights of the Security Agent or any of the Secured Creditors to prove for the whole of its claims against the Borrowers or either of them or any other person liable or may be applied in or towards satisfaction of such of the Guaranteed Liabilities as the Security Agent may from time to time conclusively determine in its absolute discretion.

2.11 Settlements conditional

Any release, discharge or settlement between the Guarantor and the Security Agent or any of the Secured Creditors shall be conditional upon no security, disposition or payment to the Security Agent or any of the Secured Creditors by the Borrowers or either of them or any other person liable being void, set aside or ordered to be refunded pursuant to any enactment or law relating to bankruptcy, liquidation, administration or insolvency or for any other reason whatsoever and if such condition shall not be fulfilled the Security Agent shall be entitled to enforce this Guarantee subsequently as if such release, discharge or settlement had not occurred and any such payment had not been made.

2.12 Guarantor to deliver up certain property

If, contrary to clauses 2.4 or 2.9, the Guarantor takes or receives the benefit of any security or receives or recovers any money or other property, such security, money or other property shall be held on trust for the Security Agent and shall be delivered to the Security Agent on demand.

2.13 Retention of this Guarantee

The Security Agent shall be entitled to retain this Guarantee after as well as before the payment or discharge of all the Guaranteed Liabilities for such period as the Security Agent may determine.

3 Payments and Taxes

3.1 No set off or counterclaim

All payments to be made by the Guarantor under this Guarantee shall be made in full, without any set-off or counterclaim whatsoever and, subject as provided in clause 3.2, free and clear of any deductions or withholdings, in Dollars on the due date to such account of the Security Agent as it may specify in writing to the Guarantor from time to time.

3.2 Grossing up for Taxes

If at any time the Guarantor is required to make any deduction or withholding in respect of Taxes from any payment due under this Guarantee for the account of the Security Agent (or if the Security Agent is required to make any such deduction or withholding from a payment to a Secured Creditor of moneys received under this Guarantee), the sum due from the Guarantor in respect of such payment shall be increased to the extent necessary to ensure that, after the making of such deduction or withholding, the Security Agent or, as the case may be, such Secured Creditor receives on the due date for such payment (and retains, free from any liability in respect of such deduction or withholding) a net sum equal to the sum which it would have

received had no such deduction or withholding been required to be made and the Guarantor shall indemnify the Security Agent against any losses or costs incurred by it by reason of any failure of the Guarantor to make any such deduction or withholding or by reason of any increased payment not being made on the due date for such payment. The Guarantor shall promptly deliver to the Security Agent any receipts, certificates or other proof evidencing the amounts (if any) paid or payable in respect of any deduction or withholding as aforesaid.

3.3 Currency indemnity

If any sum due from the Guarantor under this Guarantee or any order or judgment given or made in relation hereto has to be converted from the currency (the "**first currency**") in which the same is payable under this Guarantee or under such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Guarantor, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to this Guarantee, the Guarantor shall indemnify and hold harmless the Security Agent from and against any loss suffered as a result of any difference between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which the Security Agent may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof. Any amount due from the Guarantor under this clause 3.3 shall be due as a separate debt and shall not be affected by judgment being obtained for any other sums due under or in respect of this Guarantee and the term "**rate of exchange**" includes any premium and costs of exchange payable in connection with the purchase of the first currency with the second currency.

4 Representations and warranties

4.1 Continuing representations and warranties

The Guarantor represents and warrants to the Security Agent that:

4.1.1 Due incorporation

the Guarantor is duly incorporated and validly existing in good standing under the laws of the Republic of the Marshall Islands as a Marshall Islands corporation and has power to carry on its business as it is now being conducted and to own its property and other assets;

4.1.2 Corporate power

the Guarantor has power to execute, deliver and perform its obligations under this Guarantee; all necessary corporate, shareholder and other action has been taken to authorise the execution, delivery and performance of the same and no limitation on the powers of the Guarantor to borrow or give guarantees will be exceeded as a result of this Guarantee;

4.1.3 Binding obligations

this Guarantee constitutes valid and legally binding obligations of the Guarantor enforceable in accordance with its terms;

4.1.4 No conflict with other obligations

the execution and delivery of, the performance of its obligations under, and compliance with the provisions of, this Guarantee by the Guarantor will not:

(a) contravene any existing applicable law, statute, rule or regulation or any judgment, decree or permit to which the Guarantor is subject; or

- (b) conflict with, or result in any breach of any of the terms of, or constitute a default under, any agreement or other instrument to which the Guarantor is a party or is subject or by which it or any of its property is bound; or
- (c) contravene or conflict with any provision of the constitutional documents of the Guarantor; or
- (d) result in the creation or imposition of or oblige the Guarantor to create any Encumbrance (other than a Permitted Encumbrance) on any of the undertaking, assets, rights or revenues of the Guarantor;

4.1.5 No litigation

no litigation, arbitration or administrative proceeding is taking place, pending or, to the knowledge of the officers of the Guarantor, threatened against the Guarantor or any other member of the Group or any other Security Party which could have a Material Adverse Effect;

4.1.6 No filings required

it is not necessary to ensure the legality, validity, enforceability or admissibility in evidence of this Guarantee that it or any other instrument be notarised, filed, recorded, registered or enrolled in any court, public office or elsewhere in any Relevant Jurisdiction or that any stamp, registration or similar tax or charge be paid in any Relevant Jurisdiction on or in relation to this Guarantee and this Guarantee is in proper form for its enforcement in the courts of each Relevant Jurisdiction;

4.1.7 Choice of law

the choice of English law to govern this Guarantee and the submission by the Guarantor to the non-exclusive jurisdiction of the English courts are valid and binding;

4.1.8 No immunity

the Guarantor is subject to civil and commercial law with respect of its obligations under this Guarantee and the transactions contemplated thereby constitute private and commercial acts done for private and commercial purposes and neither the Guarantor nor any of its assets is entitled to immunity on the grounds of sovereignty or otherwise from any legal action or proceeding (which shall include, without limitation, suit, attachment prior to judgement, execution or other enforcement);

4.1.9 Consents obtained

every consent, authorisation, licence or approval of, or registration with or declaration to, governmental or public bodies or authorities or courts required by the Guarantor to authorise, or required by the Guarantor in connection with, the execution, delivery, validity, enforceability or admissibility in evidence of this Guarantee or the performance by the Guarantor of its obligations under this Guarantee has been obtained or made and is in full force and effect and there has been no default in the observance of any of the conditions or restrictions (if any) imposed in, or in connection with, this Guarantee;

4.1.10 Financial statements correct and complete

the unaudited consolidated financial statements of the Group in respect of the financial year ended on 31 December 2010 as delivered to the Agent, have been prepared in accordance with the Applicable Accounting Principles which have been consistently applied and present fairly and accurately the consolidated financial position of the Group as at the date they were prepared and the consolidated results of the operations of the Group for the financial period ended on such date and, as at such date, neither the Guarantor nor any other member of the Group had any significant liabilities (contingent or otherwise) or any unrealised or anticipated

losses which are not disclosed by, or reserved against or provided for in, such financial statements;

4.1.11 Shareholdings

each of the Borrowers is a wholly owned direct Subsidiary of the Guarantor;

4.1.12 Compliance with laws and regulations

the Guarantor is in compliance with the terms and conditions of all laws, regulations, agreements, licences and concessions material to the carrying on of its business (including in relation to Taxation);

4.1.13 No Material Adverse Effect

no events, conditions, facts or circumstances exist or have arisen or occurred since 31 December 2010, which have had or could reasonably be expected to have a Material Adverse Effect; and

4.1.14 Taxation

- (a) the Guarantor is not (and no other member of the Group is) overdue in the filing of any tax returns and the Guarantor is not (and no other member of the Group is) overdue in the payment of any amounts in respect of Taxes (or its equivalent in any other currency);
- (b) no claims or investigations are being, or are reasonably likely to be, made or conducted against the Guarantor (or any other member of the Group) with respect to Taxes; and
- (c) the Guarantor (and each other member of the Group) is resident for taxation purposes only in the jurisdiction of its incorporation.

4.2 Initial representations and warranties

The Guarantor further represents and warrants to the Security Agent that:

4.2.1 Pari passu and subordinated indebtedness

- (a) the obligations of the Guarantor under this Guarantee are direct, general and unconditional obligations of the Guarantor and rank at least pari passu with all other present and future unsecured and unsubordinated Indebtedness of the Guarantor except for obligations which are mandatorily preferred by operation of law and not by contract; and
- (b) any Indebtedness of the Guarantor owing to any of its shareholders or other members of the Group is subordinated in all respects to the Guarantor's obligations under this Guarantee;

4.2.2 No default under other Indebtedness

the Guarantor is not (nor would with the giving of notice or lapse of time or the satisfaction of any other condition or combination thereof be) in breach of or in default under any agreement relating to Indebtedness to which it is a party or by which it may be bound;

4.2.3 Information

the information, exhibits and reports furnished by the Guarantor to the Creditors or any of them in connection with the negotiation and preparation of this Guarantee are true and accurate in all material respects and not misleading, do not omit material facts and all reasonable enquiries have been made to verify the facts and statements contained therein;

there are no other facts the omission of which would make any fact or statement therein misleading;

4.2.4 No withholding Taxes

no Taxes are imposed by withholding or otherwise on any payment to be made by the Guarantor under this Guarantee or are imposed on or by virtue of the execution or delivery by the Guarantor of this Guarantee or any other document or instrument to be executed or delivered under this Guarantee; and

4.2.5 No Default

no Default has occurred and is continuing.

4.3 Repetition of representations and warranties

On and as of each Drawdown Date and (except in relation to the representations and warranties in clause 4.2) on each Interest Payment Date, the Guarantor shall:

4.3.1 be deemed to repeat the representations and warranties in clauses 4.1 and 4.2 as if made with reference to the facts and circumstances existing on such day; and

4.3.2 be deemed to further represent and warrant to the Security Agent that the then latest audited consolidated financial statements of the Group delivered to the Security Agent under this Guarantee (if any) have been prepared in accordance with the Applicable Accounting Principles which have been consistently applied and present fairly and accurately the consolidated financial position of the Group as at the end of the financial period to which the same relate and the consolidated results of the operations of the Group for the financial period to which the same relate and, as at the end of such financial period, neither the Guarantor nor any other member of the Group nor the Group as a whole had any significant liabilities (contingent or otherwise) or any unrealised or anticipated losses which are not disclosed by, or reserved against or provided for in, such financial statements.

5 Undertakings

5.1 General

The Guarantor undertakes with the Security Agent that, from the date of this Guarantee and so long as any moneys are owing, whether actually or contingently, under any of the Security Documents (including this Guarantee) and while all or any part of the Total Commitment remains outstanding, it will:

5.1.1 Notice of Default and other events

promptly inform the Security Agent of any occurrence of which it becomes aware which might adversely affect the ability of any Security Party to perform its obligations under any of the Security Documents or the Underlying Documents and, without limiting the generality of the foregoing and without prejudice to clause 5.1.5, will inform the Security Agent of any Default, forthwith upon becoming aware thereof and will from time to time, if so requested by the Security Agent, confirm to the Security Agent in writing that, save as otherwise stated in such confirmation, no Default has occurred and is continuing;

5.1.2 Consents and licences - compliance with laws and regulations

(a) without prejudice to clauses 4.1 of this Guarantee, obtain or cause to be obtained, maintain in full force and effect and comply in all material respects with the conditions and restrictions (if any) imposed in, or in connection with, every consent, authorisation, licence or approval of governmental or public bodies or authorities or courts and do, or cause to be done, all other acts and things which may from time to time be necessary or

desirable under applicable law for the continued due performance of all the obligations of the Guarantor under this Guarantee; and

- (b) comply with all laws, regulations, agreements, licences and concessions material to the carrying on of its business (including in relation to Taxation);

5.1.3 Pari passu and subordination

without prejudice to the provisions of clause 5.2, ensure that:

- (a) its obligations under this Guarantee shall, without prejudice to the provisions of clause 5.2 and the security created or intended to be created by the Security Documents to which it is or is to be a party, at all times rank at least pari passu with all its other present and future unsecured and unsubordinated Indebtedness with the exception of any obligations which are mandatorily preferred by law and not by contract; and
- (b) its Indebtedness (if any) to its shareholders or its Related Companies is on terms acceptable to the Security Agent in its absolute discretion and is and shall remain at all times fully subordinated towards its obligations under this Guarantee;

5.1.4 Financial statements

prepare or cause to be prepared:

- (a) audited consolidated financial statements of the Group (comprising a balance sheet statement, an income statement, a cash flow analysis and accompanying notes) in accordance with the Applicable Accounting Principles consistently applied in respect of each financial year (namely, each 12-month period ending on 31 December of each calendar year) and cause the same to be reported on by the Group's auditors;
- (b) unaudited consolidated financial statements of the Group (comprising a balance sheet statement, an income statement, a cash flow analysis and accompanying notes) on the same basis as the annual statements in respect of each financial quarter of each financial year (namely, each 3-month, 6-month, 9-month and 12-month period ending on 31 March, 30 June, 30 September and 31 December, respectively, of each calendar year) (including on a year to date basis),

and, in each case, deliver to the Security Agent as many copies of the same as the Security Agent may reasonably require as soon as practicable but not later than:

- (i) in the case of audited financial statements, one hundred and eighty (180) days after the end of the financial period to which they relate (namely, not later than 30 June of each calendar year); and
- (ii) in the case of unaudited financial statements, ninety (90) days after the end of the financial period to which they relate (namely, not later than 31 March, 30 June, 30 September and 31 December, respectively, of each calendar year); and

5.1.5 Valuations and Compliance Certificate

- (a) deliver to the Security Agent in sufficient copies for all the Banks, a Compliance Certificate (including any supporting schedules or other information and evidence as the Agent may require) for the relevant Accounting Periods executed by a director and an authorised signatory of the Borrowers and by a director and an authorised signatory of the Guarantor, at the time when any unaudited or audited consolidated financial statements of the Group are delivered to the Agent and/or the Security Agent in accordance with clause 8.1.5 of *the Agreement* and/or clause 5.1.4 of this Guarantee (namely, not later than 31 March, 30 June, 30 September and 31 December of each calendar year) and, if a Default has occurred, at any other time as and when the Security Agent in its absolute discretion shall require;

- (b) in the event that, in the Security Agent's opinion (acting on the instructions of the Majority Banks in their absolute discretion) the Fleet Market Value set out in any Compliance Certificate delivered to the Agent and/or the Security Agent delivered under paragraph (a) above, is likely not to reflect the then fair market value of the Fleet Vessels, following the Agent's and/or the Security Agent's written request, deliver or cause to be delivered to the Agent and/or the Security Agent a valuation (dated not earlier than 30 days previously) of each Fleet Vessel (other than the Ship) prepared in accordance with, and in the manner specified in, clause 5.3.3 of this Guarantee (at the cost of the Guarantor).

5.1.6 Delivery of reports

deliver to the Security Agent sufficient copies for all the Banks of every report, circular, notice or like document issued by the Guarantor to its shareholders or creditors generally (including filings and reports to any relevant authorities pertaining to the listing of its shares, including NYSE or the SEC of the U.S.A.);

5.1.7 Provision of further information

provide the Security Agent with such financial or other information concerning the Borrowers, the other Security Parties, any other Relevant Parties, the Fleet Vessels, the Group and its members and their respective affairs (including, without limitation, financial projections of the Group on an annual consolidated basis) as the Security Agent may from time to time reasonably require and keep the Security Agent advised regularly of all major financial developments in relation to the Borrowers, the other Security Parties, any other Relevant Parties, the Group and its members including, without prejudice to the generality of the foregoing, any vessels' sales or purchases and any new borrowings (except if and to the extent that the same have already been included in the documents provided to the Security Agent under clause 5.1.6); and

5.1.8 Shareholdings

be at all times the legal and beneficial owner of 100% of (i) the total issued share capital and (ii) the total issued voting share capital of each Borrower.

5.2 Negative undertakings

The Guarantor undertakes with the Security Agent that, from the date of this Guarantee and so long as any moneys are owing under the Security Documents and while all or any part of the Total Commitment remains outstanding, it will not, without the prior written consent of the Security Agent (acting on the instructions of the Majority Banks):

5.2.1 Negative pledge

create, cause or permit any Encumbrance (and, for the avoidance of doubt, the granting of guarantees does not constitute an Encumbrance) to subsist, arise or be created or extended over all or any part of its present or future undertaking, assets, rights or revenues or over the shares of the Borrowers, to secure or prefer any present or future Indebtedness or other liability or obligation of any Security Party or any other person (and, for the avoidance of doubt, the undertaking, assets, rights and revenues of the Guarantor's Subsidiaries (except for the shares of the Borrowers) shall not be deemed included in the undertakings, assets, rights and revenues of the Guarantor for the purposes of this clause 5.2.1) **Provided however that** this clause 5.2.1 shall not limit the ability of the Guarantor to create Encumbrances over any shares of the Guarantor's Subsidiaries (other than the Borrowers);

5.2.2 No merger

merge or consolidate with any other person or enter into any demerger, amalgamation or any corporate reconstruction or redomiciliation of any kind;

5.2.3 Other business

undertake any business other than that conducted by it at the date of this Guarantee;

5.2.4 Share capital and distribution

purchase or otherwise acquire for value any shares of its capital or declare or pay any dividends or distribute any of its present or future assets, undertaking, rights or revenues to any of its shareholders, if at the time of any such action an Event of Default has occurred, or if an Event of Default would occur as a result of the same; and

5.2.5 Financial year, auditors and constitutional documents

(a) change, cause, permit or agree to any change in, the way of computation of its financial year;

(b) change, permit or agree to any change of its auditors from those existing on the date of this Guarantee; or

(c) change, amend or vary, or agree to or permit any change, amendment or variation of or to:

(i) its constitutional documents (except for amendments or variations made by the Guarantor for the purposes of any follow-on offering or further equity issuance through the capital markets, and then only such amendments or variations as are customary or necessary for such purpose and appropriate to a public company and provided that any such amendments or variations shall be notified by the Guarantor to the Security Agent in writing shortly after they are made); or

(ii) its corporate or legal name.

5.3 Financial undertakings and valuations

5.3.1 The Guarantor undertakes with the Security Agent that, from the date of this Guarantee and so long as any moneys are owing under the Security Documents and while all or any part of the Total Commitment remains outstanding, it will *ensure* that:

(a) Cash and Cash Equivalents

the aggregate amount of Cash and Cash Equivalents held in the Group on a consolidated basis shall at all times be not less than \$500,000 per Fleet Vessel;

(b) Equity Ratio

the Equity Ratio shall not at any time be lower than 0.25:1.00; and

(c) Tangible Net Worth

the Tangible Net Worth at all times shall be not less than \$150,000,000;

5.3.2 Interpretation

(a) For the purposes of this clause 5.3, all the terms defined in clause 1.2 and used in this clause 5.3 or any other provision of the Security Documents, and other accounting terms used in this clause 5.3, are to be determined on a consolidated basis in respect of the Group, and (except as items are expressly included or excluded in the relevant definition or provision) are used and shall be construed in accordance with the Applicable Accounting Principles consistently applied and as determined from any relevant Accounting Information, Compliance Certificate or any other information available to the Security Agent and/or the Agent at any relevant time.

- (b) The compliance of the Guarantor with the undertakings set out in clause 5.3.1 shall be determined by the Security Agent in its sole discretion on the basis of calculations made by the Security Agent and/or the Agent whether or not, at that time, any relevant Accounting Information or Compliance Certificate which is due to be delivered, has been actually delivered to the Agent and/or the Security Agent pursuant to clause 5.1.4 of this Guarantee or clause 8.1.5 of the Agreement.
- (c) Without prejudice to the other terms of this clause 5.3 and, in particular, the time when compliance with the financial undertakings of clause 5.3.1 is to be measured by the Security Agent pursuant to clause 5.3.3, the Guarantor hereby undertakes that the financial undertakings of clause 5.3.1 will be complied with at all times during the whole term of each Accounting Period.
- (d) For the purposes of this clause 5.3: (i) no item shall be deducted or credited more than once in any calculation; and (ii) any amount expressed in a currency other than Dollars shall be converted into Dollars in accordance with the Applicable Accounting Principles consistently applied.

5.3.3 Valuations

- (a) Each Fleet Vessel shall, for the purposes of this Guarantee, be valued in Dollars by one (1) of the Approved Shipbrokers selected by the Guarantor or, failing such selection by the Guarantor, selected by the Security Agent in its sole discretion. Each such valuation shall not be older than 30 days from the date delivered to the Security Agent under this Guarantee, shall be addressed to the Security Agent and made without, unless required by the Security Agent, physical inspection and without taking into account the benefit of any charterparty or other engagement concerning the relevant Fleet Vessel and it shall be made on the basis of a sale for prompt delivery for cash at arm's length on normal commercial terms as between a willing buyer and a willing seller. Each such valuation shall constitute the value of a Fleet Vessel for the purposes of this clause 5.3.3 and the other provisions of this Guarantee and the other Security Documents.
- (b) The value of a Fleet Vessel determined in accordance with the provisions of this clause 5.3.3 shall be binding upon the parties hereto until such time as any further such valuations shall be obtained in respect of that Fleet Vessel.
- (c) The Guarantor undertakes with the Security Agent to supply to the Security Agent and to any such Approved Shipbroker such information concerning each Fleet Vessel and its condition as such Approved Shipbroker may require for the purpose of making any such valuation.
- (d) All costs in connection with the Security Agent obtaining any valuations of the Fleet Vessels referred to in this clause 5.3.3, shall be borne by the Guarantor.

6 Set-off

The Guarantor authorises the Security Agent, at any time after the occurrence of an Event of Default, to apply any credit balance to which the Guarantor is then entitled on any account of the Guarantor with the Security Agent at any of its branches in or towards satisfaction of any sum then due and payable from the Guarantor to the Security Agent under this Guarantee. For this purpose the Security Agent is authorised to purchase with the moneys standing to the credit of such account such other currencies as may be necessary to effect such application. The Security Agent shall not be obliged to exercise any right given to it by this clause 6. The Security Agent shall notify the Guarantor and the Secured Creditors forthwith upon the exercise or purported exercise of any right of set-off giving full details in relation thereto.

7 **Benefit of this Guarantee**

7.1 **Benefit and burden**

This Guarantee shall be binding upon the Guarantor and its successors in title and shall enure for the benefit of the Security Agent and its successors in title and/or replacements. The Guarantor expressly acknowledges and accepts the provisions of clause 16 of the Agreement and agrees that any person who replaces the Security Agent in accordance with such clause shall be entitled to the benefit of this Guarantee.

7.2 **Changes in constitution or reorganisation of Secured Creditors**

For the avoidance of doubt and without prejudice to the provisions of clause 7.1, this Guarantee shall remain binding on the Guarantor notwithstanding any change in the constitution of any of the Secured Creditors or the Security Agent or its absorption in, or amalgamation with, or the acquisition of all or part of its undertaking or assets by, any other person, or any reconstruction or reorganisation of any kind, to the intent that this Guarantee shall remain valid and effective in all respects in favour of any successor in title or replacement of the Security Agent in the same manner as if such successor in title or replacement had been named in this Guarantee as a party instead of, or in addition to, the Security Agent.

7.3 **No assignment by Guarantor**

The Guarantor may not assign or transfer any of its rights or obligations under this Guarantee.

7.4 **Disclosure of information**

The Security Agent may, without the consent of the Guarantor (but provided that the Borrowers have in the meantime given their consent in relation to that transfer, if and where the same is required under clause 15.3 of the Agreement), disclose to a prospective replacement of the Security Agent or a Transferee Bank or to any other person who may propose entering into contractual relations with the Security Agent in relation to the Agreement such information about the Guarantor as the Security Agent shall consider appropriate provided that the Security Agent shall ensure that such information shall be disclosed on a confidential basis to any such person.

8 **Notices and other matters**

8.1 **Notice**

Clauses 17.1 and 17.2 of the Agreement shall apply to this Guarantee as if set out herein and every notice, request, demand or other communication under this Guarantee shall be sent:

8.1.1 if to the Guarantor at:

c/o Diana Shipping Services S.A.

Pendelis 16

Palaio Faliro

175 64 Athens

Greece

Fax no: +30 210 942 4075

Tel no: +30 210 942 4975

Attention: Mr. Andreas Michalopoulos

8.1.2 if to the Security Agent at:

Nordea Bank Finland Plc, London Branch
8th Floor, City Place House
55 Basinghall Street
London EC2V 5NB
England

Fax No: +44 207 726 9102
Attention: Loan Administration

with a copy to:

Fax No: +44 207 726 9188
Attention: Shipping Department

or to such other address or facsimile number as is notified by the Guarantor or the Security Agent to the other party to this Guarantee.

8.2 No implied waivers, remedies cumulative

No failure or delay on the part of the Security Agent to exercise any power, right or remedy under this Guarantee shall operate as a waiver thereof, nor shall any single or partial exercise by the Security Agent of any power, right or remedy preclude any other or further exercise thereof or the exercise of any other power, right or remedy. The remedies provided in this Guarantee are cumulative and are not exclusive of any remedies provided by law.

8.3 English translations

All certificates, instruments and other documents to be delivered under or supplied in connection with this Guarantee shall be in the English language or shall be accompanied by a certified English translation upon which the Security Agent shall be entitled to rely.

8.4 Other guarantors

The Guarantor agrees to be bound by this Guarantee notwithstanding that any other person intended to execute or to be bound by any other guarantee or assurance under or pursuant to the Agreement may not do so or may not be effectually bound and notwithstanding that such other guarantee or assurance may be determined or be or become invalid or unenforceable against any other person, whether or not the deficiency is known to the Security Agent or any of the Secured Creditors.

8.5 Expenses

The Guarantor agrees to reimburse the Security Agent on demand for all legal and other costs, charges and expenses on a full and unqualified indemnity basis which may be incurred by the

Security Agent in relation to the enforcement of this Guarantee against the Guarantor.

8.6 Partial invalidity

If, at any time, any provision of this Guarantee is or becomes illegal, invalid or unenforceable in any respect under any law or jurisdiction, neither the legality, validity or enforceability of the remaining provisions nor the legality, validity or enforceability of such provision in any other respect or under the law of any other jurisdiction will be affected or impaired in any way.

8.7 Miscellaneous

8.7.1 This Guarantee contains the entire agreement of the parties and its provisions supersede any and all other prior correspondence and oral negotiation by the parties in respect of the matters regulated by the Guarantee.

8.7.2 This Guarantee shall not be amended or varied in its terms by any oral agreement or representation or in any other manner other than by an instrument in writing of even date herewith or subsequent hereto executed by or on behalf of the parties hereto.

9 Law and jurisdiction

9.1 Law

This Guarantee and any non-contractual obligations in connection with it are governed by, and shall be construed in accordance with, English law.

9.2 Submission to jurisdiction

The Guarantor agrees for the benefit of the Security Agent that any legal action or proceedings arising out of or in connection with this Guarantee (including any non-contractual obligations in connection with this Guarantee) against the Guarantor or any of its assets may be brought in the English courts, irrevocably and unconditionally submits to the jurisdiction of such courts and irrevocably designates, appoints and empowers Mr Antonis Nicolaou, at present of 25 Health Drive, Potters Bar, Herts EN6 1EN, United Kingdom to receive for it and on its behalf, service of process issued out of the English courts in any such legal action or proceedings. The submission to such jurisdiction shall not (and shall not be construed so as to) limit the right of the Security Agent to take proceedings against the Guarantor in the courts of any other competent jurisdiction, nor shall the taking of proceedings in any one or more jurisdictions preclude the taking of proceedings in any other jurisdiction, whether concurrently or not. The Guarantor further agrees that only the courts of England and not those of any other state shall have jurisdiction to determine any claim which the Guarantor may have against the Security Agent arising out of or in connection with this Guarantee (including any non-contractual obligations in connection with this Guarantee).

9.3 Process agent

If Mr Antonis Nikolaou appointed as agent for service of process by the Guarantor and referred to in clause 9.2 passes away or cannot be found or is otherwise unable for any reason to act or resigns as agent for service of process, the Guarantor hereby undertakes within ten (10) days of such event taking place (and the Guarantor by way of security hereby irrevocably and unconditionally authorises the Security Agent to do so) to designate, appoint and empower on its behalf, Messrs Cheeswrights (currently of Bankside House, 107 Leadenhall Street, London EC3A 4AF, England) at their then principal place of business in London as substitute process agent of Mr Antonis Nikolaou or another agent on terms acceptable to the Security Agent.

9.4 Contracts (Rights of Third Parties) Act 1999

No term of this Guarantee is enforceable under the provisions of the Contracts (Rights of Third Parties) Act 1999 by a person who is not a party to this Guarantee.

IN WITNESS whereof the parties to this Guarantee have caused this Guarantee to be duly executed as a deed on the date first above written.

Schedule 1
Form of Compliance Certificate

To: NORDEA BANK FINLAND PLC, LONDON BRANCH (as Agent and Security Agent)
From: DIANA SHIPPING INC. and JEMO SHIPPING COMPANY INC. and MANDARINGINA INC.

Dated: [•]

US\$26,450,000 Loan - Loan Agreement dated 7 February 2012 as amended and restated - Corporate Guarantee dated [•] 2012 (the "Corporate Guarantee")

Terms defined in the Loan Agreement and the Corporate Guarantee shall have the same meaning when used herein.

We refer to clause [5.3.1] of the Corporate Guarantee and hereby certify that, as at *[insert date of accounts]* and on the date hereof:

1 Financial covenants

- (a) the Cash and Cash Equivalents of the Group on a consolidated basis is \$[•], calculated as shown in [Appendix A] versus the required amount of \$[•];
- (b) the Equity Ratio is [•], calculated as shown in [Appendix B] versus the minimum ratio of 0.25:1.00; and
- (c) [the Tangible Net Worth is \$[•], calculated as shown in [Appendix C], versus the minimum required amount of \$150,000,000[.].]

[and we hereby confirm that the above comply with the provisions of clause 5.3.1 of the Corporate Guarantee.]

2 Share capital and distribution

We further refer to clause 5.2.5 of the Guarantee and hereby certify that:

- (a) during *[insert relevant period covered by relevant financial statements]* the Guarantor [has] [has not] [declared or paid dividends] to its shareholder [in the amount of \$[•]] *[insert dividend details for relevant period covered by relevant financial statements]*; and
- (b) [no Event of Default had occurred and was continuing at the time of declaration or payment of such dividends nor will result or has resulted from the declaration or payment of such dividends].

3 Security Requirement

We further refer to clause 8.2.1 of the Loan Agreement and hereby certify that, as at *[insert date of valuation]* **and on** the date hereof:

- (a) the Security Value is in the amount of \$[•], calculated as shown in [Appendix D]; and
- (b) the Loan is in the amount of \$[•] calculated as shown in [Appendix E]; and
- (c) [the Security Requirement ratio is [•]%, versus the required ratio of [125]%. **OR** [the Security Requirement ratio of 125% is met.]

4 **Default**

[No Default has occurred and is continuing] or

[The following Default has occurred and is continuing: *[provide details of Default]*. [The following steps are being taken to remedy it *[provide details of steps being taken to remedy Default]*].

Signed:

duly authorised signatory/Director

For and on behalf of:

DIANA SHIPPING INC.

Signed:

duly authorised signatory/Director

For and on behalf of:

JEMO SHIPPING COMPANY INC.

Signed:

duly authorised signatory/Director

For and on behalf of:

MANDARINGINA INC.

EXECUTED as a **DEED**)
by)
for and on behalf of)
DIANA SHIPPING INC.) **Attorney-in-Fact**
in the presence of:)

Witness
Name:
Address:
Occupation:

EXECUTED as a **DEED**)
by)
for and on behalf of)
NORDEA BANK FINLAND PLC, LONDON BRANCH) **Attorney-in-Fact**
in the presence of:)

Witness
Name:
Address:
Occupation:

Schedule 7

Form of New Jemo Mortgage



THE COMMONWEALTH OF THE BAHAMAS

MORTGAGE REGISTRATION FORM

(Page 1 of 2)

Official Number	IMO Number	Name of Ship	Port of Registry
8001721	9397731	M.V. LETO	NASSAU
Propulsion and Engine Details		Vessel Dimensions	
Propulsion: Single Propeller Type of Engines: Diesel Total Power: 9700 KW		Length: 222.02 metres	
		Breadth: 32.26 metres	
		Depth: 20.00 metres	

Particulars of Tonnage

GROSS TONNAGE: 42604 tons NET TONNAGE: 26602 tons

Whereas (a) there is an account current between **Jemo Shipping Company Inc.** (a company incorporated under the laws of the Marshall Islands and whose registered office is at Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro, Marshall Islands MH96960) (hereinafter called the "Mortgagor") and **Nordea Bank Finland Plc, London Branch**, acting through its branch at 8th Floor, City Place House, 55 Basinghall Street, London EC2V 5NB, England (hereinafter called the "Mortgagee" which expression shall include its successors and assigns) as security agent for the Banks, the Swap Provider and the Agent (each as defined below), the terms and conditions whereof are regulated by (1) a Deed of Covenant of even date herewith between the Mortgagor and the Mortgagee (hereinafter, as the same may from time to time be amended, supplemented, varied, extended, novated or replaced, called the "Deed of Covenant"), (2) a Loan Agreement dated 7 February 2012 (the "Principal Agreement") as amended and restated by a supplemental agreement dated [•] 2012 (the "Supplemental Agreement"), and together with the Principal Agreement and as the same may from time to time be amended, supplemented, varied, extended, novated or replaced, the "Loan Agreement" made between (i) the Mortgagor and **Mandaringina Inc. ("Mandaringina")** (a company incorporated under the laws of the Marshall Islands and whose registered office is at Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro, Marshall Islands MH96960) and as joint and several borrowers. (ii) the Mortgagee as arranger, agent (in such capacity the "Agent"), security agent and account bank, (iii) the banks and financial institutions set out in Schedule 1 thereto as banks (in such capacity the "Banks") and (iv) Nordea Bank Finland Plc (the "Swap Provider") as swap provider, (3) an ISDA Master Swap Agreement dated [•] 2012 and Schedule thereto made between the Mortgagor and the Swap Provider, as amended by an ISDA Amendment Agreement dated [•] 2012 made between the Mortgagor, Mandaringina and the Swap Provider (hereinafter, as the same may from time to time be amended, supplemented, varied, extended, novated or replaced, called the "Master Agreement") and WHEREAS pursuant to the Deed of Covenant, the Loan Agreement and the Master Agreement the Mortgagor has agreed to execute this Mortgage for the purpose of securing payment to the Mortgagee of all sums for the time being owing to the Mortgagee in the manner and at the times stated in the Deed of Covenant, the Loan Agreement and the Master Agreement and WHEREAS the amount of principal and interest due at any given time and the manner of time and payment can be ascertained by reference to the Deed of Covenant, the Loan Agreement and the Master Agreement and/or to the books of account (or other accounting records) of the Mortgagee.

Now we (b) **Jemo Shipping Company Inc.** in consideration of the premises for ourselves and our successors, covenant with the said (c) **Nordea Bank Finland Plc, London Branch** and (d) its assigns to pay to him or them or it the sums for the time being due on this security, whether by way of principal or interest, at the times and manner aforesaid.

And for the purpose of better securing to the said (c) **Nordea Bank Finland Plc, London Branch** the payment of such sums as last aforesaid, we do hereby mortgage to the said (c) **Nordea Bank Finland Plc, London Branch** sixty-four sixty-fourth (64/64th) shares of which we are the Owners in the Vessel above particularly described, and in her boats, guns, ammunition, small arms and appurtenances.

Lastly, we for ourselves and our successors, covenant with the said (c) **Nordea Bank Finland Plc, London Branch** and (d) its assigns that we have the power to mortgage in manner aforesaid the above mentioned shares, and that the same are free from encumbrances (e)

In witness whereof we have affixed our common seal this day of..... 2012

Seal	Corporation	Attestation
	Jemo Shipping Company Inc. per..... signature as Individual/Director/Secretary/Officer/Attorney-in-fact (h)signature as Individual/Director/Secretary/Officer/Attorney-in-fact (h)	I, (f)..... of (g)..... hereby testify that in my presence (i) this Mortgage was signed byas Individual/Director/Secretary/Officer/Attorney-in-fact (h)

J00116644-1

	<p>Officer/Attorney-in-fact (h) in the presence of the witness whose attestation is given opposite</p>	<p>and as Individual/Director/Secretary/Officer/ Attorney-in-fact (h) and (ii) the corporate seal (h)/personal seal (h) of the transferor was affixed this day of</p> <p>Signature of witness</p>
--	--	---

(a) Here state by way of recital that there is an account current between the Mortgagor (describing the company and its address) and the Mortgagee (giving full title, address and description, including all joint mortgages), and describe the nature of the transaction so as to show how the amount of principal and interest due at any given time is to be ascertained, and the manner and time of payment, (b) Name of company, (c) Full name of Mortgagee, (d) "his", "hers" or "its", (e) If any prior encumbrance add "save as appears by the registry of the ship", (f) name of witness, (g) address of witness, (h) delete as applicable.

NOTE: The witness to the execution of the document must be a disinterested party, independent of the body corporate or individual executing it e.g. Notary Public, Consular Officer, Magistrate, Justice of Peace. A director, officer or employee of a transferor which is a body corporate should not be an attesting witness.



THE COMMONWEALTH OF THE BAHAMAS MORTGAGE REGISTRATION FORM

(Page 2 of 2)

Official Number	IMO Number	Name of Ship	Port of Registry
TRANSFER OF MORTGAGE			
<p>I/we, the within mentioned in consideration of this day paid to me/us (a) by</p> <p>hereby transfer to it/him/her/them (a) the benefit of the within-written security. In witness whereof I/we (a) have hereto affixed our seal this day of</p>			
Seal	Individual/Corporation	Attestation	
	<p>name of individual/corporation per</p> <p>signature as Individual/Director/Secretary/ Officer/Attorney-in-fact</p> <p>..... signature as Individual/Director/Secretary/ Officer/Attorney-in-fact</p> <p>..... in the presence of the witness whose attestation is given opposite</p>	<p>I, (b)..... of (c)</p> <p>hereby testify that in my presence (i) this Transfer of mortgage was signed by as Individual/Director/Secretary/Officer/ Attorney-in-fact (a) and as Individual/Director/Secretary/Officer/ Attorney-in-fact (a)</p> <p>and (ii) the corporate seal/personal seal (a) of the transferor was affixed this day of</p> <p>Signature of witness</p>	

By individual or Joint Mortgagors

Received the sum of
in discharge of this within-written security. Dated at this day of
In witness whereof we have hereto affixed our common seal this day of

	<p>name of individual/corporation per</p> <p>signature as Individual/Director/Secretary/ Officer/Attorney-in-fact</p>	<p>I, (b)..... of (c)</p> <p>hereby testify that in my presence (i) this Discharge of mortgage was signed by as Individual/Director/Secretary/Officer/ Attorney-in-fact (a)</p>
--	---	---

[001]6644-1 :]

R208 - Mortgage Registration Form - Version 1.1

REGISTRATION FORM

	<p>signature as Individual/Director/Secretary/Officer/Attorney-in-fact</p> <p>.....</p> <p>in the presence of the witness whose attestation is given opposite</p>	<p>and as Individual/Director/Secretary/Officer/Attorney-in-fact (a)</p> <p>and</p> <p>(ii) the corporate seal/personal seal (a) of the mortgagee was affixed this day of</p> <p>Signature of witness</p>
<p>(a) delete as appropriate, (b) insert name of witness, (c) insert address of witness</p> <p>NOTE: The witness to the execution of the document must be a disinterested party, independent of the body corporate or individual executing it e.g. Notary Public, Consular Officer, Magistrate, Justice of Peace. A director, officer or employee of a transferor which is a body corporate should not be an attesting witness.</p>		

Schedule 8

Form of New Jemo Deed of Covenant

Dated June 2012

JEMO SHIPPING COMPANY INC. (1)

and

NORDEA BANK FINLAND PLC, LONDON (2)
BRANCH

DEED OF COVENANT

relating to m.v. *Leta*

NORTON ROSE

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THIS DEED OF COVENANT is dated

June 2012 and made **BETWEEN:**

(1) **JEMO SHIPPING COMPANY INC.** whose registered office is at Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro, Marshall Islands MH96960 (the "Owner"); and

(2) **NORDEA BANK FINLAND PLC, LONDON BRANCH** of Aleksanterinkatu 36B, FI-00020 Helsinki, Finland, acting for the purposes of this Deed through its office at 8th Floor, City Place House, 55 Basinghall Street, London EC2V 5NB, England as security agent and trustee for and on behalf of the Secured Creditors (as defined below) (the "Mortgagee").

WHEREAS:

(A) the Owner is the sole, absolute and unencumbered, legal and beneficial owner of sixty-four sixty-fourth shares in the Ship described in clause 1.2;

(B) by a loan agreement dated 7 February 2012 as amended and restated by a supplemental agreement dated June 2012 (as the same may from time to time be amended, novated, supplemented, extended or replaced) (together the "Loan Agreement") and made between (1) the Owner and Mandaringina Inc. as joint and several borrowers (herein and therein referred to as the "Borrowers"), (2) Nordea Bank Finland Plc, London Branch as arranger, agent (in such capacity the "Agent"), security agent and account bank (in such capacity the "Account Bank"), (3) Nordea Bank Finland Plc as swap provider (in such capacity the "Swap Provider") and (4) the banks and financial institutions referred to in schedule 1 thereto as lenders (the "Banks" and, together with the Swap Provider and the Agent, the "Secured Creditors"), the Banks agreed (inter alia) to make available to the Owner, upon the terms and conditions therein contained, a loan facility of up to Twenty six million four hundred and fifty thousand Dollars (\$26,450,000);

(C) by an ISDA master agreement (including a June 2012 and made between the Borrowers and the Swap Provider (together the "Master Swap" schedule thereto) dated as of 7 February 2012 and Agreement"), the Swap Provider agreed the terms and conditions upon which it would enter into made between the Owner and the Swap Provider, (inter alia) one or more interest rate swap or other derivative transactions with the Borrowers in as amended by an ISDA amendment agreement respect of the Loan, whether in whole or in part (as the case may be) from time to time; dated

(D) pursuant to clause 16.14 of the Loan Agreement, each of the Secured Creditors has appointed the Mortgagee as its security agent and trustee and pursuant to a Trust Deed dated 7 February 2012 and executed by the Mortgagee (as trustee) in favour of the Secured Creditors, the Mortgagee (referred to in the Loan Agreement as "Security Agent") agreed to hold, receive, administer and enforce this Deed as security agent and trustee for and on behalf of the Secured Creditors;

(E) the Owner has executed in favour of the Mortgagee a statutory mortgage of even date herewith in account current form constituting a first priority mortgage of sixty-four sixty-fourth shares in the said Ship (the "Mortgage"); and

(F) this Deed is supplemental to the Mortgage and to the security thereby created and is one of the Jemo Deeds of Covenant referred to in the Loan Agreement but shall nonetheless continue in full force and effect notwithstanding any discharge of the Mortgage.

NOW THIS DEED WITNESSES AND IT IS HEREBY AGREED as follows:

1 Definitions

1.1 Defined expressions

Words and expressions defined in the Loan Agreement shall, unless the context otherwise requires or unless otherwise defined herein, have the same meanings when used in this Deed.

1.2 Definitions

In this Deed, unless the context otherwise requires:

"Agent" includes its successors in title and its replacements;

"Approved Brokers" means such firm of insurance brokers appointed by the Owner, as may from time to time be approved in writing by the Mortgagee for the purposes of this Deed;

"Banking Day" means a day on which dealings in deposits in Dollars are carried on in the London Interbank Eurocurrency Market and (other than Saturday or Sunday) on which banks are open for business in London, Athens and New York City (or any other relevant place of payment under the Loan Agreement);

"Banks" includes their successors in title and their Transferee Banks;

"Casualty Amount" means One million Dollars (\$1,000,000) (or the equivalent in any other currency);

"Collateral Instruments" means notes, bills of exchange, certificates of deposit and other negotiable and non-negotiable instruments, guarantees, indemnities and other assurances against financial loss and any other documents or instruments which contain or evidence an obligation (with or without security) to pay, discharge or be responsible directly or indirectly for, any indebtedness or liabilities of the Borrowers or either of them or any other person liable and includes any documents or instruments creating or evidencing a mortgage, charge (whether fixed or floating), pledge, lien, hypothecation, assignment, trust arrangement or security interest of any kind;

"Default" means any Event of Default or any event or circumstance which with the giving of notice or lapse of time or the satisfaction of any other condition (or any combination thereof) would constitute an Event of Default;

"Earnings" means all moneys whatsoever from time to time due or payable to the Owner during the Security Period arising out of the use or operation of the Ship including (but without limiting the generality of the foregoing) all freight, hire and passage moneys, income arising under pooling arrangements, compensation payable to the Owner in the event of requisition of the Ship for hire, remuneration for salvage and towage services, demurrage and detention moneys, damages for breach (or payments for variation or termination) of any charterparty or other contract for the employment of the Ship;

"Encumbrance" means any mortgage, charge (whether fixed or floating), pledge, lien, hypothecation, assignment, trust arrangement or security interest or other encumbrance of any kind securing any obligation of any person or any type of preferential arrangement (including without limitation title transfer and/or retention arrangements having a similar effect);

"Expenses" means the aggregate at any relevant time (to the extent that the same have not been received or recovered by the Mortgagee or any Receiver) of:

- (a) all losses, liabilities, costs, charges, expenses, damages and outgoings of whatever nature (including, without limitation, Taxes, repair costs, registration fees and insurance premiums) suffered, incurred or paid by the Mortgagee or any Receiver in connection with the exercise of the powers referred to in or granted by this Deed or otherwise payable by the Owner in accordance with clause 10; and
- (b) interest on all such losses, liabilities, costs, charges, expenses, damages and outgoings from the date on which the same were suffered, incurred or paid by the Mortgagee or any Receiver until the date of receipt or recovery thereof (whether before or after judgment) at a rate per annum calculated in accordance with clause 3.4 of the Loan Agreement (as conclusively certified by the Mortgagee or such Receiver, as the case may be);

"Insurances" means all policies and contracts of insurance (which expression includes all entries of the Ship in a protection and indemnity or war risks association) which are from time to time during the Security Period in place or taken out or entered into by or for the benefit of the Owner (whether in the sole name of the Owner or in the joint names of the Owner and the Mortgagee or otherwise) in respect of the Ship and her Earnings or otherwise howsoever in connection with the Ship and all benefits thereof (including claims of whatsoever nature and return of premiums);

"Loan" means the aggregate principal amount advanced and/or to be advanced by the Banks to the Borrowers or either of them pursuant to the Loan Agreement or, as the context may require, the amount thereof at any time outstanding;

"Loan Agreement" means the agreement dated 7 February 2012 as amended and restated by a supplemental agreement dated June 2012, mentioned in Recital (B) hereto and as the same may be amended and/or supplemented and/or restated from time to time;

"Loss Payable Clauses" means the provisions regulating the manner of payment of sums receivable under the Insurances which are to be incorporated in the relevant insurance documents, such provisions to be in the forms set out in schedule 1, or in such other forms as may from time to time be agreed in writing by the Mortgagee;

"Management Agreement" means the management agreement made or (as the context may require) to be made between the Owner and the Manager in a form previously agreed in writing by the Agent providing for (inter alia) the Manager to carry out the technical and commercial management of the Ship;

"Manager" means Diana Shipping Services S.A. of Edificio Universal, Piso 12, Avenida Federico Boyd, Panama or any other person approved in writing by the Majority Banks, and includes its successors in title;

"Master Swap Agreement" means the agreement as amended and supplemented, referred to in recital (C) hereto and as the same may be amended and/or supplemented and/or restated from time to time;

"Master Swap Agreement Liabilities" means at any relevant time the aggregate of all liabilities, actual or contingent, present or future, owing to the Swap Provider under the Master Swap Agreement;

"Mortgage" means the statutory mortgage mentioned in Recital (E); **"Mortgaged Property"** means:

- (a) the Ship;
- (b) the Insurances;
- (c) the Earnings; and
- (d) any Requisition Compensation;

"Mortgagee" includes the successors in title and replacements of the Mortgagee;

"Notice of Assignment of Insurances" means a notice of assignment in the form set out in schedule 2 or in such other form as may **from** time to time be required or agreed in writing by the Mortgagee;

"Operating Account" means the Dollar account of the Owner opened by the Owner with the Account Bank with account number 0045834302 and includes any sub-accounts thereof and any other account designated in writing by the Mortgagee to be an Operating Account for the purposes of this Deed;

"Outstanding Indebtedness" means the aggregate of the Loan and interest accrued and accruing thereon, the Master Swap Agreement Liabilities, the Expenses and all other sums of money from time to time owing to the Mortgagee and/or the Secured Creditors or any of them, whether actually or contingently, under the Loan Agreement, the Master Swap Agreement and any other Security Documents or any of them;

"Owner" includes the successors in title of the Owner;

"Port of Registry" means the port of Nassau or such other port of registry in the Commonwealth of the Bahamas approved in writing by the Mortgagee which the Ship is, or is to be registered on, or at any relevant time after, the date hereof;

"Receiver" means any receiver and/or manager appointed pursuant to clause 7.2;

"Requisition Compensation" means all sums of money or other compensation from time to time payable during the Security Period by reason of the Compulsory Acquisition of the Ship;

"Security Documents" means the Loan Agreement, the Master Swap Agreement, this Deed, the Mortgage and any other such document as is defined in the Loan Agreement as a Security Document or as may have been or may hereafter be executed to guarantee and/or secure all or any part of the Loan, interest thereon and other moneys from time to time owing by the Borrowers or either of them or any other Security Party pursuant to the Loan Agreement or the Master Swap Agreement or any other Security Documents (whether or not any such document also secures moneys from time to time owing pursuant to any other document or agreement);

"Security Period" means the period commencing on the date hereof and terminating upon discharge of the security created by the Security Documents by payment of all moneys payable thereunder;

"Ship" means the 2010-built, 81,297 dwt bulk carrier *Leto* registered as a Bahamas ship at the Port of Nassau under Official Number 8001721 and IMO Number 9397731 and includes any share or interest therein and her engines, machinery, boats, tackle, outfit, equipment, spare gear, fuel, consumable or other stores, belongings and appurtenances whether on board or ashore and whether now owned or hereafter acquired and also any and all additions, improvements and replacements hereafter made in or to such vessel or any part thereof or in or to her equipment and appurtenances aforesaid;

"Swap Exposure" means, as at any relevant time, the amount certified by the Swap Provider to the Mortgagee to be the aggregate net amount in Dollars which would be payable by the Borrowers to the Swap Provider under (and calculated in accordance with) section 6(e) (Payments on Early Termination) of the Master Swap Agreement if an Early Termination Date had occurred at the relevant time in relation to all continuing Designated Transactions;

"Swap Provider" includes its successors in title; and **"Total Loss"** means:

- (a) the actual, constructive, compromised or arranged total loss of the Ship; or
- (b) the Compulsory Acquisition of the Ship; or
- (c) the hijacking, theft, piracy, condemnation, capture, seizure, arrest, detention or confiscation of the Ship (other than where the same amounts to the Compulsory Acquisition of the Ship) by any person (including a Government Entity, or any persons acting or purporting to act on behalf of a Government Entity), unless the Ship be released and restored to the Owner from such hijacking, theft, piracy, condemnation, capture, seizure, arrest, detention or confiscation within thirty (30) days after the occurrence thereof.

1.3 Insurance terms

In clause 5.1.1:

- 1.3.1 "excess **risks**" means the proportion (if any) of claims for general average, salvage and salvage charges and under the ordinary collision clause not recoverable in consequence of the value at which the Ship is assessed for the purpose of such claims exceeding her insured value;
- 1.3.2 "**protection and indemnity risks**" means the usual risks (including oil pollution and freight, demurrage and defence cover) covered by a United Kingdom protection and indemnity association or a protection and indemnity association which is managed in London (including, without limitation, the proportion (if any) of any sums payable to any other person or persons in case of collision which are not recoverable under the hull and machinery policies by reason of the incorporation in such policies of clause 8 of the Institute Time Clauses (Hulls) (1/1/1995) or the Institute Amended Running Down Clause (1/10/71) or any equivalent provision); and
- 1.3.3 "**war risks**" includes those risks covered by the standard form of English marine policy with Institute War and Strikes Clauses Hulls - Time (1/11/95) attached or similar cover.

1.4 Construction of Mortgage terms

In the Mortgage:

- 1.4.1 references to "**interest**" shall be construed as references to interest covenanted to *be* paid in accordance with clause 3.1.2 and any interest specified in paragraph (b) of the definition of "**Expenses**" in clause 1.2;
- 1.4.2 references to "**principal**" shall be construed as references to all moneys (other than interest) for the time being comprised in the Outstanding Indebtedness;
- 1.4.3 the term "**Account Current**" means an account or accounts maintained by the Mortgagee, in accordance with its usual practice, evidencing the amounts from time to time lent by, owing to and paid to it under the Security Documents. Such account or accounts shall, in the absence of manifest error, be conclusive as to the amount from time to time owing by the Owner to the Mortgagee under the Security Documents and any certificate from the Mortgagee as to the amount owing by the Owner under the Security Documents shall be conclusive in the absence of manifest error, and the sum specified in any such certificate shall be the certain and liquidated sum owing by the Owner to the Mortgagee; and
- 1.4.4 the expression "**all sums for the time being owing to the Mortgagee**" means the whole of the Outstanding Indebtedness.

1.5 Headings

Clause headings and the table of contents are inserted for convenience of reference only and shall be ignored in the interpretation of this Deed.

1.6 Construction of certain terms

In this Deed, unless the context otherwise requires:

- 1.6.1 references to clauses and schedules are to be construed as references to clauses of, and schedules to, this Deed and references to this Deed include its schedules;
- 1.6.2 references to (or to any specified provision of) this Deed or any other document shall be construed as references to this Deed, that provision or that document as in force for the time being and as amended in accordance with the terms thereof, or, as the case may be, with the agreement of the relevant parties;

- 1.6.3 words importing the plural shall include the singular and vice versa;
- 1.6.4 references to a person shall be construed as references to an individual, firm, company, corporation, unincorporated body of persons or any Government Entity;
- 1.6.5 references to a "**guaranteee**" shall include references to an indemnity or other assurance against financial loss including, without limitation, an obligation to purchase assets or services as a consequence of a default by any other person to pay any Indebtedness and "**guaranteed**" shall be construed accordingly; and
- 1.6.6 references to statutory provisions shall be construed as references to those provisions as replaced or amended or re-enacted from time to time.

1.7 Conflict with Loan Agreement

This Deed shall be read together with the Loan Agreement but in case of any conflict between the Loan Agreement and this Deed, the provisions of the Loan Agreement shall prevail.

2 Mortgage and assignment

2.1 Mortgage and assignment

By way of security for payment of the Outstanding Indebtedness the Owner with full title guarantee hereby mortgages and charges to and in favour of the Mortgagee all its rights, title and interest present and future in and to the Mortgaged Property and, without prejudice to the generality of the foregoing, hereby assigns and agrees to assign to the Mortgagee absolutely all its rights, title and interest in and to the Earnings, the Insurances and any Requisition Compensation, and all its benefits and interests present and future therein. Provided however that:

2.1.1 Earnings

the Earnings shall be payable to the Operating Account until such time as a Default shall occur and the Mortgagee shall direct to the contrary, whereupon the Owner shall forthwith, and the Mortgagee may at any time thereafter, instruct the persons from whom the Earnings are then payable to pay the same to the Mortgagee or as it may direct and any Earnings then in the hands of the Owner's brokers or other agents shall be deemed to have been received by them for the use and on behalf of the Mortgagee;

2.1.2 Insurances

unless and until a Default shall occur (whereupon all insurance recoveries, other than any moneys payable under any loss of earnings insurance, shall be receivable by the Mortgagee and applied in accordance with clause 8.1 or clause 8.4 (as the case may be)):

- (a) any moneys payable under the Insurances other than any moneys payable under any loss of earnings insurance, shall be payable in accordance with the terms of the relevant Loss Payable Clause and the Mortgagee will not in the meantime give any notification to the contrary to the insurers as contemplated by the Loss Payable Clauses; and
- (b) any insurance moneys received by the Mortgagee in respect of any major casualty (as specified in the relevant Loss Payable Clause) shall, unless prior to receipt or whilst such moneys are in the hands of the Mortgagee there shall have occurred a Default (whereupon such insurance monies shall be applied in accordance with clause 8.1 or clause 8.4 (as the case may be)), be paid over to the Owner upon the Owner furnishing evidence satisfactory to the Mortgagee that all loss and damage resulting from such casualty has been properly made good and repaired, and that all repair accounts and other liabilities whatsoever in connection with the casualty have been fully paid and discharged by the Owner, provided however that the insurers with whom the fire and usual marine risks insurances are effected may, in the case of a major casualty, and

with the previous consent in writing of the Mortgagee, make payment on account of repairs in the course of being effected; and

(c) any moneys payable under any loss of earnings insurance shall be payable in accordance with the terms of the relevant Loss Payable Clause and shall be subject to such provisions of this clause 2 as shall apply to Earnings and the Mortgagee will not give any notification to the insurers as contemplated in such Loss Payable Clause unless and until the Mortgagee shall have become entitled under clause 2.1.1 to direct that the Earnings be paid to the Mortgagee.

2.2 Notice

The Owner hereby covenants and undertakes with the Mortgagee that it will from time to time, upon the written request of the Mortgagee, give written notice (in such form as the Mortgagee shall reasonably require) of the assignment herein contained to the persons from whom any part of the Mortgaged Property is or may be due.

2.3 Use of Owner's name

The Owner covenants and undertakes with the Mortgagee to do or permit to be done each and every act or thing which the Mortgagee may from time to time require to be done for the purpose of enforcing the Mortgagee's rights under this Deed and to allow its name to be used as and when required by the Mortgagee for that purpose.

2.4 Reassignment

Upon payment and discharge in full to the satisfaction of the Mortgagee of the Outstanding Indebtedness, the Mortgagee shall, at the request and cost of the Owner, re-assign the Earnings, the Insurances and any Requisition Compensation to the Owner or as it may direct.

3.1 In consideration of (i) the agreement of the Banks to advance to the Borrowers, subject to the terms of the Loan Agreement, the principal sum of Twenty six million four hundred and fifty thousand Dollars (\$26,450,000) pursuant to the Loan Agreement, (ii) the agreement of the Swap Provider to enter into the Master Swap Agreement with the Borrowers and (iii) the advance by the Banks to the Borrowers or either of them on or before the date hereof of the total principal sum of Twenty six million four hundred and fifty thousand Dollars (\$26,450,000) (receipt of which sum the Owner hereby acknowledges), the Owner hereby covenants with the Mortgagee:

- 3.1.1 to repay the Loan by the instalments and on the dates referred to and otherwise in the manner and upon the terms set out in the Loan Agreement;
- 3.1.2 to pay interest on the Loan and on any overdue interest or other moneys payable under the Loan Agreement, at the rate or rates from time to time applicable thereto on the dates, in the manner and upon the terms set out in the Loan Agreement;
- 3.1.3 to pay all moneys payable under the Master Swap Agreement at the times and in the manner therein specified; and
- 3.1.4 to pay all other moneys payable by the Owner under the other Security Documents or any of them at the times and in the manner therein specified.

4 **Continuing security and other matters**

4.1 Continuing security

The security created by the Mortgage and this Deed shall:

- 4.1.1 be held by the Mortgagee as a continuing security for the payment of the Outstanding Indebtedness and the performance and observance of and compliance with all of the covenants, terms and conditions contained in the Security Documents, express or implied and the security so created shall not be satisfied by any intermediate payment or satisfaction of any part of the amount hereby and thereby secured (or by any settlement of accounts between the Borrowers or the Owner or any other person who may be liable to the Mortgagee or the Secured Creditors or any of them in respect of the Outstanding Indebtedness or any part thereof and the Mortgagee);
- 4.1.2 be in addition to, and shall not in any way prejudice or affect, and may be enforced by the Mortgagee without prior recourse to, the security created by any of the other Security Documents or by any present or future Collateral Instruments, right or remedy held by or available to the Mortgagee or the Secured Creditors or any right or remedy of the Mortgagee or the Secured Creditors thereunder; and
- 4.1.3 not be in any way prejudiced or affected by the existence of any of the other Security Documents or any such Collateral Instrument, rights or remedies or by the same becoming wholly or in part void, voidable or unenforceable on any ground whatsoever or by the Mortgagee dealing with, exchanging, varying or failing to perfect or enforce any of the same, or giving time for payment or performance or indulgence or compounding with any other person liable.

4.2 Rights additional

All the rights, remedies and powers vested in the Mortgagee hereunder shall be in addition to and not a limitation of any and every other right, power or remedy vested in the Mortgagee or the Secured Creditors under the Loan Agreement, this Deed, the Master Swap Agreement, the other Security Documents or any such Collateral Instrument or at law and that all the powers so vested in the Mortgagee or the Secured Creditors may be exercised from time to time and as often as the Mortgagee or the Secured Creditors may deem expedient.

4.3 No enquiry

Neither the Mortgagee nor any Receiver shall be obliged to make any enquiry as to the nature or sufficiency of any payment received by it under the Mortgage and/or this Deed or to make any claim or take any action to collect any moneys hereby assigned or to enforce any rights or benefits hereby assigned to the Mortgagee or to which the Mortgagee may at any time be entitled under the Mortgage and/or this Deed.

4.4 Obligations of Owner and Mortgagee

The Owner shall remain liable to perform all the obligations assumed by it in relation to the Mortgaged Property and the Mortgagee shall be under no obligation of any kind whatsoever in respect thereof or be under any liability whatsoever in the event of any failure by the Owner to perform its obligations in respect thereof.

4.5 Discharge of Mortgage

Notwithstanding that this Deed is expressed to be supplemental to the Mortgage it shall continue in full force and effect after any discharge of the Mortgage.

5 Covenants

5.1 The Owner hereby covenants with the Mortgagee and undertakes throughout the Security Period:

5.1.1 Insurance

(a) Insured risks, amounts and terms

to insure and keep the Ship insured free of cost and expense to the Mortgagee and in the sole name of the Owner or, if so required by the Mortgagee, in the joint names of the Owner and the Mortgagee (but without liability on the part of the Mortgagee for premiums or calls):

- (i) against fire and usual marine risks (including excess risks) and war risks (including without limitation terrorism, piracy and confiscation), on an agreed value basis, in such amounts (but not in any event less than whichever shall be the greater of the market value of the Ship for the time being and of an amount which, when aggregated with the equivalent insurance for the other Mortgaged Ships, shall be equal to at least One hundred and twenty per cent (120%) of the aggregate of (A) the Loan and (B) the Swap Exposure) and upon such terms as shall from time to time *be* approved in writing by the Mortgagee;
- (ii) against protection and indemnity risks (including pollution risks for the highest amount in respect of which cover is or may become available for ships of the same type, size, age and flag as the Ship and a freight, demurrage and defence cover) for the full value and tonnage of the Ship (as approved in writing by the Mortgagee) and upon such terms as shall from time to time be approved in writing by the Mortgagee; and
- (iii) in respect of such other matters of whatsoever nature and howsoever arising as may from time to time be requested by the Mortgagee,

and to pay to the Mortgagee the cost (as conclusively certified by the Mortgagee) of (aa) any mortgagee's interest insurance (including, if the Mortgagee shall so require, mortgagee's additional perils (including all P&I risks) coverage) which the Mortgagee may from time to time effect in respect of the Ship upon such terms and in such amounts (not exceeding, when aggregated with the equivalent insurance for the other Mortgaged Ships, One hundred and twenty per cent (120%) of the aggregate of (A) the Loan and (B) the Swap Exposure) as it shall deem desirable; and (bb) any other insurance cover which the Mortgagee may from time to time effect in respect of the Ship and/or in respect of its interest or potential third party liability as mortgagee of the Ship as the Mortgagee shall deem desirable having regard to any limitations in respect of amount or extent of cover which may from time to time be applicable to any of the other insurances referred to in this clause 5.1.1(a);

(b) Approved brokers, insurers and associations

to effect the insurances aforesaid in such currency as the Mortgagee may approve and through the Approved Brokers (other than the said mortgagee's interest insurance which shall be effected through brokers nominated by the Mortgagee) and with such insurance companies and/or underwriters as shall from time to time be approved in writing by the Mortgagee; provided however that the insurances against war risks and protection and indemnity risks may *be* effected by the entry of the Ship with such war risks and protection and indemnity associations as shall from time to time be approved in writing by the Mortgagee;

(c) Fleet liens, set-off and cancellation

if any of the insurances referred to in clause 5.1.1(a) form part of a fleet cover, to procure that the Approved Brokers shall undertake to the Mortgagee that they shall

neither set off against any claims in respect of the Ship any premiums due in respect of other vessels under such fleet cover or any premiums due for other insurances, nor cancel the insurance for reason of non-payment of premiums for other vessels under such fleet cover or of premiums for such other insurances, and shall undertake to issue a separate policy in respect of the Ship if and when so requested by the Mortgagee;

(d) Payment of premiums and calls

punctually to pay all premiums, calls, contributions or other sums payable in respect of all such insurances and to produce all relevant receipts or other evidence of payment when so required by the Mortgagee;

(e) Renewal

at least fourteen (14) days before the relevant policies, contracts or entries expire, to notify the Mortgagee of the names of the brokers and/or the war risks and protection and indemnity associations proposed to be employed by the Owner or any other party for the purposes of the renewal of such insurances and of the amounts in which such insurances are proposed to be renewed and the risks to be covered and, subject to compliance with any requirements of the Mortgagee pursuant to this clause 5.1.1, to procure that appropriate instructions for the renewal of such insurances on the terms so specified are given to the Approved Brokers and/or to the approved war risks and protection and indemnity associations at least ten (10) days before the relevant policies, contracts or entries expire, and that the Approved Brokers and/or the approved war risks and protection and indemnity associations will at least seven (7) days before such expiry (or within such shorter period as the Mortgagee may from time to time agree) confirm in writing to the Mortgagee as and when such renewals have been effected in accordance with the instructions so given;

(f) Guarantees

to arrange for the execution and delivery of such guarantees or indemnities as may from time to time be required by any protection and indemnity or war risks association;

(g) Hull policy documents, notices, loss payable clauses and brokers' undertakings

to deposit with the Approved Brokers (or procure the deposit of) all slips, cover notes, policies, certificates of entry or other instruments of insurance from time to time issued in connection with such of the insurances referred to in clause 5.1.1(a) as are effected through the Approved Brokers and procure that the interest of the Mortgagee shall be endorsed thereon by incorporation of the relevant Loss Payable Clause and, where the Insurances have been assigned to the Mortgagee, by means of a Notice of Assignment of Insurances (signed by the Owner and by any other assured who shall have assigned its interest in the Insurances to the Mortgagee) and that the Mortgagee shall be furnished with pro forma copies thereof and a letter or letters of undertaking from the Approved Brokers in such form as shall from time to time be required by the Mortgagee;

(h) Associations' loss payable clauses, undertakings and certificates

to procure that any protection and indemnity and/or war risks associations in which the Ship is for the time being entered shall endorse the relevant Loss Payable Clause on the relevant certificate of entry or policy and shall furnish the Mortgagee with a copy of such certificate of entry or policy and a letter or letters of undertaking in such form as shall from time to time be required by the Mortgagee;

(i) Extent of cover and exclusions

to take all necessary action and comply with all requirements which may from time to time be applicable to the Insurances (including, without limitation, the making of all requisite declarations within any prescribed time limits and the payment of any additional

premiums or calls) so as to ensure that the Insurances are not made subject to any exclusions or qualifications to which the Mortgagee has not given its prior written consent and are otherwise maintained on terms and conditions from time to time approved in writing by the Mortgagee;

(j) Correspondence with brokers and associations

to provide to the Mortgagee, at the time of each such communication, copies of all written communications between the Owner and the Approved Brokers and approved war risks and protection and indemnity associations which relate to compliance with requirements from time to time applicable to the Insurances including, without limitation, all requisite declarations and payments of additional premiums or calls referred to in clause 5.1.1(i);

(k) Independent report

if so requested by the Mortgagee, but at the cost of the Owner, to furnish the Mortgagee from time to time with a detailed report signed by an independent firm of marine insurance brokers appointed by the Mortgagee dealing with the insurances maintained on the Ship and stating the opinion of such firm as to the adequacy thereof;

(l) Collection of claims

to do all things necessary and provide all documents, evidence and information to enable the Mortgagee to collect or recover any moneys which shall at any time become due in respect of the Insurances;

(m) Employment of Ship

not to employ the Ship or suffer the Ship to be employed otherwise than in conformity with the terms of the Insurances (including any warranties express or implied therein) without first obtaining the consent of the insurers to such employment and complying with such requirements as to extra premium or otherwise as the insurers may prescribe;

(n) Application of recoveries

to apply all sums receivable under the Insurances which are paid to the Owner in accordance with the Loss Payable Clauses in repairing all damage and/or in discharging the liability in respect of which such sums shall have been received;

5.1.2 Ship's name and registration

- (a) not to change the name of the Ship without the prior written consent of the Mortgagee;
- (b) to ensure the Ship is permanently registered as a Bahamas Ship within ninety (90) days of the date hereof;
- (c) to keep the Ship registered as a Bahamas ship at the Port of Registry;
- (d) not do or suffer to be done anything, or omit to do anything the doing or omission of which could or might result in such registration being forfeited or imperilled or which could or might result in the Ship being required to be registered otherwise than as a Bahamas ship at the Port of Registry;
- (e) not to register the Ship or permit its registration under any other flag or at any other port without the prior written consent of the Mortgagee; and
- (f) if the said registration of the Ship is for a limited period, to renew the registration of the Ship at least forty five (45) days prior to the expiry of such registration and to provide evidence of such renewal to the Mortgagee at least thirty (30) days prior to such expiry;

5.1.3 Repair

to keep the Ship in a good and efficient state of repair and procure that all repairs to or replacement of any damaged, worn or lost parts or equipment are effected in such manner (both as regards workmanship and quality of materials) as not to diminish the value of the Ship;

5.1.4 Modification; removal of parts; equipment owned by third parties

not without the prior written consent of the Mortgagee to, or suffer any other person to:

- (a) make any modification to the Ship in consequence of which her structure, type or performance characteristics could or might be materially altered or her value materially reduced; or
- (b) remove any material part of the Ship or any equipment the value of which is such that its removal from the Ship would materially reduce the value of the Ship without replacing the same with equivalent parts or equipment which are owned *by* the Owner free from Encumbrances; or
- (c) install on the Ship any equipment owned by a third party which cannot be removed without causing damage to the structure or fabric of the Ship;

5.1.5 Maintenance of class; compliance with regulations

to maintain the Classification as the class of the Ship and to comply with and ensure that the Ship at all times complies with the provisions of the Merchant Shipping Acts and all regulations and requirements (statutory or otherwise) from time to time applicable to vessels registered at the Port of Registry or otherwise applicable to the Ship;

5.1.6 Surveys

to submit the Ship to continuous surveys and such periodical or other surveys as may be required for classification purposes and to supply to the Mortgagee copies of all survey reports issued in respect thereof;

5.1.7 Inspection

to ensure that the Mortgagee (at the cost of the Owner), by surveyors or other persons appointed by the Mortgagee for such purpose, may board the Ship at all reasonable times for the purpose of inspecting her and to afford all proper facilities for such inspections and for this purpose to give the Mortgagee reasonable advance notice of any intended drydocking of the Ship (whether for the purpose of classification, survey or otherwise);

5.1.8 Prevention of and release from arrest

promptly to pay and discharge all debts, damages, liabilities and outgoings whatsoever which have given or may give rise to maritime, statutory or possessory liens on, or claims enforceable against, the Ship, her Earnings or Insurances or any part thereof and, in the event of a writ or libel being filed against the Ship, her Earnings or Insurances or any part thereof, or of any of the same being arrested, attached or levied upon pursuant to legal process or purported legal process or in the event of detention of the Ship in exercise or purported exercise of any such lien or claim as aforesaid, to procure the release of the Ship, her Earnings and Insurances from such arrest, detention attachment or levy or, as the case may be, the discharge of the writ or libel forthwith upon receiving notice thereof by providing bail or procuring the provision of security or otherwise as the circumstances may require;

5.1.9 Employment

not to employ the Ship or permit her employment in any manner, trade or business which is forbidden by international law, or which is unlawful or illicit under the law of any relevant jurisdiction, or in carrying illicit or prohibited goods, or in any manner whatsoever which may render her liable to condemnation in a prize court, or to destruction, seizure, confiscation, penalty or sanctions and, in the event of hostilities in any part of the world (whether war be declared or not), not to employ the Ship or permit her employment in carrying any contraband goods, or enter or trade to or to continue to trade in any zone which has been declared a war zone by any Government Entity or by the Ship's war risks insurers unless the prior written consent of the Mortgagee is obtained and such special insurance cover as the Mortgagee may require shall have been effected by the Owner and at its expense;

5.1.10 Information

promptly to furnish the Mortgagee with all such information as it may from time to time require regarding the Ship, her employment, position and engagements, particulars of all towages and salvages, and copies of all charters and other contracts for her employment, or otherwise howsoever concerning her;

5.1.11 Notification of certain events to notify the Mortgagee forthwith by fax thereafter confirmed by letter of:

- (a) any damage to the Ship requiring repairs the cost of which will or might exceed the Casualty Amount;
- (b) any occurrence in consequence of which the Ship has or may become a Total Loss;
- (c) any requisition of the Ship for hire;
- (d) any requirement or recommendation made by any insurer or the Classification Society or by any competent authority which is not, or cannot be, complied with in accordance with its terms;
- (e) any arrest or detention of the Ship or any exercise or purported exercise of a lien or other claim on the Ship or the Earnings or Insurances or any part thereof;
- (f) any petition or notice of meeting to consider any resolution to wind up the Owner (or any event analogous thereto under the laws of the place of its incorporation);
- (g) the occurrence of any Default; or
- (h) the occurrence of any Environmental Claim against the Owner, the Ship, any other Relevant Party or any other Relevant Ship or any incident, event, or circumstance which may give rise to any such Environmental Claim;

5.1.12 Payment of outgoings and evidence of payments

promptly to pay all tolls, dues and other outgoings whatsoever in respect of the Ship and her Earnings and Insurances and to keep proper books of account in respect of the Ship and her Earnings and, as and when the Mortgagee may so require, to make such books available for inspection on behalf of the Mortgagee, and to furnish satisfactory evidence that the wages and allotments and the insurance and pension contributions of the Master and crew are being promptly and regularly paid and that all deductions from crew's wages in respect of any applicable tax liability are being properly accounted for and that the Master has no claim for disbursements other than those incurred by him in the ordinary course of trading on the voyage then in progress;

5.1.13 Encumbrances

not without the prior written consent of the Mortgagee (and then only subject to such conditions as the Mortgagee may impose) to create or purport or agree to create or permit to arise or subsist any Encumbrance (other than Permitted Liens) over or in respect of the Ship, any share or interest therein or in any other part of the Mortgaged Property otherwise than to or in favour of the Mortgagee;

5.1.14 Sale or other disposal

not without the prior written consent of the Mortgagee (and then only subject to such conditions as the Mortgagee may impose) to sell, agree to sell, transfer, abandon or otherwise dispose of the Ship or any share or interest therein;

5.1.15 Chartering

except pursuant to the Initial Charter, not without the prior written consent of the Mortgagee (which the Mortgagee shall have full liberty to withhold) and, if such consent is given, only subject to such conditions as the Mortgagee may impose, to let the Ship:

- (a) on demise or bareboat charter for any period;
- (b) by any time or consecutive voyage charter for a term which exceeds or which by virtue of any optional extensions therein contained may exceed twelve (12) months' duration;
- (c) on terms whereby more than two (2) months' hire (or the equivalent) is payable in advance; or
- (d) below the market rate prevailing at the time when the Ship is fixed or other than on arm's length terms;

5.1.16 Sharing of Earnings

not without the prior written consent of the Mortgagee (and then only subject to such conditions as the Mortgagee may impose) to enter into any agreement or arrangement whereby the Earnings may be shared with any other person;

5.1.17 Payment of Earnings

to procure that the Earnings are paid to the Operating Account pursuant to clause 14.1 of the Loan Agreement (or to such other account as the Mortgagee may from time to time agree) and to procure that the same are paid to the Mortgagee at all times if and when the same shall be or shall have become so payable in accordance with the Security Documents after the Mortgagee shall have directed pursuant to clause 2.1.1 that the same shall be no longer receivable by the Owner and that any Earnings which are so payable and which are in the hands of the Owner's brokers or agents are duly accounted for and paid over to the Mortgagee forthwith on demand;

5.1.18 Repairers' liens

not without the prior written consent of the Mortgagee to put the Ship into the possession of any person for the purpose of work being done upon her in an amount exceeding or likely to exceed the Casualty Amount unless such person shall first have given to the Mortgagee in terms satisfactory to it, a written undertaking not to exercise any lien on the Ship or the Earnings for the cost of such work or otherwise;

5.1.19 Manager

not without the prior written consent of the Mortgagee (acting on the instructions of the Majority Banks) to appoint a manager of the Ship other than the Manager or to terminate, or amend the terms of, the Management Agreement;

5.1.20 Notice of Mortgage

to place and at all times and places to retain a properly certified copy of the Mortgage and this Deed (which shall form part of the Ship's documents) on board the Ship with her papers and cause such certified copy of the Mortgage and this Deed to be exhibited to any and all persons having business with the Ship which might create or imply any commitment or encumbrance whatsoever on or in respect of the Ship (other than a lien for crew's wages and salvage) and to any representative of the Mortgagee and to place and keep prominently displayed in the navigation room and in the Master's cabin of the Ship a framed printed notice in plain type reading as follows:

"NOTICE OF MORTGAGE

This Ship is subject to a first priority mortgage and a deed of covenant in favour of **NORDEA BANK FINLAND PLC, LONDON BRANCH** of 8th Floor, City Place House, 55 Basinghall Street, London EC2V 5NB, England. Under the said mortgage and deed of covenant, neither the Owner nor any charterer nor the Master of this Ship has any right, power or authority to create, incur or permit to be imposed upon this Ship any commitments or encumbrances whatsoever other than for crew's wages and salvage"

and in terms of the said notice it is hereby agreed that save and subject as otherwise herein provided, neither the Owner nor any charterer nor the Master of the Ship nor any other person has any right, power or authority to create, incur or permit to be imposed upon the Ship any lien whatsoever other than for crew's wages and salvage;

5.1.21 Conveyance on default

where the Ship is (or is to be) sold in exercise of any power contained in this Deed or otherwise conferred on the Mortgagee, to execute, forthwith upon request by the Mortgagee, such form of conveyance of the Ship as the Mortgagee may require;

5.1.22 Anti-drug abuse

without prejudice to clause 5.1.9, to take all necessary and proper precautions to prevent any infringements of the Anti-Drug Abuse Act of 1986 of the United States of America or any similar legislation applicable to the Ship in any jurisdiction in or to which the Ship shall be employed or located or trade or which may otherwise be applicable to the Ship and/or the Owner and, if the Mortgagee shall so require, to enter into a "Carrier Initiative Agreement" with the United States Customs Service and to procure that the same agreement (or any similar agreement hereafter introduced by any Government Entity of the United States of America) is maintained in full force and effect and performed by the Owner;

5.1.23 Compliance with Environmental Laws

to comply with, and procure that, all Environmental Affiliates of the Owner comply with, all Environmental Laws including, without limitation, requirements relating to manning and establishment of financial responsibility and to obtain and comply with, and procure that all Environmental Affiliates of the Owner obtain and comply with, all Environmental Approvals; and

5.1.24 Survey reports

to deliver to the Mortgagee on the date falling three years after the date of this Deed and on each of the dates falling at twelve (12) months thereafter a report prepared by surveyors or

inspectors appointed by the Mortgagee in relation to the seaworthiness and safe operation of the Ship, to produce evidence to the Mortgagee that any recommendations made in such reports have been complied with or will be complied with in accordance with their terms, in full and thereafter to procure that such recommendations are so complied with.

6 Powers of Mortgagee to protect security and remedy defaults

6.1 Protective action

The Mortgagee shall, without prejudice to its other rights, powers and remedies under any of the Security Documents, be entitled (but not bound) at any time, and as often as may be necessary, to take any such action as it may in its discretion think fit for the purpose of protecting or maintaining the security created by this Deed and the other Security Documents, and all Expenses attributable thereto shall be payable by the Owner on demand.

6.2 Remedy of defaults

Without prejudice to the generality of the provisions of clause 6.1:

6.2.1 if the Owner fails to comply with any of the provisions of clause 5.1.1, the Mortgagee shall be entitled (but not bound) to effect and thereafter to maintain all such insurances upon the Ship as in its discretion it may think fit in order to procure the compliance with such provisions or alternatively, to require the Ship (at the Owner's risk) to remain in, or to proceed to and remain in a port designated by the Mortgagee until such provisions are fully complied with;

6.2.2 if the Owner fails to comply with any of the provisions of clauses 5.1.3, 5.1.5 or 5.1.6, the

Mortgagee shall be entitled (but not bound) to arrange for the carrying out of such repairs, changes or surveys as it may deem expedient or necessary in order to procure the compliance with such provisions; and

6.2.3 if the Owner fails to comply with any of the provisions of clause 5.1.8, the Mortgagee shall be entitled (but not bound) to pay and discharge all such debts, damages, liabilities and outgoings as are therein mentioned and/or to take any such measures as it may deem expedient or necessary for the purpose of securing the release of the Ship in order to procure the compliance with such provisions,

and the Expenses attributable to the exercise by the Mortgagee of any such powers shall be payable by the Owner to the Mortgagee on demand.

7 Powers of Mortgagee on Event of Default

7.1 Powers

Upon the happening of any Event of Default, the Mortgagee shall forthwith become entitled by notice given to the Owner and the other Borrower in accordance with the provisions of clause 10.2 of the Loan Agreement and the relevant provisions of the Master Swap Agreement to declare the Outstanding Indebtedness or any part of it to be due and payable immediately or in accordance with such notice, whereupon the Outstanding Indebtedness shall become so due and payable and (whether or not any such notice shall have been given) the Mortgagee shall become forthwith entitled (but not bound) as and when it may see fit, to put into force and exercise in relation to the Mortgaged Property or any part thereof all or any of the rights, powers and remedies possessed by it as mortgagee of the Mortgaged Property (whether at law, by virtue of the Mortgage and this Deed or otherwise) and in particular (without limiting the generality of the foregoing):

7.1.1 to take possession of the Ship;

7.1.2 to require that all policies, contracts, certificates of entry and other records relating to the Insurances (including details of and correspondence concerning outstanding claims) be

delivered forthwith to such adjusters and/or brokers and/or other insurers as the Mortgagee may nominate;

- 7.1.3 to collect, recover, compromise and give a good discharge for, all claims then outstanding or thereafter arising under the Insurances or any of them or in respect of any other part of the Mortgaged Property, and to take over or institute (if necessary using the name of the Owner) all such proceedings in connection therewith as the Mortgagee in its absolute discretion thinks fit, and, in the case of the Insurances, to permit the brokers through whom collection or recovery is effected to charge the usual brokerage therefor;
- 7.1.4 to discharge, compound, release or compromise claims in respect of the Ship or any other part of the Mortgaged Property which have given or may give rise to any charge or lien or other claim on the Ship or any other part of the Mortgaged Property or which are or may be enforceable by proceedings against the Ship or any other part of the Mortgaged Property;
- 7.1.5 to sell the Ship or any share or interest therein with or without prior notice to the Owner, and with or without the benefit of any charterparty, and free from any claim by the Owner (whether in admiralty, in equity, at law or by statute) by public auction or private contract, at such place and upon such terms as the Mortgagee in its absolute discretion may determine, with power to postpone any such sale, and without being answerable for any loss occasioned by such sale or resulting from postponement thereof and with power, where the Mortgagee purchases the Ship, to make payment of the sale price by making an equivalent reduction in the amount of the Outstanding Indebtedness in the manner referred to in clause 8.1;
- 7.1.6 to manage, insure, maintain and repair the Ship, and to employ, sail or lay up the Ship in such manner and for such period as the Mortgagee, in its absolute discretion, deems expedient accounting only for net profits arising from any such employment; and
- 7.1.7 to recover from the Owner on demand all Expenses incurred or paid by the Mortgagee in connection with the exercise of the powers (or any of them) referred to in this clause 7.1.

7.2 Receiver

7.2.1 Appointment

At any time after the Outstanding Indebtedness shall have become due and payable in accordance with a notice given by the Mortgagee to the Owner and the other Borrower pursuant to clause 10.2 of the Loan Agreement, the Mortgagee shall be entitled (but not bound) by writing executed as a deed or under the hand of any Director or officer of the Mortgagee to appoint any person or persons to be a receiver and/or manager of the Mortgaged Property or any part thereof (with power to authorise any joint receiver and/or manager to exercise any power independently of any other joint receiver and/or manager) and may from time to time fix his remuneration, and may remove any receiver and/or manager so appointed and appoint another in his place. Any receiver and/or manager so appointed shall be the agent of the Owner and the Owner shall be solely responsible for his acts or defaults and for his remuneration, and such receiver and/or manager so appointed shall have all powers conferred by the Law of Property Act 1925 without the restrictions contained in sections 93 and 103 of that Act and, in addition, power on behalf of and at the cost of the Owner (notwithstanding any liquidation of the Owner) to do or omit to do anything which the Owner could do or omit to do in relation to the Mortgaged Property or any part thereof and in particular (but without prejudice to the generality of the foregoing) any such receiver and/or manager may exercise all the powers and discretions conferred on the Mortgagee by the Mortgage and this Deed.

7.2.2 Remuneration

Any Receiver shall be entitled to remuneration appropriate to the work and responsibilities involved, upon the basis of charging from time to time adopted by the Receiver in accordance with the current practice of his firm or practice, without being limited to the maximum rate specified in section 109(6) of the Law of Property Act 1925.

7.2.3 Liability of mortgagee in possession

Neither the Mortgagee nor any Receiver shall be liable as mortgagee in possession in respect of all or any of the Mortgaged Property to account or be liable for any loss upon realisation or for any neglect or default of any nature whatsoever in connection therewith for which a mortgagee in possession may be liable as such.

7.3 Dealings with Mortgagee or Receiver

Upon any sale of the Ship or any share or interest therein by the Mortgagee pursuant to clause 7.1.5 or pursuant to clause 11.1, or by any Receiver, the purchaser shall not be bound to see or enquire whether the Mortgagee's power of sale has arisen in the manner provided in this Deed and the sale shall be deemed to be within the power of the Mortgagee (or the Receiver, as the case may be) and the receipt of the Mortgagee (or the Receiver, as the case may be) for the purchase money shall effectively discharge the purchaser who shall not be concerned with the manner of application of the proceeds of sale or be in any way answerable therefor and the sale shall operate to divest the Owner of all rights, title and interest of any nature whatsoever in the Ship and to bar any such interest of the Owner and all persons claiming through or under the Owner.

8 Application of moneys

8.1 Application

All moneys received by the Mortgagee or any Receiver in respect of:

- 8.1.1 sale of the Ship or any share or interest therein;
- 8.1.2 recovery under the Insurances (other than under any loss of earnings insurance and any such sum or sums as may have been received by the Mortgagee in accordance with the relevant Loss Payable Clause in respect of a major casualty as therein defined and paid over to the Owner as provided in clause 2.1.2(b) or which fall to be otherwise applied under clause 8.4);
- 8.1.3 Requisition Compensation; and
- 8.1.4 the employment of the Ship pursuant to the provisions of clause 7.1.6,

shall be held by it upon trust in the first place to pay or make good the Expenses and the balance shall:

- (a) in the case of moneys received in respect of sale of the Ship or recovery under the Insurances in relation to a Total Loss of the Ship or Requisition Compensation:
 - (i) if no Default has occurred, be applied in making such prepayment as is required in accordance with clause 4.3 of the Loan Agreement and any other payments required pursuant to clause 4.4 of the Loan Agreement and the balance, if any, shall be paid to the Owner; or
 - (ii) if a Default has occurred and is continuing but no Event of Default has occurred be retained by the Mortgagee until such time as such Default is remedied and no other Default has occurred and is continuing (whereupon such moneys shall be applied in making such prepayment as is required in accordance with clause 4.3 of the Loan Agreement and any other payments required pursuant to clause 4.4 of the Loan Agreement and the balance, if any, shall be paid to the Owner) and/or shall be applied by the Mortgagee in or towards satisfaction of any sums due and payable by the Owner under the Security Documents or any of them by virtue of payment demanded thereunder, in each case as the Mortgagee (acting on the instructions of the Majority Banks) may in its absolute discretion determine; and

(b) if an Event of Default has occurred, be applied by the Mortgagee in the manner specified in clause 13.1 of the Loan Agreement and/or paragraph (a)(ii) above, as the Mortgagee (acting on the instructions of the Majority Banks) may in its absolute discretion determine.

8.2 Shortfalls

In the event that the balance referred to in clause 8.1 is insufficient to pay in full the whole of the Outstanding Indebtedness, the Mortgagee or the Receiver, as the case may be, shall be entitled to collect the shortfall from the Owner or any other person liable for the time being therefor.

8.3 Application of Earnings received by Mortgagee or Receiver

Any moneys received by the Mortgagee or any Receiver in respect of the Earnings shall:

8.3.1 if received by the Mortgagee, or in the hands of the Mortgagee, after the occurrence of a Default but prior to the occurrence of an Event of Default, be retained by the Mortgagee and shall be paid over by the Mortgagee, to the Operating Account at such times, in such amounts and for such purposes and/or shall be applied by the Mortgagee, in or towards satisfaction of any sums from time to time accruing due and payable by the Owner under the Loan Agreement, the Master Swap Agreement, this Deed, the Mortgage, or any of the other Security Documents or any of them or by virtue of payment demanded thereunder, in each case as the Mortgagee, may in its absolute discretion determine; and

8.3.2 if received by the Mortgagee or any Receiver, or in the hands of the Mortgagee or any Receiver, after the occurrence of an Event of Default, be applied by the Mortgagee or any Receiver, in the manner specified in clause 8.1 and/or clause 8.3.1, as the Mortgagee or any Receiver, may in its absolute discretion determine.

8.4 Application of Insurances received by Mortgagee or Receiver

Any moneys received by the Mortgagee or any Receiver in respect of the Insurances (other than in respect of recovery under any loss of earnings insurance or in respect of a Total Loss) shall:

8.4.1 if received by the Mortgagee, or in the hands of the Mortgagee, after the occurrence of a Default but prior to the occurrence of an Event of Default, be retained by the Mortgagee, and shall be paid over by the Mortgagee, to the Owner at such times, in such amounts and for such purposes and/or shall be applied by the Mortgagee, in or towards satisfaction of any sums from time accruing due and payable by the Owner under the Loan Agreement, this Deed, the Mortgage or any of the other Security Documents or any of them or by virtue of payment demanded thereunder, in each case as the Mortgagee, may in its absolute discretion determine;

8.4.2 if received by the Mortgagee or any Receiver, or in the hands of the Mortgagee or any Receiver, after the occurrence of an Event of Default, be applied by the Mortgagee or such Receiver, in the manner specified in clause 8.1 and/or clause 8.4.1, as the Mortgagee or any Receiver, may in its absolute discretion determine.

9 Remedies cumulative and other provisions

9.1 No implied waivers; remedies cumulative

No failure or delay on the part of the Mortgagee or the Secured Creditors or any of them to exercise any right, power or remedy vested in it under the Loan Agreement, the Master Swap Agreement, this Deed, the Mortgage or any of the other Security Documents shall operate as a waiver thereof, nor shall any single or partial exercise by the Mortgagee of any right, power or remedy nor the discontinuance, abandonment or adverse determination of any proceedings taken by the Mortgagee to enforce any right, power or remedy preclude any other or further exercise thereof or proceedings to enforce the same or the exercise of any other right, power or remedy nor shall the giving by the Mortgagee of any consent to any act which by the terms of

this Deed requires such consent prejudice the right of the Mortgagee to withhold or give consent to the doing of any other similar act. The remedies provided in the Loan Agreement, the Master Swap Agreement, this Deed, the Mortgage and the other Security Documents are cumulative and are not exclusive of any remedies provided by law.

9.2 Delegation

The Mortgagee shall be entitled, at any time and as often as may be expedient, to delegate all or any of the powers and discretions vested in it by the Mortgage and this Deed (including the power vested in it by virtue of clause 11) or any of the other Security Documents in such manner, upon such terms, and to such persons as the Mortgagee in its absolute discretion may think fit.

9.3 Incidental powers

The Mortgagee shall be entitled to do all acts and things incidental or conducive to the exercise of any of the rights, powers or remedies possessed by it as mortgagee of the Ship (whether at law, under the Mortgage and/or this Deed or otherwise) and in particular (but without prejudice to the generality of the foregoing), upon becoming entitled to exercise any of its powers under clause 7.1, the Mortgagee shall be entitled to discharge any cargo on board the Ship (whether the same shall belong to the Owner or any other person) and to enter into such other arrangements in respect of the Ship, her insurances, management, maintenance, repair, classification and employment in all respects as if the Mortgagee was the owner of the Ship, but without being responsible for any loss incurred as a result of the Mortgagee doing or omitting to do any such acts or things as aforesaid.

10 Costs and indemnity

10.1 Costs

The Owner shall pay to the Mortgagee on demand on a full indemnity basis all expenses or liabilities of whatsoever nature (including legal fees, fees of insurance advisers, printing, out-of-pocket expenses, stamp duties, registration fees and other duties or charges) together with any value added tax or similar tax payable in respect thereof, incurred by the Mortgagee in connection with the enforcement of, or preservation of any rights under the Mortgage, this Deed, the Master Swap Agreement, the Loan Agreement or any of the other Security Document, or otherwise in respect of the Outstanding Indebtedness and the security therefor or in connection with the preparation, completion, execution or registration of the Mortgage, this Deed, the Loan Agreement, the Master Swap Agreement or any of the other Security Documents.

10.2 Mortgagee's and Receiver's indemnity

The Owner hereby agrees and undertakes to indemnify the Mortgagee and any Receiver against all losses, actions, claims, expenses, demands, obligations and liabilities whatever and whenever arising which may now or hereafter be incurred by the Mortgagee or any such Receiver, or by any manager, agent, officer or employee for whose liability, act or omission it or he may be answerable, in respect of, in relation to, or in connection with anything done or omitted in the exercise or purported exercise of the powers contained in the Mortgage, this Deed, or otherwise in connection therewith and herewith or with any part of the Mortgaged Property or otherwise howsoever in relation to, or in connection with, any of the matters dealt with in the Mortgage or this Deed.

11 Attorney

11.1 Power

By way of security, the Owner hereby irrevocably appoints the Mortgagee and any Receiver, jointly and also severally, to be its attorney generally for and in the name and on behalf of the Owner, and as the act and deed or otherwise of the Owner to execute, seal and deliver and otherwise perfect and do all such deeds, assurances, agreements, instruments, acts and things

which may be required for the full exercise of all or any of the rights, powers or remedies conferred by the Mortgage, this Deed, the Loan Agreement, the Master Swap Agreement or any of the other Security Documents, or which may be deemed proper in or in connection with all or any of the purposes aforesaid (including, without prejudice to the generality of the foregoing the power to sell, transfer and otherwise dispose of or deal with the Ship or the execution and delivery of a bill of sale of the Ship). The power hereby conferred shall be a general power of attorney under the Powers of Attorney Act 1971, and the Owner ratifies and confirms, and agrees to ratify and confirm, any deed, assurance, agreement, instrument, act or thing which the Mortgagee or the Receiver may execute or do pursuant thereto. Provided always that such power shall not be exercisable by or on behalf of the Mortgagee until the happening of an Event of Default. The parties hereto declare that the mandate hereby granted is so granted in the interest of the Mortgagee and as part of its security.

11.2 Exercise of power

The exercise of such power by or on behalf of the Mortgagee or any Receiver shall not put any person dealing with the Mortgagee or the Receiver upon any enquiry as to whether any Event of Default has happened, nor shall such person be in any way affected by notice that no such Event of Default has happened and the exercise by the Mortgagee or the Receiver of such power shall be conclusive evidence of the Mortgagee's or such Receiver's right to exercise the same.

11.3 Filings

The Owner hereby irrevocably appoints the Mortgagee and any Receiver jointly and also severally to be its attorney in its name and on its behalf and as its act and deed or otherwise of it, to agree the form of and to execute and do all deeds, instruments, acts and things in order to file, record, register or enrol the Mortgage and/or this Deed in any court, public office or elsewhere which the Mortgagee may in its discretion consider necessary or advisable, now or in the future, to ensure the legality, validity, enforceability or admissibility in evidence thereof and any other assurance, document, act or thing required to be executed by the Owner pursuant to clause 12.

12 Further assurance

The Owner hereby further undertakes at its own expense from time to time to execute, sign, perfect, do and (if required) register every such further assurance, document, act or thing as in the opinion of the Mortgagee may be necessary or desirable for the purpose of more effectually mortgaging and charging the Mortgaged Property or perfecting the security constituted or intended to be constituted by the Mortgage and this Deed or contemplated by the Loan Agreement.

13 Notices

Every notice, request, demand or other communication under this Deed shall:

- 13.1.1 be in writing delivered personally or by first class prepaid letter (airmail if available) or facsimile transmission or other means of telecommunication in permanent written form;
- 13.1.2 be deemed to have been received in the case of a letter, when delivered personally or three (3) days after it has been put in to the post and, in the case of a facsimile transmission or other means of telecommunication in permanent written form, at the time of despatch (provided that if the date of despatch is not a business day in the country of the addressee or if the time of despatch is after the close of business in the country of the addressee it shall be deemed to have been received at the opening of business on the next such business day); and

13.1.3 be sent:

(a) if to the Owner at:

c/o Diana Shipping Services S.A.
Pendelis 16
Palaio Faliro
175 64 Athens
Greece
Fax no: +30 210 942 4975
Att: Mr Andreas Michalopoulos

(b) if to the Mortgagee at:

Nordea Bank Finland Plc, London Branch
8th Floor, City Place House
55 Basinghall Street
London EC2V 5NB
England
Fax no: +44 207 726 9188
Att: Shipping Department

with a copy to:

Fax no: +44 207 726 9102
Att: Loan Administration

or, in each case, to such other address and/or numbers as is notified by one party to the other parties under this Deed.

14 Counterparts

This Deed may be entered into in the form of two counterparts, each executed by one of the parties, and, provided both the parties shall so execute this Deed, each of the executed counterparts, when duly exchanged or delivered, shall be deemed to be an original but, taken together, they shall constitute one instrument.

15 Severability of provisions

Each of the provisions in this Deed are severable and distinct from the others, and if at any time one or more such provisions is or becomes invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions of this Deed shall not in any way be affected or impaired thereby.

16 Law and jurisdiction

16.1 Law

This Deed and any non-contractual obligations connected with it are governed by, and shall be construed in accordance with, English law.

16.2 Submission to jurisdiction

For the benefit of the Mortgagee, the parties hereto irrevocably agree that any legal action or proceedings in connection with the Mortgage and/or this Deed (including any non-contractual obligations connected with the Mortgage and/or this Deed) may be brought in the English courts or in the courts of any other country chosen by the Mortgagee, each of which shall have

jurisdiction to settle any disputes arising out of or in connection with the Mortgage and/or this Deed (including any non-contractual obligations connected with the Mortgage and/or this Deed). The Owner irrevocably and unconditionally submits to the jurisdiction of the English courts and the courts of any country chosen by the Mortgagee and irrevocably designates, appoints and empowers Mr Antonis Nicolaou at present of 25 Heath Drive, Potters Bar, Herts EN6 1EN, England to receive, for it and on its behalf, service of process issued out of the English courts in any legal action or proceedings arising out of or in connection with the Mortgage and/or this Deed (including any non-contractual obligations connected with the Mortgage and/or this Deed). The submission to such jurisdiction shall not (and shall not be construed so as to) limit the right of the Mortgagee to take proceedings against the Owner in any other court of competent jurisdiction nor shall the taking of proceedings in any one or more jurisdictions preclude the taking of proceedings in any other jurisdiction, whether concurrently or not. The parties further agree that only the courts of England and not those of any other State shall have jurisdiction to determine any claim which the Owner may have against the Mortgagee arising out of or in connection with the Mortgage and/or this Deed (including any non-contractual obligations connected with the Mortgage and/or this Deed).

16.3 Process agent

If Mr Nikolaou appointed as agent for service of process by the Owner and referred to in clause 18.2 passes away or cannot be found or is otherwise unable for any reason to act or resigns as agent for service of process, the Owner hereby undertakes within ten (10) days of such event taking place (and the Owner by way of security hereby irrevocably and unconditionally authorises the Mortgagee to do so) to designate, appoint and empower on its behalf, Messrs Cheeswrights (currently of Bankside House, 107 Leadenhall Street, London EC3A 4AF, England) at their then principal place of business in London as substitute process agent of Mr Antonis Nikolaou or another agent on terms acceptable to the Mortgagee.

16.4 Contracts (Rights of Third Parties Act) 1999

No term of this Deed is enforceable under the Contracts (Rights of Third Parties) Act 1999 by a person who is not a party to this Deed.

IN WITNESS whereof this Deed has been duly executed as a deed the day and year first above written.

Schedule 1

Forms of Loss Payable Clauses

(A) Hull and machinery (marine and war risks)

By a Deed of Covenant dated [•] 2012, **JEMO SHIPPING COMPANY INC.** of Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro, Marshall Islands MH96960 (the "Owner") has assigned (subject to the prior assignment in favour of Nordea Bank Finland Plc, London Branch contained in the deed of covenant dated [•] 2012) to **NORDEA BANK FINLAND PLC, LONDON BRANCH** of 8th Floor, City Place House, 55 Basinghall Street, London EC2V 5NB, England (the "Mortgagee"), all the Owner's rights, title and interest in and to all policies and contracts of insurance from time to time taken out or entered into by or for the benefit of the Owner in respect of m.v. *Leto* and accordingly:

- (a) all claims hereunder in respect of an actual or constructive or compromised or arranged total loss, and all claims in respect of a major casualty (that is to say any casualty the claim in respect of which exceeds One million Dollars (\$1,000,000) (or the equivalent in any other currency) inclusive of any deductible) shall be paid in full to the Mortgagee or to its order; and
- (b) all other claims hereunder shall be paid in full to the Owner or to its order, unless and until the Mortgagee shall have notified the insurers hereunder to the contrary, whereupon all such claims shall be paid to the Mortgagee or to its order.

(B) War risks

It is noted that **NORDEA BANK FINLAND PLC, LONDON BRANCH** of 8th Floor, City Place House, 55 Basinghall Street, London EC2V 5NB, England (the "Mortgagee"), is interested as first mortgagee in the subject matter of this insurance. Save as hereinafter provided, all claims (whether in respect of actual, constructive, arranged or compromised total loss or otherwise) which, but for this Loss Payable Clause would be payable to **JEMO SHIPPING COMPANY INC.** of Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro, Marshall Islands MH96960 (the "Owner") shall (subject to the rights of the Mortgagee under a first priority deed of covenant in favour of the Mortgagee dated [•] 2012) be payable to the Mortgagee, provided always that unless and until notice in writing to the contrary has been received by the Association, claims (other than total loss claims) not exceeding One million Dollars (\$1,000,000) (or the equivalent in any other currency) in respect of any one claim shall be paid direct to the Owner or to its order.

(C) Protection and indemnity risks

Payment of any recovery which **JEMO SHIPPING COMPANY INC.** of Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro, Marshall Islands MH96960 (the "Owner") is entitled to make out of the funds of the Association in respect of any liability, costs or expenses incurred by the Owner, shall be made to the Owner or to its order, unless and until the Association receives notice to the contrary from **NORDEA BANK FINLAND PLC, LONDON BRANCH** of 8th Floor, City Place House, 55 Basinghall Street, London EC2V 5NB, England (the "Mortgagee"), in which event all recoveries shall thereafter (subject to the rights of the Mortgagee under a first priority deed of covenant in favour of the Mortgagee dated [•] 2012) be paid to the Mortgagee or its order; provided always that no liability whatsoever shall attach to the Association, its Managers or their agents for failure to comply with the latter obligation until the expiry of two clear business days from the receipt of such notice.

(D) Loss of Earnings

By a Deed of Covenant dated [•] 2012, **JEMO SHIPPING COMPANY INC.** of Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro, Marshall Islands MH96960 (the "Owner") has assigned to **NORDEA BANK FINLAND PLC, LONDON BRANCH** of 8th Floor, City Place House, 55 Basinghall Street, London EC2V 5NB, England (the "Mortgagee") (subject to the prior assignment in favour of Nordea Bank Finland Plc, London Branch contained in the deed of covenant dated [•] 2012), its rights, title and interest in and to all policies and contracts of insurance from time to time taken out or entered into by or for the benefit of the Owner in respect of m.v. *Leto* and accordingly all claims hereunder shall be paid in full to **[here insert details of Operating Account]** unless and until the Mortgage shall have notified the insurers hereunder to the contrary, whereupon in either case all such claims shall be paid to the Mortgagee or its order.

Schedule 2

Form of Notice of Assignment of Insurances

(For attachment by way of endorsement to the Policy)

JEMO SHIPPING COMPANY INC. of Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro, Marshall Islands MH96960 the Owner of the m.v. *Leto* HEREBY GIVES NOTICE that by a Deed of Covenant dated [.] 2012 and entered into by us **NORDEA BANK FINLAND PLC, LONDON BRANCH** of 8th Floor, City Place House, 55 Basinghall Street, London EC2V 5NB, England, there has been assigned by us to **NORDEA BANK FINLAND PLC, LONDON BRANCH** as mortgagee (subject to the rights of the Mortgagee under a first priority deed of covenant in favour of the Mortgagee dated [.] 2012) of the said vessel all insurances in respect thereof, including the insurances constituted by the Policy whereon this notice is endorsed.

Signed

For and on behalf of

JEMO SHIPPING COMPANY INC.

Date: [•] 2012

EXECUTED as a **DEED**
by
for and on behalf of
JEMO SHIPPING COMPANY INC.
in the presence of:

)
)
)
) **Attorney-in-Fact**
)

Witness
Name:
Address:
Occupation:

EXECUTED as a **DEED**
by
for and on behalf of
NORDEA BANK FINLAND PLC, LONDON BRANCH
in the presence of:

)
)
)
) **Attorney-in-Fact**
)

Witness
Name:
Address:
Occupation:

Borrowers

EXECUTED as a **DEED** by I. ZAFIRAKIS
for and on behalf of
JEMO SHIPPING COMPANY INC.
in the presence of:

)
)
)
)
)

/s/ I. Zafirakis
Attorney-in-Fact

/s/ Anthi Kekatou
Witness
Name: Anthi Kekatou
Address: Norton Rose LLP
Occupation: Solicitor

EXECUTED as a **DEED** by A. MICHALOPOULOS
for and on behalf of
MANDARINGINA INC.
in the presence of:

)
)
)
)
)

/s/ A. Michalopoulos
Attorney-in-Fact

/s/ Anthi Kekatou
Witness
Name: Anthi Kekatou
Address: Norton Rose LLP
Occupation: Solicitor

Creditors

EXECUTED as a **DEED** by E. PZOUKALI
for and on behalf of
NORDEA BANK FINLAND PLC, LONDON BRANCH
as Arranger, Agent, Security Agent, Account Bank and Bank

)
)
)
)
)

/s/ E. Pzoukali
Attorney-in-Fact

EXECUTED as a **DEED** by E. PZOUKALI
for and on behalf of
NORDEA BANK FINLAND PLC
as Swap Provider

)
)
)
)

/s/ E. Pzoukali
Attorney-in-Fact

Security Parties

EXECUTED as a **DEED** by S. PALIOS
for and on behalf of
DIANA SHIPPING INC.
as Corporate Guarantor
in the presence of:

)
)
)
)
)

/s/ S. Palios
Attorney-in-Fact

/s/ Anthi Kekatou
Witness
Name: Anthi Kekatou
Address: Norton Rose LLP
Occupation: Solicitor

EXECUTED as a **DEED** by A. MARGARONIS

for and on behalf of
DIANA SHIPPING SERVICES S.A.
as Manager
in the presence of:

/s/ Anthi Kekatou
Witness
Name: Anthi Kekatou
Address: Norton Rose LLP
Occupation: Solicitor

)
)
) /s/ A. Margaronis
) **Attorney-in-Fact**
)

SUBSIDIARIES AS AT DECEMBER 31, 2012

Subsidiary	Country of Incorporation
Ailuk Shipping Company Inc.	Marshall Islands
Bikar Shipping Company Inc.	Marshall Islands
Bikini Shipping Company Inc.	Marshall Islands
Erikub Shipping Company Inc.	Marshall Islands
Gala Properties Inc.	Marshall Islands
Guam Shipping Company Inc.	Marshall Islands
Jaluit Shipping Company Inc.	Marshall Islands
Jemo Shipping Company Inc.	Marshall Islands
Kili Shipping Company Inc.	Marshall Islands
Knox Shipping Company Inc.	Marshall Islands
Lae Shipping Company Inc.	Marshall Islands
Lib Shipping Company Inc.	Marshall Islands
Mandaringina Inc.	Marshall Islands
Majuro Shipping Company Inc.	Marshall Islands
Namu Shipping Company Inc.	Marshall Islands
Palau Shipping Company Inc.	Marshall Islands
Taka Shipping Company Inc.	Marshall Islands
Tuvalu Shipping Company Inc.	Marshall Islands
Wotho Shipping Company Inc.	Marshall Islands
Husky Trading, S.A.	Panama
Buenos Aires Compania Armadora S.A.	Panama
Cerada International S.A.	Panama
Changame Compania Armadora S.A.	Panama
Chorrera Compania Armadora S.A.	Panama
Cypres Enterprises Corp.	Panama
Darien Compania Armadora S.A.	Panama
Diana Shipping Services S.A.	Panama
Eaton Marine S.A.	Panama
Panama Compania Armadora S.A.	Panama
Skyvan Shipping Company S.A.	Panama
Texford Maritime S.A.	Panama
Urbina Bay Trading, S.A.	Panama
Vesta Commercial, S.A.	Panama
Marfort Navigation Company Limited	Cyprus
Silver Chandra Shipping Company Limited	Cyprus
Bulk Carriers (USA) LLC	United States (Delaware)

CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER

I, Simeon Palios, certify that:

1. I have reviewed this annual report on Form 20-F of Diana Shipping 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 company as of, and for, the periods presented in this report;
4. The company'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 company 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 company, 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 company'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 company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company'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 company'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 company's internal control over financial reporting.

Date: March 21, 2013

/s/ Simeon Palios
 Simeon Palios
 Chief Executive Officer (Principal Executive Officer)

CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER

I, Andreas Michalopoulos, certify that:

1. I have reviewed this annual report on Form 20-F of Diana Shipping 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 company as of, and for, the periods presented in this report;
4. The company'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 company 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 company, 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 company'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 company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company'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 company'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 company's internal control over financial reporting.

Date: March 21, 2013

/s/ Andreas Michalopoulos
Andreas Michalopoulos

PRINCIPAL EXECUTIVE OFFICER CERTIFICATION

PURSUANT TO 18 U.S.C. SECTION 1350

In connection with this Annual Report of Diana Shipping Inc. (the "Company") on Form 20-F for the year ended December 31, 2012 as filed with the Securities and Exchange Commission (the "SEC") on or about the date hereof (the "Report"), I, Simeon Palios, Chief Executive Officer of the Company, certify, 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 operations of the Company.

A signed original of this written statement has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

Date: March 21, 2013

/s/ Simeon Palios
Simeon Palios
Chief Executive Officer (Principal Executive Officer)

PRINCIPAL FINANCIAL OFFICER CERTIFICATION

PURSUANT TO 18 U.S.C. SECTION 1350

In connection with this Annual Report of Diana Shipping Inc. (the "Company") on Form 20-F for the year ended December 31, 2012 as filed with the Securities and Exchange Commission (the "SEC") on or about the date hereof (the "Report"), I, Andreas Michalopoulos, Chief Financial Officer of the Company, certify, 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 operations of the Company.

A signed original of this written statement has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

Date: March 21, 2013

/s/ Andreas Michalopoulos
Andreas Michalopoulos
Chief Financial Officer and Treasurer (Principal Financial Officer)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement (Form F-3 No. 333-181540, as amended) of Diana Shipping Inc. and in the related Prospectus of our reports dated March 21, 2013, with respect to the consolidated financial statements of Diana Shipping Inc. and the effectiveness of internal control over financial reporting of Diana Shipping included in this Annual Report (Form 20-F) for the year ended December 31, 2012.

/s/ Ernst & Young (Hellas) Certified Auditors Accountants S.A.

March 21, 2013
Athens, Greece

