

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC. 20549

FORM 20-F

(Mark One)

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (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, 2013**

**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

000-29106

***Knightsbridge Tankers Limited***

*(Exact name of Registrant as specified in its charter)*

*(Translation of Registrant's name into English)*

*Bermuda*

*(Jurisdiction of incorporation or organization)*

*Par-la-Ville Place, 14 Par-la-Ville Road, Hamilton, HM 08, Bermuda*

*(Address of principal executive offices)*

*Georgina Sousa, Telephone: (1) 441 295 6935, Facsimile: (1) 441 295 3494,  
Par-la-Ville Place, 14 Par-la-Ville Road, Hamilton, HM 08, Bermuda*

*(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*

*Name of each exchange on which registered*

*Common Shares, Par Value \$0.01 Per Share*

*NASDAQ Global Select Market*

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.

*Common Shares, Par Value \$0.01 Per Share*  
*(Title of Class)*

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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.

*30,472,061 Common Shares, Par Value \$0.01 Per Share*

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 as issued by the  
International Accounting Standards Board ☐

Other ☐

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 ☒

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## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Matters discussed in this report and the documents incorporated by reference may constitute forward-looking statements. The Private Securities Litigation Reform Act of 1995 provides safe harbor protections for forward-looking statements, which include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts.

Knightsbridge Tankers Limited and its subsidiaries, 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 report 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," "anticipate," "intend," "estimate," "forecast," "project," "plan," "potential," "will," "may," "should," "expect" and similar expressions identify forward-looking statements.

The forward-looking statements in this report are based upon various assumptions, including, without limitation, management's examination of historical operating trends, data contained in our records and 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. We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

In addition to these important factors and matters discussed elsewhere herein and in the documents incorporated by reference 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 tanker and dry bulk markets, changes in world wide oil production and consumption and storage, changes in the Company's operating expenses, including bunker prices, drydocking and insurance costs, the market for the Company's vessels, availability of financing and refinancing, 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, political events or acts by terrorists, and other important factors described from time to time in the reports filed by the Company with the Securities and Exchange Commission, or the Commission.

We caution readers of this report not to place undue reliance on these forward-looking statements, which speak only as of their dates. These forward-looking statements are not guarantees of our future performance, and actual results and future developments may vary materially from those projected in the forward looking statements. Please see our Risk Factors in Item 3 of this report for a more complete discussion of these and other risks and uncertainties.

## **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**

*Throughout this report, the "Company," "we," "us" and "our" all refer to Knightsbridge Tankers Limited and its subsidiaries. We use the term deadweight ton, or dwt, in describing the size of vessels. Dwt, expressed in metric tons, each of which is equivalent to 1,000 kilograms, refers to the maximum weight of cargo and supplies that a vessel can carry. Unless otherwise indicated, all references to "USD," "US\$" and "\$" in this report are to, and amounts are presented in, U.S. dollars.*

#### **A. SELECTED FINANCIAL DATA**

The selected statement of operations data of the Company with respect to the fiscal years ended December 31, 2013, 2012 and 2011, and the selected balance sheet data of the Company as of December 31, 2013 and 2012, have been derived from the Company's consolidated financial statements included herein and should be read in conjunction with such statements and the notes thereto. The selected statement of operations data with respect to the fiscal years ended December 31, 2010 and 2009, and the selected balance sheet data as of December 31, 2011, 2010 and 2009, have been derived from consolidated financial statements of the Company not included herein. The following table should also be read in conjunction with Item 5. "Operating and Financial Review and Prospects" and the Company's consolidated financial statements and notes thereto included herein. The Company's accounts are maintained in U.S. dollars.

	Fiscal year ended December 31,				
	2013	2012	2011	2010	2009
<i>(in thousands of \$, except shares, per share data and ratios)</i>					
<b>Statement of Operations Data:</b>					
Total operating revenues	37,546	37,315	55,497	40,825	8,480
Total operating expenses	30,722	27,307	24,457	17,267	4,974
Net operating income	6,824	10,008	31,040	23,558	3,506
Net income from continuing operations	3,530	5,882	27,058	20,145	2,576
Net (loss) income from discontinued operations (1)	(7,433)	(59,311)	5,594	18,412	19,104
Net (loss) income	(3,903)	(53,429)	32,652	38,557	21,680
Earnings per share from continuing operations: basic	0.14	0.24	1.11	1.05	0.15
Earnings per share from continuing operations: diluted	0.14	0.24	1.10	1.05	0.15
(Loss) earnings per share from discontinued operations: basic	(0.29)	(2.43)	0.23	0.97	1.12
(Loss) earnings per share from discontinued operations: diluted	(0.29)	(2.41)	0.23	0.97	1.12
(Loss) earnings per share: basic	(0.15)	(2.19)	1.34	2.02	1.27
(Loss) earnings per share: diluted	(0.15)	(2.17)	1.33	2.02	1.27
Cash distributions per share declared	0.70	1.20	2.00	1.70	0.25
<b>Balance Sheet Data (at end of year):</b>					
Cash and cash equivalents	98,250	79,259	46,848	56,771	7,964
Restricted cash	15,000	15,000	15,000	15,000	10,000
Newbuildings	26,706	—	—	—	—
Vessels, net	262,747	273,826	436,273	459,032	344,399
Total assets	409,858	397,420	521,219	541,953	374,946
Current portion of long-term debt	—	4,700	3,600	3,600	13,960
Long-term debt	95,000	106,978	150,140	153,740	106,520
Share capital	305	244	244	244	171
Total equity	307,441	277,694	359,932	375,901	239,710
Common shares outstanding	30,472,061	24,437,000	24,425,699	24,425,699	17,100,000
<b>Other Financial Data:</b>					
Equity to assets ratio (percentage) (2)	75.0%	69.9%	69.1%	69.4%	63.9%
Debt to equity ratio (3)	0.3	0.4	0.4	0.4	0.5
Price earnings ratio (4)	(61.3)	(2.4)	10.2	11.0	10.4
Time charter equivalent revenue (5)	30,737	32,992	53,477	39,674	8,330

- (1) The Company classified its only remaining VLCC as 'held for sale' as of December 31, 2012 and this vessel was sold during 2013. The operations of the Company's VLCCs have been recorded as discontinued operations in all periods shown above.
- (2) Equity to assets ratio is calculated as total equity divided by total assets.
- (3) Debt to equity ratio is calculated as total interest bearing current and long-term liabilities divided by total equity.
- (4) Price earnings ratio is calculated using the year end share price divided by basic (loss) earnings per share.
- (5) A reconciliation of time charter equivalent revenues to total operating revenues as reflected in the consolidated statements of operation is as follows:

	2013	2012	2011	2010	2009
<i>(in thousands of \$)</i>					
Total operating revenues	37,546	37,315	55,497	40,825	8,480
Less: Voyage expense	(6,809)	(4,323)	(2,020)	(1,151)	(150)
Time charter equivalent revenue	30,737	32,992	53,477	39,674	8,330

Consistent with general practice in the shipping industry, the Company uses time charter equivalent revenues, which represents operating revenues less voyage expenses, as a measure to compare revenue generated from a voyage charter to revenue generated from a time charter. Time charter equivalent revenues, a non-GAAP measure, provides additional meaningful information in conjunction with operating revenues, the most directly comparable GAAP measure, because it assists Company management in making decisions regarding the deployment and use of its vessels and in evaluating their financial performance.

## **B. CAPITALIZATION AND INDEBTEDNESS**

Not applicable.

## **C. REASONS FOR THE OFFER AND USE OF PROCEEDS**

Not applicable.

## **D. RISK FACTORS**

The following summarizes the risks that may materially affect our business, financial condition or results of operations.

### **Risks Related to Our Industry**

#### ***Dry bulk***

***Charter hire rates for dry bulk vessels 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 vessels has varied widely, and charter hire rates for dry bulk vessels have declined significantly from historically high levels. 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. 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. The supply of and demand for shipping capacity strongly influence charter rates. 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;
- 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:

- number of newbuilding deliveries;
- port and canal congestion;
- scrapping of older vessels;
- vessel casualties; and
- number of vessels that are out of service.

Demand for our dry bulk vessels is dependent upon economic growth in the world's economies, seasonal and regional changes in demand, changes in the capacity of the global dry bulk 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 continued downturn in the dry bulk carrier charter market has had and may continue to have an adverse effect on our earnings.***

The abrupt and dramatic downturn in the dry bulk charter market, from which we derive our revenues, has severely affected the dry bulk shipping industry. The Baltic Dry Index, an index published by The Baltic Exchange of shipping rates for 20 key dry bulk routes, fell 94% from a peak of 11,793 in May 2008 to a low of 663 in December 2008 and remained volatile since, reaching a low of 772 and a high of 4,661 during 2009, a low of 1,700 and a high of 4,209 during 2010, and continued to decline in 2011 and 2012, reaching lows of 1,043 and 647, respectively. The high and low in 2013 were 4,329 and 1,209, respectively, and the high and low for 2014 as of February 28 were 3,733 and 1,513, respectively.

This downturn in dry bulk charter rates and their volatility has had a number of adverse consequences for dry bulk shipping, including, among other things:

- an absence of financing for vessels;
- no active second-hand market for the sale of vessels;
- extremely low charter rates, particularly for vessels employed in the spot market;
- widespread loan covenant defaults in the dry bulk shipping industry; and
- declaration of bankruptcy by some operators and ship owners as well as charterers.

The occurrence of one or more of these events could adversely affect our business, results of operations, cash flows, financial condition and ability to pay cash distributions. There can be no assurance that the dry bulk charter market will recover and the market could continue to decline further.

Dry bulk carrier values have also declined both as a result of a slowdown in the availability of global credit and the significant deterioration in charter rates. Charter rates and vessel values have been affected in part by the lack of availability of credit to finance both vessel purchases and purchases of commodities carried by sea, resulting in a decline in cargo shipments, and the excess supply of iron ore in China, which resulted in falling iron ore prices and increased stockpiles in Chinese ports. There can be no assurance as to how long spot charter rates and vessel values will remain at their currently low levels. Charter rates may remain at low levels for some time which will adversely affect our revenue and profitability.

In addition, because the market value of our vessels may fluctuate significantly, we may incur losses when we sell vessels, which may adversely affect our earnings. If we sell vessels at a time when vessel prices have fallen and before we have recorded an impairment adjustment to our financial statements, the sale may be at less than the vessel's carrying amount in our financial statements, resulting in a loss and a reduction in earnings.

***An oversupply of dry bulk carrier capacity may lead to reductions in charter hire rates and profitability.***

The market supply of dry bulk carriers has been increasing as a result of the delivery of numerous newbuilding orders over the last few years. An oversupply of dry bulk carrier capacity may result in a reduction of charter hire rates, as evidenced by historically low rates in December 2008. If such dry bulk carrier capacity increase continues, we may only be able to re-charter our vessels at reduced or unprofitable rates, or we may not be able to re-charter these vessels at all. The occurrence of these events could have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay cash distributions.

## ***Tankers***



***If the tanker industry, which historically has been cyclical and volatile, continues to be depressed or declines further in the future, our revenues, earnings and available cash flow may be adversely affected.***

We currently do not own or operate any tanker vessels but have owned such vessels in the past and our current strategy is to invest in drybulk and tanker tonnage. Historically, the tanker industry has been highly cyclical, with volatility in profitability, charter rates and asset values resulting from changes in the supply of, and demand for, tanker capacity. After reaching highs during the summer of 2008, charter rates for crude oil carriers fell dramatically during the global financial crisis and current rates continue to remain at relatively low levels compared to the rates achieved in the years preceding the global financial crisis. Fluctuations in charter rates and tanker values result from changes in the supply of and demand for tanker capacity and changes in the supply of and demand for oil and oil products. These factors may adversely affect the rates payable and the amounts we receive in respect of our vessels. Our ability to re-charter our vessels on the expiration or termination of their current charters and the charter rates payable under any renewal or replacement charters will depend upon, among other things, economic conditions in the tanker market and we cannot guarantee that any renewal or replacement charters we enter into will be sufficient to allow us to operate our vessels profitably.

The factors that influence demand for tanker capacity include:

- supply and demand for oil and oil products;
- global and regional economic and political conditions, including developments in international trade, national oil reserves policies, fluctuations in industrial and agricultural production and armed conflicts;
- regional availability of refining capacity;
- environmental and other legal and regulatory developments;
- the distance oil and oil products are to be moved by sea;
- changes in seaborne and other transportation patterns, including changes in the distances over which tanker cargoes are transported by sea;
- increases in the production of oil in areas linked by pipelines to consuming areas, the extension of existing, or the development of new, pipeline systems in markets we may serve, or the conversion of existing non-oil pipelines to oil pipelines in those markets;
- currency exchange rates;
- weather and acts of God and natural disasters;
- competition from alternative sources of energy and from other shipping companies and other modes of transport;
- international sanctions, embargoes, import and export restrictions, nationalizations, piracy and wars; and
- regulatory changes including regulations adopted by supranational authorities and/or industry bodies, such as safety and environmental regulations and requirements by major oil companies.

The factors that influence the supply of tanker capacity include:

- current and expected purchase orders for tankers;
- the number of tanker newbuilding deliveries;
- any potential delays in the delivery of newbuilding vessels and/or cancellations of newbuilding orders;
- the scrapping rate of older tankers;
- the successful implementation of the phase-out of single-hull tankers;
- technological advances in tanker design and capacity;
- tanker freight rates, which are affected by factors that may effect the rate of newbuilding, swapping and laying up of tankers;
- port and canal congestion;
- price of steel and vessel equipment;
- conversion of tankers to other uses or conversion of other vessels to tankers;
- the number of tankers that are out of service; and
- changes in environmental and other regulations that may limit the useful lives of tankers.

The factors affecting the supply and demand for tankers have been volatile and are outside of our control, and the nature, timing and degree of changes in industry conditions are unpredictable, including those discussed above. While market conditions have improved, continued volatility may cause reduced demand for transportation of oil over longer distances and increase supply of tankers to carry that oil, which may have a material adverse effect on our business, financial condition, results of operations, cash flows and ability to pay cash distributions.

***The international tanker industry has experienced volatile charter rates and vessel values and there can be no assurance that these charter rates and vessel values will return to their previous levels.***

Charter rates in the tanker industry are volatile. We anticipate that future demand for our vessels, and in turn our future charter rates, will be dependent upon economic growth in the world's economies, as well as seasonal and regional changes in demand and changes in the capacity of the world's fleet. We believe that the relatively high charter rates that were paid prior to 2008 were the result of economic growth in the world economy that exceeded growth in global vessel capacity. Since 2008, charter rates have been volatile and there can be no assurance that economic growth will not stagnate or decline leading to a decrease in vessel values and charter rates. A decline in vessel values and charter rates would have an adverse effect on our business, financial condition, results of operations and ability to pay cash distributions.

***Any decrease in shipments of crude oil may adversely affect our financial performance.***

The demand for oil tankers is derived primarily from demand for Arabian Gulf, West African, North Sea and Caribbean crude oil, which, in turn, primarily depends on the economies of the world's industrial countries and competition from alternative energy sources. A wide range of economic, social and other factors can significantly affect the strength of the world's industrial economies and their demand for crude oil from the mentioned geographical areas. Any decrease in shipments of crude oil from the above mentioned geographical areas would have a material adverse effect on our financial performance. Among the factors which could lead to such a decrease are:

- increased crude oil production from other areas;
- increased refining capacity in the Arabian Gulf or West Africa;
- increased use of existing and future crude oil pipelines in the Arabian Gulf or West Africa;
- a decision by Arabian Gulf or West African oil-producing nations to increase their crude oil prices or to further decrease or limit their crude oil production;
- armed conflict in the Arabian Gulf and West Africa and political or other factors; and
- the development and the relative costs of nuclear power, natural gas, coal and other alternative sources of energy.

In addition, continuing volatile economic conditions affecting the United States and world economies may result in reduced consumption of oil products and a decreased demand for our vessels and lower charter rates, which could have a material adverse effect on our earnings and our ability to pay cash distributions.

***An over-supply of tanker capacity may lead to reductions in charter rates, vessel values and profitability.***

In recent years, shipyards have produced a large number of new tankers. If the capacity of new vessels delivered exceeds the capacity of tankers being scrapped and converted to non-trading tankers, tanker capacity will increase. If the supply of tanker capacity increases and the demand for tanker capacity does not increase correspondingly, charter rates could materially decline. A reduction in charter rates and the value of our vessels may have a material adverse effect on our results of operations or our ability to pay cash distributions.

### ***Shipping Generally***

***Risks involved with operating ocean-going vessels could affect our business and reputation, which could have a material adverse effect on our results of operations and financial condition.***

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

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

Any of these circumstances or events could increase our costs or lower our revenues. The involvement of our vessels in an oil spill or other environmental disaster may harm our reputation as a safe and reliable dry bulk operator.

***If economic conditions throughout the world do not improve, it will have an adverse impact on our operations and financial results.***

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 challenges, including the recent turmoil and hostilities in the Middle East, North Africa and other geographic areas and countries and continuing economic weakness in the U.S. and the European Union. There has historically been a strong link between the development of the world economy and demand for energy, including oil and gas. An extended period of deterioration in the outlook for the world economy could reduce the overall demand for oil and gas and for our services. While market conditions have improved, continued economic and governmental factors, together with the concurrent decline in charter rates and vessel values, may have a material adverse effect on our results of operations, financial condition and cash flows and could cause the price of our common shares to decline.

The economies of the United States, the European Union and other parts of the world continue to experience relatively slow growth and exhibit weak economic trends. Over the past five years, the credit markets in the United States and Europe have experienced significant contraction, deleveraging and reduced liquidity. While credit conditions are beginning to stabilize, global financial markets have been, and continue to be, disrupted and volatile. Since 2008, lending by financial institutions worldwide remain at low levels compared to the period proceeding 2008.

The 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 for the year ended December 31, 2013, is estimated to remain around 7.7%, approximately the same growth rate as for the year ended December 31, 2012, remaining 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 financial condition and results of operations, as well as our future prospects, would likely be impeded by a continuing or worsening economic downturn in any of these countries.

***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 Cyprus, 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. As of the end of 2013, financial assistance disbursements under the ESM and the EFSF were being made to Greece, Portugal and Cyprus, with Ireland and Spain exiting the EFSF in December 2013. Despite these assistance measures, concerns persist regarding the debt burden of certain Eurozone countries and their ability to meet future financial obligations. Potential adverse developments in the outlook for European countries could reduce the overall demand for dry bulk cargoes and for our services. Market perceptions concerning these and related issues, could affect our financial position, results of operations and cash flow.

***The current state of the global financial markets and current economic conditions may adversely impact our ability to obtain financing on acceptable terms and otherwise negatively impact our business.***

Global financial markets and economic conditions have been, and continue to be, volatile. Recently, operating businesses in the global economy have faced tightening credit, weakening demand for goods and services, deteriorating international liquidity conditions and declining markets. There has been a general decline in the willingness by banks and other financial institutions to extend credit, particularly in the shipping industry, due to the historically volatile asset values of vessels. As the shipping industry is highly dependent on the availability of credit to finance and expand operations, it has been negatively affected by this decline.

Also, as a result of concerns about the stability of financial markets generally and the solvency of counterparties specifically, the cost of obtaining money from the credit markets has increased as many lenders have increased interest rates, enacted tighter lending standards, refused to refinance existing debt at all or on terms similar to current debt and reduced, and in some cases ceased, to provide funding to borrowers. Due to these factors, we cannot be certain that financing will be available if needed and to the extent required, on acceptable terms. If financing is not available when needed, or is available only on unfavorable terms, we may be unable to meet our obligations as they come due or we may be unable to enhance our existing business, complete additional vessel acquisitions or otherwise take advantage of business opportunities as they arise.

In addition, at times, lower demand for dry bulk cargoes as well as diminished trade credit available for the delivery of such dry bulk cargoes have led to decreased demand for dry bulk vessels, creating downward pressure on charter rates.

If the current global economic environment persists or worsens, we may be negatively affected in the following ways:

- we may not be able to employ our vessels at charter rates as favorable to us as historical rates or at all or operate our vessels profitably; and
- the market value of our vessels could decrease, which may cause us to recognize losses if any of our vessels are sold or if their values are impaired.

The occurrence of any of the foregoing could have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay cash distributions.

***Acts of piracy on ocean-going vessels 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 2013 to its lowest level since 2007, 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 dry bulk vessels and tankers particularly vulnerable to such attacks. If these piracy attacks result in regions in which our vessels are deployed being characterized by insurers as "war risk" zones by insurers 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 costs which may be incurred to the extent we employ onboard security guards, could increase in such circumstances. We may not be adequately insured to cover losses from these incidents, which could have a material adverse effect on us. In addition, 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, results of operations, cash flows, financial condition and ability to pay cash distributions and may result in loss of revenues, increased costs and decreased cash flows to our customers, which could impair their ability to make payments to us under our charters.

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

Continuing conflicts and recent developments in North Korea, the Middle East, including Egypt and Syria, and North Africa, including Libya, and the presence of United States and other armed forces in Afghanistan, 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 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, or the perception that our vessels are potential terrorist targets, could have a material adverse impact on our business, financial condition, results of operations and ability to pay cash distributions.

***Our vessels may call on ports located in countries that are subject to restrictions imposed by the U.S. or other governments, which could adversely affect our reputation and the market for our Ordinary Shares.***

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, such as Cuba, Iran, Sudan and Syria. In the past, certain of our vessels have made port calls to Iran, however, none of our vessels made any port calls to Iran during 2013. 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. With effect from July 1, 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, on May 1, 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.

On November 24, 2013, the P5+1 (the United States, United Kingdom, Germany, France, Russia and China) entered into an interim agreement with Iran entitled the "Joint Plan of Action" ("JPOA"). Under the JPOA it was agreed that, in exchange for Iran taking certain voluntary measures to ensure that its nuclear program is used only for peaceful purposes, the U.S. and EU would voluntarily suspend certain sanctions for a period of six months. On January 20, 2014, the U.S. and E.U. indicated that they would begin implementing the temporary relief measures provided for under the JPOA. These measures include, among other things, the suspension of certain sanctions on the Iranian petrochemicals, precious metals, and automotive industries from January 20, 2014 until July 20, 2014.

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.

***Compliance with safety and other vessel requirements imposed by classification societies may be costly and could reduce our net cash flows and net income.***

The hull and machinery of every commercial vessel must be certified as being "in class" by a classification society authorized by its country of registry. The classification society certifies that a vessel is safe and seaworthy in accordance with the applicable rules and regulations of the country of registry of the vessel and the Safety of Life at Sea Convention.

A vessel must undergo annual surveys, intermediate surveys and special surveys. In lieu of a special survey, a vessel's machinery may be placed on a continuous survey cycle, under which the machinery would be surveyed periodically over a five-year period. We expect our vessels to be on special survey cycles for hull inspection and continuous survey cycles for machinery inspection. Every vessel is also required to be drydocked every two to three years for inspection of its underwater parts.

Compliance with the above requirements may result in significant expense. If any vessel does not maintain its class or fails any annual, intermediate or special survey, the vessel will be unable to trade between ports and will be unemployable, which could have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay cash distributions.

***We are subject to complex laws and regulations, including environmental laws and regulations, that can adversely affect our business, results of operations and financial condition.***

Our operations will be 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 U.S. Oil Pollution Act of 1990, or OPA, the U.S. Clean Air Act, the U.S. Clean Water Act, the International Maritime Organization, or IMO, International Convention on Civil Liability for Oil Pollution Damage of

1969, generally referred to as CLC, the IMO International Convention on Civil Liability for Bunker Oil Pollution Damage, the IMO International Convention for the Prevention of Pollution from Ships of 1973, generally referred to as MARPOL, the IMO International Convention for the Safety of Life at Sea of 1974, generally referred to as SOLAS, the IMO International Convention on Load Lines of 1966 and the U.S. Maritime Transportation Security Act of 2002. Compliance with such laws and regulations, where applicable, may require installation of costly equipment or operational changes and may affect the resale value or useful lives of our vessels. Compliance with such laws and regulations may require us to obtain certain permits or authorizations prior to commencing operations. Failure to obtain such permits or authorizations could materially impact our business results of operations, financial conditions and ability to pay cash distributions by delaying or limiting our ability to accept charterers. 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. Additionally, we cannot predict the cost of compliance with any new regulations that may be promulgated as a result of the 2010 BP plc *Deepwater Horizon* oil spill in the Gulf of Mexico. These costs could have a material adverse effect on our business, results of operations, cash flows and financial condition and our available cash.

The IMO adopted an 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 become effective 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. 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. If mid-ocean ballast exchange is made mandatory, or if ballast water treatment requirements or options are instituted, the cost of compliance could increase for ocean carriers, and the costs of ballast water treatment may be material.

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 in U.S. waters, including the 200-nautical mile exclusive economic zone around the United States. An oil spill could also result in significant liability, including fines, penalties, criminal liability and remediation costs for natural resource damages under other international and U.S. Federal, state and local laws, as well as third-party damages, including punitive damages, and could harm our reputation with current or potential charterers of our vessels. We will be required to satisfy insurance and financial responsibility requirements for potential oil (including marine fuel) spills and other pollution incidents. Although our technical manager will arrange for insurance to cover our vessels with respect to 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, financial condition, results of operations and cash flows.

***If we fail to comply with international safety regulations, we may be subject to increased liability, which 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 IMO's International Management Code for the Safe Operation of Ships and Pollution Prevention, or the ISM Code. The ISM Code requires shipowners, 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. If we fail to comply with the ISM Code, we may be subject to increased liability, may invalidate existing insurance or decrease available insurance coverage for our affected vessels and such failure may result in a denial of access to, or detention in, certain ports.

***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 maritime lien holder may enforce its lien by "arresting" or "attaching" a vessel through foreclosure proceedings. The arrest or attachment of one or more of our vessels could result in a significant loss of earnings for the related off-hire period.

In addition, in jurisdictions where the "sister ship" theory of liability applies, such as South Africa, a claimant may arrest 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. In countries with "sister ship" liability laws, claims might be asserted against us or any of our vessels for liabilities of other vessels that we own.

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

A government of a vessel's registry could requisition for title or seize one or more of our vessels. Requisition for title occurs when a government takes control of a vessel and becomes the owner. A government could also requisition one or more of our vessels for hire. Requisition for hire occurs when a government takes control of a vessel and effectively becomes the charterer at dictated charter rates. Generally, requisitions occur during a period of war or emergency. Government requisition of one or more of our vessels could have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay cash distributions.

**Risks Related to Our Business**

***A drop in spot charter rates may provide an incentive for some charterers to default on their charters.***

When we enter into a time charter or bareboat charter, charter rates under that charter may be fixed for the term of the charter. One of our four Capesize vessels is currently on a fixed time charter expiring in August 2014 and two of our vessels are on index-linked time charter contracts expiring in November 2014 and January 2015. If the spot charter rates or short-term time charter rates in the dry bulk shipping industry become significantly lower than the time charter equivalent rates that some of our charterers are obligated to pay us under our existing charters, the charterers may have incentive to default under that charter or attempt to renegotiate the charter. As described in "Item 4. Information on the Company-B. Business Overview", in 2012, we agreed to reduce the daily hire rate with respect to the *Belgravia* and the charterers of the *Golden Zhejiang* and *Battersea* defaulted on their charters and redelivered the vessels prior to the expiration of the charters. In December 2013, we received \$756,000 from Sanko Steamship Co., Ltd., or Sanko, as a partial settlement with respect to unpaid charter hire and claims of the *Battersea*. If our charterers fail to pay their obligations, we would have to attempt to re-charter our vessels at lower charter rates, which would affect our ability to comply with our loan covenants and operate our vessels profitably. If we are not able to comply with our loan covenants and our lenders choose to accelerate our indebtedness and foreclose their liens, we could be required to sell vessels in our fleet and our ability to continue to conduct our business would be impaired.

***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 have entered into various contracts, including charterparties with our customers, loan agreements with our lenders and vessel management and other agreements with our General Manager and our Dry bulk Manager, which subject us to counterparty risks. The ability of each of the counterparties to perform its obligations under a contract with us or contracts entered into on our behalf 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 shipping sector, the overall financial condition of the counterparty, charter rates received for our vessels and the supply and demand for commodities. We have entered into newbuilding contracts with Japan Marine United Corporation in Japan, or JMU, for two Capesize bulk carriers, expected to be delivered in 2015. We have entered into newbuilding contracts with Daehan Shipbuilding Co., Ltd, or Daehan, in the Republic of Korea, for two Capesize bulk carriers, which are also expected to be delivered in 2015. Should a counterparty fail to honor its obligations under any such contract, we could sustain significant losses which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Charterers are sensitive to the commodity markets and may be impacted by market forces affecting commodities. In addition, in depressed market conditions, charterers may have incentive to renegotiate their charters or default on their obligations under charters. Should a charterer in future fail to honor its obligations under agreements with us, it may be difficult to secure substitute employment for such vessel, and any new charter arrangements we secure on the spot market or on charters may be at lower rates, depending on the then existing charter rate levels, compared to the rates currently being charged for our vessels. In addition, if the charterer of a vessel in our fleet that is used as collateral under one or more of our loan agreements defaults on its charter obligations to us, such default may constitute an event of default under our loan agreements, which may allow the bank to exercise remedies under our loan agreements. If our charterers fail to meet their obligations to us or attempt to renegotiate our charter agreements, we could sustain significant losses which could have a material adverse effect on our business, financial condition, results of operations and cash flows, as well as our ability to pay cash distributions, if any, in the future, and compliance with covenants in our loan agreements. Further, if we had to find a replacement technical manager, we may need approval from our lenders to change the technical manager.

***We may not be able to implement our growth successfully.***

Our intention is to renew and grow our fleet through selective acquisitions of dry bulk or tanker tonnage. Our business plan will therefore depend upon our ability to identify and acquire suitable vessels to grow our fleet in the future and successfully employ our vessels.

Growing any business by acquisition presents numerous risks, including undisclosed liabilities and obligations, difficulty obtaining additional qualified personnel and managing relationships with customers and suppliers. In addition, competition from other companies, many of which may have significantly greater financial resources than us, may reduce our acquisition opportunities or cause us to pay higher prices. We cannot assure you that we will be successful in executing our plans to establish and grow our business or that we will not incur significant expenses and losses in connection with these plans. Our failure to effectively identify, purchase, develop and integrate any vessels could impede our ability to establish our operations or implement our growth successfully. Our acquisition growth strategy exposes us to risks that may harm our business, financial condition and operating results, including risks that we may:

- fail to realize anticipated benefits, such as cost savings or cash flow enhancements;
- incur or assume unanticipated liabilities, losses or costs associated with any vessels or businesses acquired, particularly if any vessel we acquire proves not to be in good condition;
- be unable to hire, train or retain qualified shore and seafaring personnel to manage and operate our growing business and fleet;
- decrease our liquidity by using a significant portion of available cash or borrowing capacity to finance acquisitions;
- significantly increase our interest expense or financial leverage if we incur debt to finance acquisitions; or
- incur other significant charges, such as impairment of goodwill or other intangible assets, asset devaluation or restructuring charges.

***We will need to procure additional financing in order to complete the construction of our newbuilding vessels, which may be difficult to obtain on acceptable terms or at all.***

We cannot guarantee that we will be able to obtain additional financing at all or on terms acceptable to us. If adequate funds are not available, we may have to reduce expenditures for investments in new and existing projects, which could hinder our growth and prevent us from realizing potential revenues from prior investments which will have a negative impact on our cash flows and results of operations.

As of the date of this annual report, we have purchase commitments of \$185.5 million relating to our four Capesize newbuilding contracts with expected payments of \$24.4 million and \$161.1 million in 2014 and 2015, respectively. We expect to finance these payments with cash on hand, operating cash flow and bank debt that we intend to arrange. If such financing is not available when our capital commitments are due, we may be unable to meet such obligations and finance our other and future obligations. If for any reason we fail to take delivery of the newbuilding vessels described above, we would be prevented from realizing potential revenues from these vessels, we may be required to forego deposits on construction, which amounted to an aggregate of \$26.3 million (excluding capitalized interest and newbuilding supervision costs) as of the date of this annual report, and we may incur additional costs and liability to the shipyard under the construction contracts.

***Purchasing and operating previously owned, or secondhand, vessels may result in increased drydocking costs and vessels off-hire, which could adversely affect our earnings.***

Our current business strategy includes growth through the acquisition of previously owned vessels. Even following a physical inspection of secondhand vessels prior to purchase, we do not have the same knowledge about their condition and cost of any required (or anticipated) repairs that we would have had if these vessels had been built for and operated exclusively by us. Accordingly, we may not discover defects or other problems with such vessels prior to purchase. Any such hidden defects or problems, when detected, may be expensive to repair, and if not detected, may result in accidents or other incidents for which we may become liable to third parties. Also, when purchasing previously owned vessels, we do not receive the benefit of any builder warranties if the vessels we buy are older than one year.

In general, the costs to maintain a vessel in good operating condition increase with the age of the vessel. Older vessels are typically less fuel efficient than more recently constructed vessels due to improvements in engine technology. Governmental regulations, safety and other equipment standards related to the age of vessels may require expenditures for alterations or the addition of new equipment to some of our vessels and may restrict the type of activities in which these 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. As a result, regulations and standards could have a material adverse effect on our business, financial condition, results of operations, cash flows and ability to pay cash distributions.



***The volatility in dry bulk charter rates, and vessel values, may affect our ability to comply with various covenants in our loan agreement.***

Our loan agreement for our borrowings, which are secured by liens on our vessels, contain various financial covenants. Among those covenants are requirements that relate to our financial position, operating performance and liquidity. For example, there are financial covenants that require us to maintain (i) a minimum value adjusted equity that is based, in part, upon the market value of the vessels securing the loans, (ii) minimum levels of free cash, and (iii) a positive working capital. The market value of dry bulk vessels is sensitive, among other things, to changes in the dry bulk market, with vessel values deteriorating in times when dry bulk rates are falling or anticipated to fall and improving when charter rates are rising or anticipated to rise. Such conditions may result in our not being in compliance with these loan covenants. In such a situation, unless our lenders were willing to provide waivers of covenant compliance or modifications to our covenants, or would be willing to refinance our indebtedness, we may have to sell vessels in our fleet and/or seek to raise additional capital in the equity markets in order to comply with our loan covenants. Furthermore, if the value of our vessels deteriorates significantly, we may have to record an impairment adjustment in our financial statements, which would adversely affect our financial results and further hinder our ability to raise capital.

If we are not in compliance with our covenants and are not able to obtain covenant waivers or modifications, our lenders could require us to post additional collateral, enhance our equity and liquidity, increase our interest payments or pay down our indebtedness to a level where we are in compliance with our loan covenants, sell vessels in our fleet, or they could accelerate our indebtedness, which would impair our ability to continue to conduct our business. In such an event, our auditors may give either an unqualified opinion with an explanatory paragraph relating to the disclosure in the notes to our financial statements as to the substantial doubt of our ability to continue as a going concern, or a qualified, adverse or disclaimer of opinion, which could lead to additional defaults under our loan agreements. If our indebtedness is accelerated, we might not be able to refinance our debt or obtain additional financing and could lose our vessels if our lenders foreclose their liens. In addition, if we find it necessary to sell our vessels at a time when vessel prices are low, we will recognize losses and a reduction in our earnings, which could affect our ability to raise additional capital necessary for us to comply with our loan agreements.

***Our ability to obtain additional debt financing may be dependent on the performance of our then existing charterers and the creditworthiness of our charterers.***

The actual or perceived credit quality of our charterers, and any defaults by them, may materially affect our ability to obtain the additional capital resources required to purchase additional vessels or may significantly increase our costs of obtaining such capital. Our inability to obtain additional financing at anticipated costs or at all may materially affect our results of operations and our ability to implement our business strategy.

***Fuel or bunker prices, may adversely affect our profits.***

For vessels on voyage charters, fuel oil, or bunkers, is a significant, if not the largest, expense. Changes in the price of fuel may adversely affect our profitability to the extent we have vessels on voyage charters. 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 OPEC 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.

***The operation of dry bulk carriers involves certain unique operational risks.***

The operation of dry bulk carriers has certain unique operational risks. With a dry bulk carrier, the cargo itself and its interaction with the ship can be a risk factor. By their nature, dry bulk cargoes are often heavy, dense and 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 dry bulk carrier. Dry bulk carriers damaged due to treatment during unloading procedures may be more susceptible to a breach to the sea. Hull breaches in dry bulk carriers may lead to the flooding of their 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 dry bulk carrier's bulkheads leading to the loss of the dry bulk carrier.

If we are unable to adequately maintain or safeguard our vessels we may be unable to prevent these events. Any of these circumstances or events could negatively impact our business, financial condition or results of operations. In addition, the loss of any of our vessels could harm our reputation as a safe and reliable vessel owner and operator.

***Our results of operations are subject to seasonal fluctuations, which may adversely affect our financial condition.***

We plan to operate our vessels in markets that have historically exhibited seasonal variations in demand and, as a result, charter rates. This seasonality may result in quarter-to-quarter volatility in our operating results, as one of our vessels currently trades in the spot market and our other vessels may trade in the spot market from time to time.

***Because the market value of our vessels may fluctuate significantly, we may incur losses when we sell vessels, which may adversely affect our earnings.***

The fair market value of vessels may increase and decrease depending on but not limited to the following factors:

- general economic and market conditions affecting the shipping industry;
- competition from other shipping companies;
- types and sizes of vessels;
- the availability of other modes of transportations;
- cost of newbuildings;
- shipyard capacity;
- governmental or other regulations;
- age of vessels;
- prevailing level of charter rates;
- the need to upgrade secondhand and previously owned vessels as a result of charterer requirements, and
- technological advances in vessel design or equipment or otherwise.

During the period a vessel is subject to a charter, we will not be permitted to sell it to take advantage of increases in vessel values without the charterer's consent. If we sell a vessel at a time when ship prices have fallen, the sale may be at less than the vessel's carrying amount on our financial statements, with the result that we could incur a loss and a reduction in earnings. In addition, if we determine at any time that a vessel's future useful life and earnings require us to impair its value on our financial statements, this would result in a charge against our earnings and a reduction of our shareholders' equity. It is possible that the market value of our vessels will continue to decline in the future, which could adversely affect our ability to comply with financial covenants contained in our loan agreements or any other financing arrangements we may enter into in the future.

Conversely, if vessel values are elevated at a time when we wish to acquire additional vessels, the cost of acquisition may increase and this could adversely affect our business, results of operations, cash flow and financial condition.

***We may be unable to successfully compete with other vessel operators for charters, which could adversely affect our results of operations and financial position.***

The operation of dry bulk vessels and transportation of dry bulk cargoes is extremely competitive. Through our operating subsidiaries we compete with other vessel owners, and, to a lesser extent, owners of other size vessels. The dry bulk market is highly fragmented. It is possible that we could not obtain suitable employment for our vessels, which could adversely affect our results of operations and financial position.

***Our time charters may limit our ability to benefit from any improvement in charter rates, and at the same time, our revenues may be adversely affected if we do not successfully employ our vessels on the expiration of our charters.***

One of our four Capesize vessels is currently on a fixed time charter expiring in August 2014 and two of our vessels are on index-linked time charter contracts expiring in November 2014 and January 2015. Although our time charters generally provide reliable revenues, they also limit the portion of our fleet available for spot market voyages during an upswing in the dry bulk industry cycle, when spot market voyages might be more profitable. By the same token, we cannot assure you that we will be able to successfully employ our vessels in the future or renew our existing charters at rates sufficient to allow us to operate our business profitably or meet our obligations. A decline in charter or spot rates or a failure to successfully charter our vessels could have a material adverse effect on our business, financial condition, results of operations and ability to pay cash distributions.

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

We cannot assure you that we will be able to refinance our indebtedness on terms that are acceptable to us or at all. If we are not able to refinance our indebtedness, we will have to dedicate a greater portion of our cash flow from operations to pay the principal and interest of this indebtedness. We cannot assure you that we will be able to generate cash flow in amounts that are sufficient for these purposes. If we are not able to satisfy these obligations, we may have to undertake alternative financing plans or sell our

assets. In addition, debt service payments under our credit facilities may limit funds otherwise available for working capital, capital expenditures, payment of cash distributions and other purposes. If we are unable to meet our debt obligations, or if we otherwise default under our credit facilities, 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.

***We generate a substantial portion of our revenues from a limited number of customers.***

Our results of operations would be materially adversely affected if one or more of our customers failed to compensate us for our services, terminated our contracts with or without cause, failed to renew its existing contracts or refused to award new contracts to us and we are unable to enter into contracts with new customers at comparable daily rates.

***Declines in charter rates and other market deterioration could cause us to incur impairment charges.***

The carrying values of our vessels are reviewed whenever events or changes in circumstances indicate that the carrying amount of the vessel may no longer be recoverable. We assess recoverability of the carrying value by estimating the future net cash flows expected to result from the vessel, including eventual disposal. If the future net undiscounted cash flows and the estimated fair market value of the vessel are less than the carrying value an impairment loss is recorded equal to the difference between the vessel's carrying value and fair value. Any impairment charges incurred as a result of declines in charter rates and other market deterioration could negatively affect our business, financial condition or operating results or the trading price of our common shares. During the year ended December 31, 2013, we recorded an impairment loss of \$5.3 million related to the VLCC *Mayfair*. During the year ended December 31, 2012, we recorded an impairment loss of \$41.6 million related to the VLCCs *Titan Venus (ex Camden)* (\$14.7 million), the *Kensington* (\$13.5 million) and the *Mayfair* (\$13.4 million).

***Operational risks and damage to our vessels could adversely impact our performance.***

Our vessels and their cargoes are at risk of being damaged or lost because of events such as marine disasters, bad weather and other acts of God, business interruptions caused by mechanical failures, grounding, fire, explosions and collisions, human error, war, terrorism, piracy and other circumstances or events. Changing economic, regulatory and political conditions in some countries, including political and military conflicts, have from time to time resulted in attacks on vessels, mining of waterways, piracy, terrorism, labor strikes and boycotts. These hazards may result in death or injury to persons, loss of revenues or property, the payment of ransoms, environmental damage, higher insurance rates, damage to our customer relationships and market disruptions, 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 at all or in full. The loss of revenues while these vessels are being repaired and repositioned, as well as the actual cost of these repairs, may adversely affect our business and financial condition. 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 relative to our vessels' positions. The loss of earnings while these vessels are forced to wait for space or to travel to more distant drydocking facilities may adversely affect our business and financial condition. Further, the total loss of any of our vessels could harm our reputation as a safe and reliable vessel owner and operator. If we are unable to adequately maintain or safeguard our vessels, we may be unable to prevent any such damage, costs or loss which could negatively impact our business, financial condition, results of operations, cash flows and ability to pay cash distributions.

***Increased inspection procedures, tighter import and export controls and new security regulations could increase costs and cause disruption of our business.***

International shipping is subject to security and customs inspection and related procedures in countries of origin, destination and trans-shipment points. Under the U.S. Maritime Transportation Security Act of 2002, or MTSA, 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. These security procedures can result in delays in the loading, offloading or trans-shipment and the levying of customs duties, fines or other penalties against exporters or importers and, in some cases, carriers. Future changes to the existing security procedures may be implemented that could affect the tanker sector. These changes have the potential to impose additional financial and legal obligations on carriers and, in certain cases, to render the shipment of certain types of goods uneconomical or impractical. These additional costs could reduce the volume of goods shipped, resulting in a decreased demand for vessels and have a negative effect on our business, revenues and customer relations.

***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. 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 U.S. Foreign Corrupt Practices Act. 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.

***One of our directors is affiliated with Golden Ocean Group Limited, which could result in conflicts of interest that may not be resolved in our favor.***

Mr. Herman Billung, a member of our board of directors, or our Board, also serves as the Chief Executive Officer of Golden Ocean Management AS, a wholly-owned subsidiary of Golden Ocean Group Limited, or Golden Ocean. Another subsidiary of Golden Ocean provides commercial management services for our dry bulk carriers, and we have also purchased two vessels from Golden Ocean. To the extent that we do business with Golden Ocean or Golden Ocean competes with us for business opportunities, prospects or financial resources, or participates in ventures in which we may participate, Mr. Billung may face actual or apparent conflicts of interest in connection with decisions that could have different implications for us and Golden Ocean. These decisions may relate to corporate opportunities, corporate strategies, potential acquisitions of businesses, newbuilding acquisitions, inter-company agreements, the issuance or disposition of securities, the election of new or additional directors and other matters. Such potential conflicts may delay or limit the opportunities available to us, and it is possible that conflicts may be resolved in a manner adverse to us.

***Incurrence of expenses or liabilities may reduce or eliminate distributions.***

Our policy is to make distributions to shareholders based on earnings and cash flow. The amount and timing of cash distributions will depend on our earnings, financial condition, cash position, Bermuda law affecting the payment of distributions and other factors. However, we could incur other expenses or contingent liabilities that would reduce or eliminate the cash available for distribution by us as cash distributions. In addition, the declaration and payment of cash distributions is subject at all times to the discretion of our Board. We cannot assure you that we will pay cash distributions.

***Our financing obligations could affect our ability to incur additional indebtedness or engage in certain transactions.***

Our financing agreements impose operational and financing restrictions on us and/or on our subsidiaries, which may significantly limit or prohibit, among other things, our and/or our subsidiaries' ability to, without the consent of our lenders, incur additional indebtedness, create liens, sell capital interests of subsidiaries, make certain investments, engage in mergers and acquisitions, purchase and sell vessels, enter into certain charters or, if an event of default has occurred, pay cash distributions. In addition, our lenders may accelerate the maturity of indebtedness under our financing agreements and foreclose on the collateral securing the indebtedness upon the occurrence of certain events of default, including our failure to comply with any of the covenants contained in our financing agreements, not rectified within the permitted time. For instance, declining vessel values could lead to a breach of covenants under our financing agreements. If we are unable to prepay, pledge additional collateral or obtain waivers from our lenders, our lenders could accelerate our debt and foreclose on our vessels. In addition, if the lenders are entitled to accelerate the debt outstanding under one facility in default, it could result in a default on our other facilities.

***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. The age of our dry bulk carrier fleet is approximately four years. 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 also increase with the age of a vessel, making older vessels less desirable to charterers. Governmental regulations, including environmental regulations, safety or other equipment standards related to the age of vessels, may 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. As our vessels age, market conditions might not justify those expenditures or enable us to operate our vessels profitably during the remainder of their useful lives.

***If we do not set aside funds and are unable to borrow or raise funds for vessel replacement at the end of a vessel's useful life our revenue will decline, which would adversely affect our business, results of operations, financial condition and ability to pay cash distributions.***

If we do not set aside funds and are unable to borrow or raise funds for vessel replacement, we will be unable to replace the vessels in our fleet upon the expiration of their remaining useful lives. Our cash flows and income are dependent on the revenues earned by the chartering of our vessels. If we are unable to replace the vessels in our fleet upon the expiration of their useful lives, our business, results of operations, financial condition and ability to pay cash distributions would be adversely affected. Any funds set aside for vessel replacement will not be available for cash distributions.

***We may not have adequate insurance to compensate us if our vessels are damaged or lost.***

We procure insurance for our fleet against those risks that we believe companies in the shipping industry commonly insure. These insurances include hull and machinery insurance, protection and indemnity insurance, which include environmental damage and pollution insurance coverage, and war risk insurance. We can give no assurance that we will be adequately insured against all risks and we cannot guarantee that any particular claim will be paid, even if we have previously recorded a receivable or revenue in respect of such claim. Our insurance policies may contain deductibles for which we will be responsible and limitations and exclusions, which may increase our costs or lower our revenues.

We cannot assure you that we will be able to obtain adequate insurance coverage for our vessels in the future or renew our existing policies on the same or commercially reasonable terms, or at all. For example, more stringent environmental regulations have in the past led to increased costs for, and in the future may result in the lack of availability of, protection and indemnity insurance against risks of environmental damage or pollution. Any uninsured or underinsured loss could harm our business, results of operations, cash flows, financial condition and ability to pay cash distributions. In addition, our insurance may be voidable by the insurers as a result of certain of our actions, such as our vessels failing to maintain certification with applicable maritime self-regulatory organizations. Further, we cannot assure you that our insurance policies will cover all losses that we incur, or that disputes over insurance claims will not arise with our insurance carriers. Any claims covered by insurance would be subject to deductibles, and since it is possible that a large number of claims may be brought, the aggregate amount of these deductibles could be material. In addition, our insurance policies may be subject to limitations and exclusions, which may increase our costs or lower our revenues, thereby possibly having a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay cash distributions.

***We may be subject to calls because we obtain some of our insurance through protection and indemnity associations.***

We may be subject to increased premium payments, or calls, if the value of our claim records, the claim records of our fleet managers, and/or the claim records of other members of the protection and indemnity associations through which we receive insurance coverage for tort liability (including pollution-related liability) significantly exceed projected claims. In addition, our protection and indemnity associations may not have enough resources to cover claims made against them. Our payment of these calls could result in significant expense to us, which could have a material adverse effect on our business, results of operations, cash flows, financial condition and ability to pay cash distributions.

***Because we are a foreign corporation, you may not have the same rights that a shareholder in a United States corporation may have.***

We are a Bermuda company. Our memorandum of association and bye-laws and the Bermuda Companies Act 1981, as amended, govern our affairs. Investors may have more difficulty in protecting their interests in the face of actions by management, directors or controlling shareholders than would shareholders of a corporation incorporated in a United States jurisdiction. Under Bermuda law a director generally owes a fiduciary duty only to the company; not to the company's shareholders. Our shareholders may not have a direct cause of action against our directors. In addition, Bermuda law does not provide a mechanism for our shareholders to bring a class action lawsuit under Bermuda law. Further, our bye-laws provide for the indemnification of our directors or officers against any liability arising out of any act or omission except for an act or omission constituting fraud, dishonesty or illegality.

***United States tax authorities could treat the Company as a "passive foreign investment company", which could have adverse United States federal income tax consequences to United States shareholders.***

A foreign corporation will be treated as a "passive foreign investment company", or PFIC, for United States 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 cash distributions, interest, and 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". United States shareholders of a PFIC are subject to a disadvantageous United States federal income tax regime with respect to 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 are, have been or 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 and voyage chartering activities as services income, rather than rental income. Accordingly, we believe that our income from these 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".

Although there is no direct legal authority under the PFIC rules addressing our method of operation there is substantial legal authority supporting our position consisting of case law and United States 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, it should be noted that there is also authority that 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 our 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 there were to be changes in the nature and extent of our operations.

If the IRS were to find that we are or have been a PFIC for any taxable year, our United States shareholders will face adverse United States federal income tax consequences. Under the PFIC rules, unless those shareholders make an election available under United States Internal Revenue Code of 1986, as amended, or the Code (which election could itself have adverse consequences for such shareholders, as discussed below under "Taxation-United States Federal Income Tax Considerations"), such shareholders would be liable to pay United States federal income tax at the then prevailing income tax rates on ordinary income plus interest upon excess distributions and upon any gain from the disposition of our common shares, as if the excess distribution or gain had been recognized ratably over the shareholder's holding period of our common shares. Please see the section entitled "Taxation-United States Federal Income Tax Considerations-Passive Foreign Investment Company Status and Significant Tax Consequences". below for a more comprehensive discussion of the United States federal income tax consequences to United States shareholders if we are treated as a PFIC.

***We may have to pay tax on United States source income, which would reduce our earnings.***

Under 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, may be subject to a 4% United States federal income tax without allowance for deduction, unless that corporation qualifies for exemption from tax under Section 883 of the Code and the applicable Treasury Regulations promulgated thereunder.

We expect that we and each of our subsidiaries will qualify for this statutory tax exemption and we will take this position for United States 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 and thereby become subject to United States federal income tax on our United States source shipping income. For example, we would no longer qualify for exemption under Section 883 of the Code for a particular taxable year if shareholders with a 5% or greater interest in our common shares owned, in the aggregate, 50% or more of our outstanding common shares for more than half the days during the taxable year. Due to the factual nature of the issues involved, there can be no assurances on our tax-exempt status or that of any of our subsidiaries.

If we or our subsidiaries are not entitled to exemption under Section 883 of the Code for any taxable year, we, or our subsidiaries, could be subject during those years to an effective 2% United States federal income tax on gross shipping income derived during such a year that is attributable to the transport of cargoes to or from the United States. The imposition of this tax would have a negative effect on our business and would result in decreased earnings available for distribution to our shareholders.

***Our share price may be highly volatile and future sales of our common stock could cause the market price of our common stock to decline.***

Our common stock commenced trading on the NASDAQ Global Select Market under the symbol "VLCCF" in February 1997. We cannot assure you that an active and liquid public market for our common stock will continue. The market price of our common stock has historically fluctuated over a wide range and may continue to fluctuate significantly in response to many factors, such as actual or anticipated fluctuations in our operating results, changes in financial estimates by securities analysts, economic and regulatory trends, general market conditions, rumors and other factors, many of which are beyond our control. Since 2008, the

stock market has experienced extreme price and volume fluctuations. If the volatility in the market continues or worsens, it could have an adverse affect on the market price of our common stock and impact a potential sale price if holders of our common stock decide to sell their shares.

***Because our offices and most of our assets are outside the United States, you may not be able to bring suit against us, or enforce a judgment obtained against us in the United States.***

Our executive offices, administrative activities and assets are located outside the United States. As a result, it may be more difficult for investors to effect service of process within the United States upon us, or to enforce both in the United States and outside the United States judgments against us in any action, including actions predicated upon the civil liability provisions of the federal securities laws of the United States.

## **ITEM 4. INFORMATION ON THE COMPANY**

### **A. HISTORY AND DEVELOPMENT OF THE COMPANY**

Knightsbridge Tankers Limited was incorporated in Bermuda as an exempted company under the Bermuda Companies Law of 1981 on September 18, 1996. The Company's registered and principal executive offices are located at Par-la-Ville Place, 14 Par-la-Ville Road, Hamilton, HM 08, Bermuda, and its telephone number at this location is +1 (441) 295-6935.

We are an international shipping company specializing in the transportation of dry bulk cargoes, and have been listed on the NASDAQ Global Select Market under the symbol "VLCCF" since our initial public offering in February 1997. The Company was originally established for the purpose of owning and operating five very large crude oil carriers, or VLCCs. In February 1997, we completed our initial public offering, which resulted in \$317.2 million net proceeds to us. We used these proceeds and bank debt to fund the acquisition of our initial fleet of five VLCCs. Upon their purchase from their previous owners on February 27, 1997 until March 2004, the Company chartered its vessels to Shell International on long-term bareboat charters.

In May 2007, we entered into agreements for the construction of two Capesize dry bulk carriers, each with a cargo-carrying capacity of approximately 170,000 dwt, with Daehan. Both of the vessels commenced five-year time charters following their delivery to us in August and October 2009. In July 2010, we acquired a 2010-built Capesize dry bulk carrier from Golden Ocean and in October 2010, we acquired a second 2010-built Capesize dry bulk carrier from Golden Ocean, a Bermuda company listed on the Oslo Stock Exchange. Both vessels were acquired with existing time charters.

We sold a VLCC to an unrelated third party in each of December 2007, October 2012 and December 2012 and as of December 31, 2012, we owned and operated one VLCC and four Capesize dry bulk carriers. The VLCC was being marketed for sale and was classified as 'held for sale' in the balance sheet at December 31, 2012. Following the sale of three VLCCs and the balance sheet classification of the fourth as 'held for sale', the results of the four VLCCs have been recorded as discontinued operations in accordance with U.S. generally accepted accounting principles. In March 2013, we agreed to the sale of our final VLCC, the delivery of which took place in April 2013.

In March 2013, we concluded newbuilding contracts for two 182,000 dwt Capesize bulk carriers with JMU and in November 2013, we concluded newbuilding contracts for two 180,000 dwt Capesize bulk carriers with Daehan. The design of these vessels represents the next generation of Capesize bulk carriers using the latest technology available in order to secure fuel efficiency. The four vessels are expected to be delivered during 2015.

Our current fleet composition reflects our Board's view of the current market conditions. The *Battersea* is employed in the spot market. The *Golden Zhejiang* and the *Golden Future* are employed on index related time charter contracts with estimated expiration dates in November this year and January 2015, respectively. The *Belgravia* is on a time charter contract with an estimated expiration date in August 2014.

### **B. BUSINESS OVERVIEW**

We currently own and operate, through our subsidiaries, a fleet of four Capesize dry bulk carriers with a total carrying capacity of approximately 0.7 million dwt. Three of our vessels are currently employed on time charters. We have also concluded newbuilding contracts for two 182,000 dwt Capesize bulk carriers and two 180,000 dwt Capesize bulk carriers, which are expected to be delivered to us in 2015. The following table sets forth summary information concerning the vessels we own and operate as of the date of this annual report:

Vessel Name	Vessel Type	Size (dwt)	Year Built	Charter Type	Daily Gross Hire Rate	Earliest Redelivery Date
<i>Belgravia</i>	Capesize	170,500	2009	Time Charter	\$46,412 <sup>(1)</sup>	August 2014
<i>Battersea</i>	Capesize	170,500	2009	Spot market	n/a	n/a
<i>Golden Future</i>	Capesize	176,000	2010	Time Charter	(2)	January 2015
<i>Golden Zhejiang</i>	Capesize	176,000	2010	Time Charter	(3)	November 2014

(1) In March 2012, the Company agreed an amendment to the time charter with Jiangsu Shagang Group Co., Ltd ("Shagang") whereby (i) the sum of \$95,000 was to be deducted by Shagang from each future charter hire payment, which are each payable 15 days in advance, until the amount of \$5.7 million has been deducted, and (ii) the sum of \$5.0 million was to be paid in advance by Shagang. The daily gross hire rate was reduced from \$52,670 to \$46,412 as a result of this amendment.

(2) Time charter hire is paid 15 days in advance based on an average Baltic Exchange index for the proceeding 15 day period. This charter commenced in January 2013 and was extended in January 2014.

(3) Time charter hire is paid 15 days in advance based on an average Baltic Exchange index for the proceeding 15 day period. This charter commenced in December 2013.

The Company operated in two markets from 2009 through 2012; the tanker and dry bulk carrier markets as an international provider of seaborne transportation of crude oil and dry bulk cargoes. Following the sale of three VLCCs during 2012 and the balance sheet classification of the fourth as 'held for sale', the results of the four VLCCs, which operated in the tanker market, have been recorded as discontinued operations. An analysis of revenues from continuing operations is as follows:

<i>(in thousands of \$)</i>	2013	2012	2011
Total operating revenues – dry bulk carrier market	37,546	37,315	55,497

The Company's vessels operate worldwide and therefore management does not evaluate performance by geographical region as this information is not meaningful.

Our principal executive offices are located at Par-la-Ville Place, 14 Par-la-Ville Road in Hamilton, HM 08, Bermuda.

## Strategy

Our business strategy is to operate a diversified fleet of dry bulk carriers and crude carriers with flexibility to adjust our exposure to the dry bulk and tanker markets depending on existing factors such as charter rates, newbuilding costs, vessel resale and scrap values and vessel operating expenses resulting from, among other things, changes in the supply of and demand for dry bulk and tanker capacity. We may adjust our exposure through time charters, bareboat charters, sale and leasebacks, sales and purchases of vessels, newbuilding contracts and acquisitions. Our intention is to grow our fleet through selective acquisitions. The current composition of our fleet and orderbook and recent disposals reflect market conditions and the Board's view on the markets.

Our goal is to generate competitive returns for our shareholders. Our cash distribution policy is to declare quarterly cash distributions to shareholders, substantially equal to or at times greater than net operational cash flow in the reporting quarter less reserves that our Board may from time to time determine are necessary, such as reserves for drydocking and other possible cash needs. We intend to finance our future vessel acquisitions not from our cash flow from operations, but from external sources, such as equity offerings and additional indebtedness.

There is no guarantee that our shareholders will receive quarterly cash distributions from us. Our cash distribution policy may be changed at any time at the sole discretion of our Board, who will take into account, among other things, our contingent liabilities, financial condition and future prospects, the terms of our credit facilities, and the requirements of Bermuda law in determining the timing and amount of cash distributions, if any, that we may pay.

## Management Structure



Our Board decided, at the incorporation of the Company, to contract for the day-to-day management services of the Company and its subsidiaries, rather than to establish a proprietary management organization. This policy was based on the availability of such services in the market on terms which we consider more cost efficient to us than the alternative. The Board has not seen any reason to change this policy since it was formulated. All of the management services contracted for by the Company and its subsidiaries are subject to the Board's or, as the case may be, the board of the relevant subsidiary's, sole right to determine the overall objectives and policies of the Company and its subsidiaries. Further, all matters of material importance to or of an extraordinary nature in respect of our business are decided by the Board.

### **General Management Agreement**

We are provided with general administrative services by ICB Shipping (Bermuda) Limited, or the General Manager. The General Manager is a wholly owned subsidiary of Frontline Ltd. (NYSE: FRO), or Frontline. The General Manager subcontracts the services provided to the Company and its subsidiaries to Frontline Management (Bermuda) Limited, another wholly owned subsidiary of Frontline. Pursuant to the terms of the Amended General Management Agreement with our General Manager effective April 2, 2010, the General Manager is entitled to a management fee of \$2.3 million per annum from January 1, 2010, which is subject to annual adjustments, plus a commission of 1.25% on gross freight revenues from our tanker vessels, 1% of proceeds on the sale of any of our vessels, and 1% of the cost of the purchase of vessels. In addition, we, in our discretion, may award equity incentives to the General Manager based upon its performance. Such awards are subject to the approval of our Board. We are responsible for paying all out-of-pocket expenses incurred by the General Manager from third parties in connection with the services provided under the Amended General Management Agreement, such as audit, legal and other professional fees, registration fees and directors' and officers' fees and expenses. Our Board believes that the terms of the Amended General Management Agreement are substantially similar to those that we might have obtained in arm's-length negotiations in the market. We may terminate the Amended General Management Agreement subject to five business days' prior written notice to the General Manager in the event:

- the General Manager commits a material breach under the Amended General Management Agreement, and such breach remains unremedied for 30 days;
- any material consent, authorization, license, approval or similar requirement for the General Manager's activities as such is modified, terminated, revoked or expires;
- it becomes unlawful for the General Manager to perform the services to be provided under the terms of the Amended General Management Agreement; or
- the General Manager ceases to be a wholly-owned subsidiary of Frontline.

The General Manager may terminate the Amended General Management Agreement upon five business days' notice in the event we commit a material breach of the terms thereof and the breach remains unremedied for 30 days. Either party may terminate the Amended General Management Agreement upon immediate written notice to the other party in the event such other party becomes subject to an insolvency event. Either party may terminate the Amended General Management Agreement upon 12 months' prior written notice to the other party, provided that such termination by us must be approved by a resolution duly adopted by the affirmative vote of shareholders holding at least 66 2/3% of our issued and outstanding common shares. Our Board believes that if the Amended General Management Agreement is terminated, we will be able to obtain appropriate alternative arrangements for our management requirements. However, there can be no assurance that such alternative arrangement would not cause us to incur additional expenses.

### **Technical Management of Vessels**

The technical management of our vessels is provided by ship managers subcontracted by our General Manager.

### **Commercial Management of our Capesize Vessels**

Pursuant to a commercial management agreement, or the Dry bulk Commercial Management Agreement, Golden Ocean Management (Bermuda) Ltd., or the Dry bulk Manager, a wholly-owned subsidiary of Golden Ocean, manages our dry bulk carriers. The Dry bulk Manager may subcontract some or all of the services provided to us and our subsidiaries to its affiliates or third parties. Pursuant to the Dry bulk Commercial Management Agreement, the Dry bulk Manager is entitled to receive a commission of 1.25% of all gross freight earned by our dry bulk carriers. In addition, we, in our discretion, may award equity incentives to the Dry bulk Manager based on its performance. Such awards are subject to the approval of our Board. We or the

Dry bulk Manager may terminate the Dry bulk Commercial Management Agreement subject to three months' prior written notice to the other party.

Furthermore, we may terminate the Dry bulk Commercial Management Agreement with immediate effect in the event the Dry bulk Manager commits a material breach of the terms thereof and the breach remains unremedied for 14 days after written notice thereof has been provided by us to the Dry bulk Manager. In addition, either party may terminate the Dry bulk Commercial Management Agreement upon immediate written notice to the other party in the event that such other party becomes subject to an insolvency event. Our Board believes that, in the case of any termination of the Dry bulk Commercial Management Agreement, we can obtain appropriate alternative arrangements for our commercial management requirements. However, there can be no assurance that such alternative arrangements would not cause us to incur additional expenses.

### **Seasonality**

The dry bulk trade also has a history of tracking seasonal demand fluctuations, but like the oil trade, appears to have become less dependent on such fluctuations as a result of the increased transportation of certain dry bulk commodities. Adverse weather conditions in the Southern Hemisphere, however, which often occur during the first quarter, have had a negative impact on iron ore and coal exports from Australia and iron ore exports from Brazil in the last few years. Grain has traditionally had the greatest impact on the dry bulk market, particularly during the peak demand seasons, which occur during the second quarter in the Southern Hemisphere and at the end of the third quarter and throughout the fourth quarter in the Northern Hemisphere. The growth of iron ore and coal transportation over the last decade, however, has diminished the relative importance of grain to the dry bulk transportation industry. With the quarterly pricing of iron ore affecting its demand and factors such as weather and port congestion impacting the dry bulk industry as a whole, the volatility of dry bulk earnings in recent years appears to be the result of factors other than seasonality.

Historically, oil trade and, therefore, charter rates increased in the winter months and eased in the summer months as demand for oil in the Northern Hemisphere rose in colder weather and fell in warmer weather. The tanker industry, in general, has become less dependent on the seasonal transport of heating oil than a decade ago as new uses for oil and oil products have developed, spreading consumption more evenly over the year. This is most apparent from the higher seasonal demand during the summer months due to energy requirements for air conditioning and motor vehicles.

### **Customers**

Revenues from three customers in the year ended December 31, 2013 each accounted for 10 percent or more of the Company's consolidated revenues from discontinued and continuing operations, in the amount of \$17.0 million, \$5.0 million, and \$4.3 million, respectively. Revenues from three customers in the year ended December 31, 2012 each accounted for 10 percent or more of the Company's consolidated revenues from discontinued and continuing operations, in the amount of \$17.4 million, \$11.6 million and \$5.1 million, respectively. Revenues from six customers in the year ended December 31, 2011 each accounted for 10 percent or more of the Company's consolidated revenues from discontinued and continuing operations, in the amount of \$19.2 million, \$16.1 million, \$14.7 million, \$11.6 million, \$11.6 million and \$10.0 million respectively.

### **Competition**

The market for international seaborne crude oil and dry bulk transportation services is highly fragmented and competitive. Seaborne crude oil transportation services generally are provided by two main types of operators: major oil company captive fleets (both private and state-owned) and independent ship-owner fleets while seaborne dry bulk transportation services are generally provided by independent ship-owner fleets. In addition, many owners and operators in each of the tanker and dry bulk industries pool their vessels together on an ongoing basis, and such pools are available to customers to the same extent as independently owned and operated fleets. Many major oil companies and other oil trading companies also operate their own vessels and use those vessels not only to transport their own crude oil but also to transport crude oil for third party end-users in direct competition with independent owners and operators in the tanker charter market. Competition for charters in the tanker and dry bulk markets is intense and is based upon price, location, size, age, condition and acceptability of the vessel and its manager. Competition is also affected by the availability of other size vessels to compete in the trades in which we engage. Charters are to a large extent brokered through international independent brokerage houses that specialize in finding the optimal ship for any particular cargo based on the aforementioned criteria. Brokers may be appointed by the cargo shipper or the ship owner.

### ***Environmental and Other Regulations***

Government regulations and laws significantly affect the ownership and operation of our vessels. We are subject to international conventions, national, state and local laws and regulations in force in the countries in which our vessels may operate or are registered and compliance with such laws, regulations and other requirements may entail significant expense.

Our vessels are subject to both scheduled and unscheduled inspections by a variety of government, quasi-governmental and private organizations including local port authorities, national authorities, harbor masters or equivalents, classification societies, flag state administrations (countries of registry) and charterers. Our failure to maintain permits, licenses, certificates or other approvals required by some of these entities could require us to incur substantial costs or temporarily suspend operation of one or more of our vessels.

We believe that the heightened levels of environmental and quality concerns among insurance underwriters, regulators and charterers have led to greater inspection and safety requirements on all vessels and may accelerate the scrapping of older vessels throughout the industry. Increasing environmental concerns have created a demand for vessels that conform to stricter environmental standards. 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 authorizations necessary for the conduct of our operations; however, because such laws and regulations are frequently changed and may impose increasingly stricter requirements, we cannot predict with certainty 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 that results in significant oil pollution or otherwise causes significant adverse environmental impact, such as the 2010 BP plc *Deepwater Horizon* oil spill in the Gulf of Mexico, could result in additional legislation or regulation that could negatively affect our profitability.

### ***International Maritime Organization***

The International Maritime Organization, or the IMO, is the United Nations agency for maritime safety and the prevention of pollution by ships. The IMO has adopted several international conventions that regulate the international shipping industry, including but not limited to the International Convention on Civil Liability for Oil Pollution Damage of 1969, amended and replaced by the 1992 protocol, generally referred to as CLC, the International Convention on Civil Liability for Bunker Oil Pollution Damage of 2001, and the International Convention for the Prevention of Pollution from Ships of 1973, or the MARPOL Convention. The MARPOL Convention is broken into six Annexes, each of which establishes environmental standards relating to different sources 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 relates to air emissions.

The operation of our vessels is also affected by the requirements contained in the International Safety Management Code for the Safe Operation of Ships and for Pollution Prevention, or ISM Code, promulgated by the IMO under the International Convention for the Safety of Life at Sea of 1974, or SOLAS. The ISM Code requires the party with operational control of a vessel to develop an extensive safety management system that includes, among other things, the adoption of a safety and environmental protection policy setting forth instructions and procedures for operating its vessels safely and describing procedures for responding to emergencies. We intend to rely upon the safety management system that our appointed ship managers have developed.

Noncompliance with the ISM Code or with other IMO regulations may subject a shipowner or bareboat charterer to increased liability, may lead to decreases in available insurance coverage for affected vessels and may result in the denial of access to, or detention in, some ports including United States and European Union ports.

### ***United States***

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

The U.S. Oil Pollution Act of 1990, or OPA, established an extensive regulatory and liability regime for environmental protection and cleanup of oil spills. OPA affects all "owners and operators" whose vessels trade with the United States or its territories or possessions, or whose vessels operate in the waters of the United States, which include the U.S. territorial sea and the 200 nautical mile exclusive economic zone around the United States. The Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, imposes liability for cleanup and natural resource damage from the release 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. Accordingly, both OPA and CERCLA impact our operations.

Under OPA, vessel owners and operators are responsible parties who 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 oil spills from their vessels. OPA contains statutory caps on liability and damages; such caps do not apply

to direct cleanup costs. OPA limits the liability of responsible parties with respect to tankers over 3,000 gross tons to the greater of \$2,000 per gross ton or \$17.088 million per double hull tanker, and with respect to non-tank vessels, the greater of \$1,000 per gross ton or \$854,000 for any non-tank vessel, respectively. 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 responsible 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.

OPA 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. Some states have enacted legislation providing for unlimited liability for discharge of pollutants within their waters, however, in some cases, states which have enacted this type of legislation have not yet issued implementing regulations defining tanker owners' responsibilities under these laws.

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. For example, effective October 22, 2012, the U.S. Bureau of Safety and Environment Enforcement (BSEE) implemented 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. 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.

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 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 refuses to provide all reasonable cooperation and assistance as requested in connection with response activities where the vessel is subject to OPA.

OPA and CERCLA have no effect on the availability of damages under existing law, including maritime tort law. We believe that we are in substantial compliance with OPA, CERCLA and all applicable state regulations in the ports where our vessels call.

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. Under OPA and CERCLA, an owner or operator of more than one tanker is required to demonstrate evidence of financial responsibility for the entire fleet in an amount equal only to the financial responsibility requirement of the tanker having the greatest maximum liability. We have provided such evidence and received certificates of financial responsibility from the U.S. Coast Guard for each of our vessels required to have one.

#### ***Other U.S. 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 United States Environmental Protection Agency, or EPA, has enacted rules requiring a permit regulating ballast water discharges and other discharges incidental to the normal operation of certain vessels within United States waters under the Vessel General Permit for Discharges Incidental to the Normal Operation of Vessels, or VGP. For a new vessel delivered to an owner or operator after September 19, 2009 to be covered by the VGP, the owner must submit a Notice of Intent, or NOI, at least 30 days before the vessel operates in United States waters. On March 28, 2013, EPA re-issued the VGP for another five years; this 2013 VGP took effect December 19, 2013. This permit focuses on authorizing discharges incidental to operations of commercial vessels and the

new permit is also expected to contain 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.

Compliance with the VGP could require the installation of equipment on our vessels to treat ballast water before it is discharged or the implementation of other disposal arrangements, and/or otherwise restrict our vessels from entering United States waters. In addition, certain states have enacted more stringent discharge standards as conditions to their required certification of the VGP. We submit NOIs for our vessels where required and do not believe that the costs associated with obtaining and complying with the VGP have a material impact on our operations.

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.

At the international level, the IMO adopted an International Convention for the Control and Management of Ships' Ballast Water and Sediments in February 2004, or the BWM Convention. The BWM Convention provides 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. 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, and the cost of compliance could increase for ocean carriers. Although we do not believe that the costs of compliance with a mandatory mid-ocean ballast exchange would be material, it is difficult to predict the overall impact of such a requirement on our operations.

The U.S. Clean Air Act, or 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, or 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.

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.

### ***European Union***

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 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.

### ***Greenhouse Gas Regulation***

Currently, the emissions of greenhouse gases from ships 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.

As of January 1, 2013, all ships must comply with mandatory requirements adopted by the MEPC in July 2011 relating to greenhouse gas emissions. All ships are required to follow the Ship Energy Efficiency Management Plans. Now the minimum energy efficiency levels per capacity mile, outlined in the Energy Efficiency Design Index, applies to all new ships. These requirements could cause us to incur additional compliance costs. The IMO is also considering the implementation of 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.

### ***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 entered into force on August 20, 2013. The ratification of MLC 2006 will require us to develop new procedures to ensure full compliance with its requirements.

### ***Vessel Security Regulations***

Since the terrorist attacks of September 11, 2001, there have been a variety of initiatives intended to enhance vessel security. On November 25, 2002, the U.S. Maritime Transportation Security Act of 2002, or the MTSA, came into effect. 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 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 ISPS Code. The ISPS Code is designed to enhance the security of ports and ships against terrorism. Amendments to SOLAS Chapter VII, made mandatory in 2004, apply to vessels transporting dangerous goods and require those vessels be in compliance with the International Maritime Dangerous Goods Code.

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.

A ship 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.

The U.S. Coast Guard regulations, intended to align with international maritime security standards, exempt from MTSA vessel security measures non-U.S. vessels that have on board, as of July 1, 2004, a valid ISSC attesting to the vessel's compliance with SOLAS security requirements and the ISPS Code. We believe that our fleet is currently in compliance with applicable security requirements.

### ***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.

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" by a recognized classification society.

### **Risk of loss and insurance**

Our business is affected by a number of risks, including mechanical failure of the vessels, collisions, property loss to the vessels, cargo loss or damage and business interruption due to political circumstances in foreign countries, hostilities and labor strikes. In addition, the operation of any ocean-going vessel is subject to the inherent possibility of catastrophic 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 any vessel 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.

Our General Manager is responsible for arranging the insurance of our vessels in line with standard industry practice. In accordance with that practice, we maintain marine hull and machinery and war risks insurance, which include the risk of actual or constructive total loss, and protection and indemnity insurance with mutual assurance associations. We carry insurance covering the loss of hire resulting from marine casualties or hull and marine particular damages on our vessels. Currently, the amount of coverage for liability for pollution, spillage and leakage available to us on commercially reasonable terms through protection and indemnity associations and providers of excess coverage is \$1.0 billion per vessel per occurrence. Protection and indemnity associations are mutual marine indemnity associations formed by shipowners to provide protection from large financial loss to one member by contribution towards that loss by all members.

We believe that our current insurance coverage is adequate to protect us against the accident-related risks involved in the conduct of our business and that we maintain appropriate levels of environmental damage and pollution insurance coverage, consistent with standard industry practice. However, there is no assurance that all risks are adequately insured against, that any particular claims will be paid or that we will be able to procure adequate insurance coverage at commercially reasonable rates in the future.

## **C. ORGANIZATIONAL STRUCTURE**

See Exhibit 8.1 for a list of our significant subsidiaries.

## **D. PROPERTY, PLANT AND EQUIPMENT**

We operate a modern fleet of four Capesize dry bulk carriers. The name, dwt, flag and date of original delivery from the builder's yard are set forth below.

<b>Vessel name</b>	<b>Type</b>	<b>Approx. dwt</b>	<b>Flag</b>	<b>Year Built</b>
Belgravia	Capesize	170,500	Marshall Islands	2009
Battersea	Capesize	170,500	Marshall Islands	2009
Golden Future	Capesize	176,000	Hong Kong	2010
Golden Zhejiang	Capesize	176,000	Hong Kong	2010

Please see the discussion in Item 3B. above for a description of environmental regulations that may affect our utilization of the vessels. We have also concluded newbuilding contracts for two 182,000 dwt Capesize bulk carriers and newbuilding contracts for two 180,000 dwt Capesize bulk carriers. The four vessels are expected to be delivered to us during 2015. Other than its interests in the vessels and newbuilding contracts, the Company has no interest in any other property.

#### **ITEM 4A. UNRESOLVED STAFF COMMENTS**

None.



## ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

### A. OPERATING RESULTS

#### Overview

The following discussion should be read in conjunction with "Item 3. Selected Financial Data" and the Company's audited Consolidated Financial Statements and Notes thereto included herein.

In February 1997, the Company's five wholly-owned subsidiaries each purchased one VLCC. From their purchase in February 1997 until March 2004, the Company chartered the VLCCs to Shell International on long-term bareboat charters. The charters expired for all five VLCCs, in accordance with their terms, in March 2004 and the VLCCs were redelivered to the Company and subsequently chartered out on time and spot markets. One VLCC was sold in December 2007.

In May 2007, the Company entered into agreements for the construction of two Capesize dry bulk carriers, each with a cargo-carrying capacity of approximately 170,000 dwt, with Daehan. Both of the vessels commenced five-year time charters following their delivery to us in August and October 2009. In July 2010, we acquired a 2010-built Capesize dry bulk carrier from Golden Ocean and in October 2010, we acquired a second 2010-built Capesize dry bulk carrier from Golden Ocean. Both vessels were acquired with existing time charters.

In December 2007, we sold a VLCC to an unrelated third party for net proceeds of \$99.0 million.

In December 2011, an agreement was reached with Frontline, the charterer of *Hampstead*, to reduce the daily charter rate from \$37,750 to \$27,050 from January 1, 2012 until April 22, 2012, the date when the vessel was re-delivered to us from its time charterer. During this period, the charterer was obligated to compensate us for any daily vessel earnings above \$27,050 up to and including \$37,750. There was no compensation above the daily gross hire rate for the first quarter of 2012. In August 2012, the vessel was contracted to be sold to an unrelated third party, but the sale was not completed due to the buyer's default, and we retained the deposit received in the amount of \$2.43 million. In September 2012, the VLCC *Hampstead* was sold to an unrelated third party, for net proceeds of \$22.2 million.

In July 2012, Hong Xiang, the charterer of the *Golden Zhejiang*, redelivered the vessel before final maturity of the charter. Also in July 2012, Sanko, the charterer of the *Battersea*, redelivered the vessel prior to the expiration of the minimum period of the charter. In October 2012, we terminated the charter for the VLCC *Mayfair* due to the charterer's default.

In October 2012, we sold the VLCC *Titan Venus* for net proceeds of \$19.8 million. In December 2012, we sold the VLCC *Kensington* for net proceeds of \$22.5 million. Our one remaining VLCC, the *Mayfair* was classified as held for sale at December 31, 2012, and in March 2013, we entered into an agreement for the sale of this vessel for scrap for gross sale proceeds of \$17.5 million. This vessel was delivered in April 2013.

In March 2013, the Company concluded newbuilding contracts for two 182,000 dwt Capesize bulk carriers and in November 2013, the Company concluded newbuilding contracts for two 180,000 dwt Capesize bulk carriers. As of the date of this annual report, the Company has purchase commitments of \$185.5 million relating to its four Capesize newbuilding contracts with expected payments of \$24.4 million and \$161.1 million in 2014 and 2015, respectively.

At December 31, 2013, we owned four Capesize dry bulk vessels, three of which were then operating on time charters. The *Belgravia* was on time charter until August 2014 at a rate of \$46,412 per day less 2.5% commission. The rate was reduced from \$52,670 in March 2012 after renegotiations with the charterer. The *Golden Future* was on a time charter, which commenced in January 2013, at a market index based daily rate less 6.25% commission (including 1.25% commission payable to Golden Ocean). This time charter was extended in February 2014 for a minimum period of 11 months and a maximum period of 13 months. The *Golden Zhejiang* was on time charter for a minimum period of 11 months and a maximum period of 13 months at a market index based daily rate less commission of 6.25% (including 1.25% commission payable to Golden Ocean). One Capesize vessel was operating in the spot market.

#### Market Overview and Trend Information

##### *Dry Bulk Market*

Over the last three years, the focus has been on the supply side of the dry bulk industry. Overcapacity has caused great concerns with an official orderbook representing approximately 50 percent of the total fleet at the beginning of 2011. The orderbook has

gradually been reduced and by the end of 2013, the orderbook was estimated to be approximately 17 percent of the existing fleet albeit a much bigger fleet than three years ago.

In 2013, approximately 60 million dwt was delivered and approximately 22 million dwt of the dry bulk fleet was removed. Consequently, net fleet growth ended at seven percent which was considerably lower than in the previous three years.

For many years, except 2009, the dry bulk market has not had a demand problem. In 2013, total demand growth was approximately 6 percent in volume but taking into account other factors such as sailing distances and congestion, the demand growth measured in ton miles was approximately 8 percent. The difference between the first part of 2013 and the second half was significant. Toward the end of 2013, for the first time since 2007, utilization of the dry bulk fleet turned in favor of owners.

Spot earnings for Capesize vessels were particularly volatile during 2013. The low point was in April when a Capesize dry bulk vessel earned approximately \$4,200 per day, while the same vessel earned \$42,200 per day at the end of September. Average earnings in 2013 were \$14,700 per day while the average earnings for the fourth quarter of 2013 were \$27,500 per day.

Chinese demand for dry bulk commodities was high in 2013 and China accounted for 83 percent of the global demand growth of 200 million tons. In 2013, China imported a total of 1,500 million tons of dry bulk commodities, compared to 750 million tons in 2008. This represents approximately 35 percent of global dry bulk trade measured in volume and more than 40 percent in ton miles.

In 2013, iron ore and coal imports to China exhibited strong growth. Iron ore increased by 10 percent to reach 820 million tons while coal increased by 17 percent to 275 million tons. Additionally, bauxite and nickel ore increased by 60 percent and 22 percent respectively, but at smaller volumes.

India's newly commissioned coal fired power plants and improved port infrastructure are resulting in higher coal imports to the country. In 2013, India imported 164 million tons of coal which is almost 10 percent growth as compared to 2012.

The orderbook for new dry bulk vessels was high in the second half of 2013, leading to higher newbuilding prices. From a low in the first quarter of 2013, prices rose by approximately 15 percent on average. Asset prices for secondhand vessels, in particular Capesize vessels, witnessed even stronger gains. The value of a secondhand Capesize vessel increased by more than 25 percent last year.

### **Critical Accounting Policies and Estimates**

The preparation of our financial statements in accordance with accounting principles generally accepted in the United States requires that management make estimates and assumptions affecting the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Management believes that the following accounting policies are the most critical in fully understanding and evaluating our reported financial results as they require a higher degree of judgment in their application resulting from the need to make estimates about the effect of matters that are inherently uncertain. See Note 2 to our audited Consolidated Financial Statements included herein for details of all of our material accounting policies.

### **Revenue and expense recognition**

Revenues and expenses are recognized on the accruals basis. Revenues are generated from freight billings, time charter and bareboat charter hires. Voyage revenues and expenses are recognized ratably over the estimated length of each voyage and, therefore, are allocated between reporting periods based on the relative transit time in each period. The impact of recognizing voyage expenses ratably over the length of each voyage is not materially different on a quarterly and annual basis from a method of recognizing such costs as incurred. Probable losses on voyages are provided for in full at the time such losses can be estimated. Time charter and bareboat charter revenues are recorded over the term of the charter as a service is provided. The Company uses a discharge-to-discharge basis in determining percentage of completion for all spot voyages and voyages servicing contracts of affreightment whereby it recognizes revenue ratably from when product is discharged (unloaded) at the end of one voyage to when it is discharged after the next voyage. However, the Company does not recognize revenue if a charter has not been contractually committed to by a customer and the Company, even if the vessel has discharged its cargo and is sailing to the anticipated load port on its next voyage.

### **Losses from Uncollectible Receivables**

Losses from uncollectible receivables are accrued when collection of the invoiced revenues is not assured. Management makes a judgment with regards to whether or not this should be recognized as income and if collection is not reasonably assured and the amount of the loss can be reasonably estimated, no revenue will be recognized until cash has been received. These conditions are considered in relation to individual receivables or in relation to groups of similar types of receivable.

### **Vessels and depreciation**

Vessels are stated at cost less accumulated depreciation. Depreciation is calculated based on cost less estimated residual value, using the straight-line method, over the useful life of each vessel. The useful life of each vessel is deemed to be 25 years.

The estimated residual values are based on estimated scrap rates of \$270-294 per lightweight ton, which the management believes is a reasonable estimate of future scrap prices, taking into consideration the cyclical nature of the nature of future demand for scrap steel. Although our management believes that the assumptions used to determine the scrap rate are reasonable and appropriate, such assumptions are highly subjective, in part, because of the cyclical nature of the nature of future demand for scrap steel.

### **Impairment of Long Lived Assets**

The carrying values of the Company's vessels and newbuildings may not represent their fair market value at any point in time since the market prices of second-hand vessels and the cost of newbuildings tend to fluctuate with changes in charter rates. Historically, both charter rates and vessel values tend to be cyclical. The carrying amounts of vessels that are held and used by the Company and newbuildings under development are reviewed for potential impairment whenever events or changes in circumstances indicate that the carrying amount of a particular vessel or newbuilding may not be fully recoverable. In such instances, an impairment charge would be recognized if the estimate of the undiscounted future cash flows expected to result from the use of the vessel and its eventual disposition is less than the vessel's carrying amount. This assessment is made at the individual vessel level as separately identifiable cash flow information for each vessel is available. Fair value is estimated based on values achieved for the sale/purchase of similar vessels and appraised valuations.

In developing estimates of future cash flows, the Company must make assumptions about future performance, with significant assumptions being related to charter rates, ship operating expenses, utilization, drydocking requirements, residual value and the estimated remaining useful lives of the vessels. These assumptions are based on historical trends as well as future expectations. Specifically, in estimating future charter rates, management takes into consideration rates currently in effect for existing time charters and estimated daily time charter equivalent rates for each vessel class for the unfixed days over the estimated remaining lives of each of the vessels. The estimated daily time charter equivalent rates used for unfixed days are based on a combination of (i) trading exchange forecasts, and (ii) the trailing 20-year historical average rates, based on quarterly average rates published by a third party maritime research service. Recognizing that the transportation of dry bulk cargoes is cyclical and subject to significant volatility based on factors beyond the Company's control, management believes the use of estimates based on the combination of internally forecasted rates and 20-year historical average rates calculated as of the reporting date to be reasonable.

Estimated outflows for operating expenses and drydocking requirements are based on historical and budgeted costs and are adjusted for assumed inflation. Finally, utilization is based on historical levels achieved and estimates of a residual value are consistent with the pattern of scrap rates used in management's evaluation of salvage value.

The more significant factors that could impact management's assumptions regarding time charter equivalent rates include (i) loss or reduction in business from significant customers, (ii) unanticipated changes in demand for transportation of dry bulk cargoes, (iii) greater than anticipated levels of newbuilding orders or lower than anticipated levels of vessel scrappings, and (v) changes in rules and regulations applicable to the dry bulk industry, including legislation adopted by international organizations such as the IMO and the EU or by individual countries. Although management believes that the assumptions used to evaluate potential impairment are reasonable and appropriate at the time they were made, such assumptions are highly subjective and likely to change, possibly materially, in the future. There can be no assurance as to how long charter rates and vessel values will remain at their current low levels or whether they will improve by a significant degree. If charter rates were to remain at depressed levels future assessments of vessel impairment would be adversely affected.

### **Our Fleet – 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. During the past few years, the market values of vessels have experienced particular volatility, with substantial declines

in many vessel classes. As a result, the charter-free market value, or basic 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, due to our belief that future undiscounted cash flows expected to be earned by such vessels over their operating lives would exceed such vessels' carrying amounts.

Our estimates of basic market value assume that our vessels are 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 the values achieved for the sale/purchase of similar vessels and appraised valuations and are inherently uncertain. In addition, vessel values are highly volatile; as such, our estimates may not be indicative of the current or future basic market value of our vessels or prices that we could achieve if we were to sell them.

The table set forth below indicates (i) the carrying value of each of our Capesize vessels as of December 31, 2013, (ii) which of those vessels we believe has a basic market value, based on ship broker reports, below its carrying value, and (iii) the aggregate difference between carrying value and market value represented by such vessels. We believe that the future undiscounted cash flows expected to be earned by those vessels, which have experienced a decline in charter-free market value below such vessels' carrying value, over their reporting lives would exceed vessels' carrying values as of December 31, 2013, and accordingly, have not recorded an impairment charge.

<b>Vessel</b>	<b>Built</b>	<b>Approximate Dwt</b>	<b>Carrying Value (\$ millions)*</b>
Belgravia	2009	170,500	70.1
Battersea	2009	170,500	74.5
Golden Future	2010	176,000	62.9
Golden Zhejiang	2010	176,000	55.2

\* As of December 31, 2013, the basic charter-free market value for each of the four Capesize vessels above is lower than the vessel's carrying value. We believe that the aggregate carrying value of these vessels exceeds their aggregate basic charter-free market value by approximately \$91.0 million.

We refer you to the risk factor entitled "Because the market value of our vessels may fluctuate significantly, we may incur losses when we sell vessels, which may adversely affect our earnings" and the discussion herein under the heading "Business Overview".

### **Factors Affecting Our Results**

The principal factors which affect our results of operations and financial position include:

- operating revenues;
- gains (losses) from the sale of assets;
- voyage expenses and commissions;
- vessel operating expenses;
- impairment losses on vessels;
- provisions for uncollectible receivables;
- administrative expenses;
- depreciation;
- interest expense; and
- discontinued operations.

Voyage expenses and commissions include port expenses, bunkers (fuel), voyage related insurance premiums, other voyage related costs and broker commissions.

Operating costs are the direct costs associated with running a vessel and include crew costs, vessel supplies, repairs and maintenance, drydockings, lubricating oils and insurance. We bear the operating costs for our vessels which operate under time charter.

An impairment loss on a vessel, equal to the difference between the vessel's carrying value and fair value, is recognized when the estimated future net undiscounted cash flows are less than the carrying value of the vessel.

Losses from uncollectible receivables are accrued when information is available before the financial statements are issued that indicates that it is probable that a receivable will not be collected and the amount of the loss can be reasonably estimated.

Administrative expenses are composed of general corporate overhead expenses, including audit fees, directors' fees and expenses, registrar fees, investor relations and publication expenses, legal and professional fees, restricted stock unit, or RSU, expense and other general administrative expenses.

Depreciation, or the periodic cost charged to our income for the reduction in usefulness and long-term value of our vessels, is also related to the number of vessels we own. We depreciate the cost of our vessels, less their estimated residual value, over their estimated useful life on a straight-line basis.

Interest expense depends on our overall borrowing levels and will change with prevailing interest rates, although the effect of these changes may be reduced by interest rate swaps or other derivative instruments. At December 31, 2013, all of our debt was floating rate debt. We may enter into interest rate swap arrangements if we believe it is advantageous to do so.

The Company has determined that an individual vessel within a vessel class is not a component as defined by the accounting standard for the purpose of discontinued operations as the Company does not believe that the operations of an individual vessel within a vessel class can be clearly distinguished. Generally, the Company believes that all of the vessels in a vessel class represent a component as defined for the purpose of discontinued operations and has presented the operations of the VLCCs as discontinued operations since three of those vessels were sold during 2012 and the remaining VLCC met the criteria for held for sale at December 31, 2012. This vessel was sold during 2013.

#### **Lack of Historical Operating Data for Vessels before their Acquisition**

Consistent with shipping industry practice, other than inspection of the physical condition of the vessels and examinations of classification society records, there is no historical financial due diligence process when we acquire vessels. Accordingly, we do not obtain the historical operating data for the vessels from the sellers because that information is not material to our decision to make acquisitions, nor do we believe it would be helpful to potential investors in our common shares in assessing our business or profitability. Most vessels are sold under a standardized agreement, which, among other things, provides the buyer with the right to inspect the vessel and the vessel's classification society records. The standard agreement does not give the buyer the right to inspect, or receive copies of, the historical operating data of the vessel. Prior to the delivery of a purchased vessel, the seller typically removes from the vessel all records, including past financial records and accounts related to the vessel. In addition, the technical management agreement between the seller's technical manager and the seller is automatically terminated and the vessel's trading certificates are revoked by its flag state following a change in ownership.

Consistent with shipping industry practice, we treat the acquisition of a vessel (whether acquired with or without charter) as the acquisition of an asset rather than a business. Although vessels are generally acquired free of charter, we have agreed to acquire (and may in the future acquire) some vessels with time charters. Where a vessel has been under a voyage charter, the vessel is 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's entering into a separate direct 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. When we purchase a vessel and assume 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;
- 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.

## **Inflation**

Although inflation has had a moderate impact on our vessel operating expenses and corporate overheads, management does not consider inflation to be a significant risk to direct costs in the current and foreseeable economic environment. It is anticipated that insurance costs, which have risen over the last three years, may well continue to rise moderately over the next few years. Dry bulk cargo transportation is a specialized area and the number of vessels is increasing. There will therefore be an increased demand for qualified crew and this has and will continue to put inflationary pressure on crew costs. However, in a shipping downturn, costs subject to inflation can usually be controlled because shipping companies typically monitor costs to preserve liquidity and encourage suppliers and service providers to lower rates and prices in the event of a downturn.

## **Year ended December 31, 2013 compared with year ended December 31, 2012**

### ***Operating revenues***

<i>(in thousands of \$)</i>	<b>2013</b>	<b>2012</b>	<b>% Change</b>
Time charter revenues	<b>27,677</b>	35,046	(21.0)
Voyage charter revenues	<b>9,869</b>	2,269	334.9
<b>Total operating revenues</b>	<b>37,546</b>	37,315	0.6

Time charter revenues decreased in the year ended December 31, 2013 as compared to the year ended December 31, 2012 primarily due to the following reasons;

- A decrease in revenues of \$4.5 million from the *Battersea*, which commenced trading in the spot market upon redelivery from time charter in April 2013.
- A decrease of \$6.3 million in *Golden Future* revenues as a result of the reduced daily rate of the new time charter, which commenced in January 2013.
- A decrease in revenues of \$0.4 million from the *Belgravia* as a result of the daily rate reduction in March 2012 from \$52,670 to \$46,412 per day.

This decrease in revenues was partially offset by an improvement in the results from the *Golden Zhejiang*. This vessel had no time charter revenues in the year ended December 31, 2012 after unamortized costs of \$2.1 million relating to the time charter taken over upon the acquisition of the *Golden Zhejiang*, accrued income of \$3.4 million and unpaid charter hire of \$1.5 million were written off in the six months ended June 30, 2012 following default of the *Golden Zhejiang* charterer. Time charter revenues from the *Golden Zhejiang* in the year ended December 31, 2013 were \$3.8 million.

In December 2013, the Company received \$756,000 from Sanko as a partial settlement of a \$17 million claim for unpaid charter hire and claims of the *Battersea*. This amount was recorded as time charter income in the fourth quarter of 2013.

Voyage charter revenues increased in the year ended December 31, 2013 as compared to the year ended December 31, 2012 primarily due to an increase in revenues of \$8.7 million from the *Battersea*, which commenced trading in the spot market upon redelivery from time charter in April 2013. This was partially offset by a decrease in revenues of \$1.1 million from the *Golden Zhejiang*, which operated in the spot market between August and September 2012.

### ***Operating expenses***

<i>(in thousands of \$)</i>	<b>2013</b>	2012	% Change
Voyage expenses and commission	<b>6,809</b>	4,323	57.5
Ship operating expenses	<b>7,897</b>	7,608	3.8
Administrative expenses	<b>4,937</b>	4,259	15.9
Depreciation	<b>11,079</b>	11,117	(0.3)
Total operating expenses	<b>30,722</b>	27,307	12.5

Voyage expenses and commissions increased in the year ended December 31, 2013 compared to the year ended December 31, 2012 primarily due to an increase of \$4.4 million from the *Battersea*, which commenced trading in the spot market upon redelivery from time charter in April 2013. This was partially offset by a decrease of \$1.3 million from the *Golden Zhejiang*, which operated in the spot market between August and September 2012.

Ship operating expenses are the direct costs associated with running a vessel and include crew costs, vessel supplies, repairs and maintenance, lubricating oils and insurance.

Administrative expenses increased in the year ended December 31, 2013 as compared to the year ended December 31, 2012 primarily due to an increase in legal fees incurred in connection with the Company's claims against certain charterers.

Depreciation in the year ended December 31, 2013 is consistent with the year ended December 31, 2012 and relates to the same four Capesize vessels.

#### ***Other income (expenses)***

<i>(in thousands of \$)</i>	<b>2013</b>	2012	% Change
Interest income	<b>41</b>	106	(61.3)
Interest expense	<b>(2,827)</b>	(3,765)	(24.9)
Other financial items	<b>(508)</b>	(467)	8.8
Net other expenses	<b>(3,294)</b>	(4,126)	(20.2)

Interest income in the years ended December 31, 2013 and December 31, 2012 relates solely to interest received on bank deposits.

Interest expense decreased in the year ended December 31, 2013 as compared to the year ended December 31, 2012 primarily due to a reduction in the debt outstanding as a result of repayments and the capitalization of interest on newbuildings of \$0.4 million in the year ended December 31, 2013 (2012: nil).

Losses related to other financial items increased in the year ended December 31, 2013 as compared to the year ended December 31, 2012 primarily due to lower foreign exchange gains and an increase in bank charges.

#### ***Net loss from discontinued operations***

<i>(in thousands of \$)</i>	<b>2013</b>	2012	% Change
Net loss from discontinued operations	<b>(7,433)</b>	(59,311)	(87.5)

Net loss from discontinued operations relates to the operations of the Company's VLCCs. The Company had one VLCC at the start of 2013, which was sold in April 2013. There were no operating revenues in the year ended December 31, 2013, while a provision of \$0.2 million was made in respect of a doubtful demurrage balance. There was a gain of \$0.3 million relating to the sale of equipment, operating costs of \$7.3 million (including an impairment loss on vessels of \$5.3 million) and non operating expenses of \$0.2 million.

The Company had four VLCCs at the start of 2012 and sold three of them during 2012. The net loss from discontinued operations in the year ended December 31, 2012 resulted from operating revenues of \$24.5 million, a loss from the sale of vessels of \$13.1 million, operating expenses of \$69.1 million (including an impairment loss of \$41.6 million) and non operating costs of \$1.6 million.

## Year ended December 31, 2012 compared with year ended December 31, 2011

(in thousands of \$)	2012	2011	% Change
Time charter revenues	35,046	55,497	(36.9)
Voyage charter revenues	2,269	—	—
Total operating revenues	37,315	55,497	(32.8)

Time charter revenues decreased in the year ended December 31, 2012 as compared to the year ended December 31, 2011 primarily due to reduced time charter revenues from (i) the *Battersea* in the amount of \$8.6 million, including a provision for doubtful accounts of \$3.0 million, as a result of the early termination of the time charter in July 2012 due to the charterer filing for bankruptcy, and (ii) the *Golden Zhejiang* in the amount of \$10.0 million, including a provision for doubtful accounts of \$1.9 million, as a result of the early termination of the time charter in July 2012 due to the charterer's default under the charter party agreement.

Voyage charter revenues increased in the year ended December 31, 2012 as compared to the year ended December 31, 2011 primarily due to the *Battersea* and the *Golden Zhejiang* operating in the spot market from July 2012 and August 2012, respectively, until September 2012, after the early termination of their time charters.

### Operating expenses

(in thousands of \$)	2012	2011	% Change
Voyage expenses and commission	4,323	2,020	114.0
Ship operating expenses	7,608	7,830	(2.8)
Administrative expenses	4,259	3,528	20.7
Depreciation	11,117	11,079	0.3
Total operating expenses	27,307	24,457	11.7

Voyage expenses and commission increased in the year ended December 31, 2012 as compared to the year ended December 31, 2011 primarily due to the *Battersea* and the *Golden Zhejiang* operating in the spot market from July and August 2012, respectively, until September 2012.

Administrative expenses increased in the year ended December 31, 2012 as compared to the year ended December 31, 2011, primarily due to an increase in RSU expenses and legal fees.

### Other income (expenses)

(in thousands of \$)	2012	2011	% Change
Interest income	106	36	194.4
Interest expense	(3,765)	(3,529)	6.7
Other financial items	(467)	(489)	(4.5)
Net other expenses	(4,126)	(3,982)	3.6

Interest income increased in the year ended December 31, 2012 as compared to the year ended December 31, 2011 primarily due to an increase in the average cash balance on deposit following the sale of three VLCCs during 2012 and an increase in interest rates.

Interest expense increased in the year ended December 31, 2012 as compared to the year ended December 31, 2011 primarily due to an increase in the average interest rate on borrowings.

Other financial items decreased in the year ended December 31, 2012 as compared to the year ended December 31, 2011 primarily due to a foreign exchange gain in 2012.



### ***Net (loss) income from discontinued operations***

<i>(in thousands of \$)</i>	<b>2012</b>	<b>2011</b>	<b>% Change</b>
Net (loss) income from discontinued operations	<b>(59,311)</b>	<b>5,594</b>	<b>(1,160.3)</b>

Net (loss) income from discontinued operations in the years ended December 31, 2012 and 2011 relate to the operations of the Company's VLCCs. The results from the VLCCs in 2012 were negatively impacted by the sale of three vessels during 2012 and a deterioration in operating results due to the weak tanker market. In 2012, operating revenues less voyage expense and commissions decreased by \$17.3 million, \$5.3 million of which was attributable to an increase in the allowance for doubtful accounts. This was partially offset by a \$4.8 million decrease in operating expenses, which was primarily attributable to a decrease in drydocking costs of \$3.0 million and vessel disposals. The net loss in the year ended December 31, 2012 also includes a loss on the sale of vessels of \$13.1 million (2011: nil) and an impairment loss of \$41.6 million (2011: nil). Depreciation expense in the year ended December 31, 2012 decreased by \$2.3 million compared to the previous year due to vessel disposals.

### **Recently Issued Accounting Standards**

ASU 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. This ASU addresses implementation issues about the scope of ASU 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. ASU 2013-01 is effective for reporting periods beginning on or after January 1, 2013. This guidance did not have a material impact on the Company's consolidated financial statements.

### **B. LIQUIDITY AND CAPITAL RESOURCES**

The Company operates in a capital intensive industry and has historically financed its purchase of vessels through a combination of equity capital and borrowings from commercial banks. Our ability to generate adequate cash flows on a short and medium term basis depends substantially on the trading performance of our vessels in the market. Periodic adjustments to the supply of and demand for dry bulk carriers cause the industry to be cyclical in nature.

The Company's funding and treasury activities are conducted within corporate policies to maximize investment returns while maintaining appropriate liquidity for the Company's requirements. Cash and cash equivalents are held primarily in United States dollars.

Short-term liquidity requirements of the Company relate to servicing our debt, payment of operating costs, funding working capital requirements and maintaining cash reserves against fluctuations in operating cash flows and payment of cash distributions. Sources of short-term liquidity include cash balances, restricted cash balances, short-term investments and receipts from our customers. Revenues from time and bareboat charters are generally received monthly or bi-weekly in advance while revenues from voyage charters are received upon completion of the voyage.

In March 2014, the Company estimates it has an average cash breakeven rate for its Capesize vessels of \$11,600 per vessel per day for the remainder of 2014. This represents the daily rate our vessels must earn to cover payment of budgeted operating costs (including drydocking costs and corporate overheads) and estimated interest. This rate does not take into account loan balloon repayments at maturity in May 2015, which we expect to refinance with new loans.

The liquidity requirements of the Company include funding the replacement of vessels through the acquisition of secondhand vessels or newbuilding vessels and the repayment of long-term debt balances. The Company's sources of capital have been the proceeds of its initial public offering, subsequent equity offerings, bank loans, proceeds from the sale of vessels and charter hire income. The Company expects that charter hire paid from time charters and voyage charters will be sufficient sources of income for the Company to continue to pay ordinary recurring expenses including installments due on outstanding borrowings. We believe our working capital is sufficient for the Company's present requirements.

As of December 31, 2013, 2012 and 2011, the Company had cash and cash equivalents of \$98.3 million, \$79.3 million and \$46.8 million, respectively. As of December 31, 2013, 2012 and 2011, the Company had restricted cash of \$15.0 million, which is a minimum liquidity balance we are required to maintain at all times under the Company's loan facilities.

During the year ended December 31, 2013, we paid total cash distributions of \$18.2 million (2012: \$29.3 million, and 2011: \$48.9 million).

In March 2013, the Company concluded newbuilding contracts for two 182,000 dwt Capesize bulk carriers with JMU and in November 2013, the Company concluded newbuilding contracts for two 180,000 dwt Capesize bulk carriers with Daehan. The four vessels are expected to be delivered to the Company during 2015. As of the date of this annual report, we have paid \$26.3 million in installments and have aggregate purchase commitments of \$185.5 million relating to our four Capesize newbuilding contracts with expected payments of \$24.4 million and \$161.1 million in 2014 and 2015, respectively. We expect to finance these payments with cash on hand, operating cash flow and bank debt that we intend to arrange. See Item 3 "Key Information - Risk Factors".

One of the Company's claims for charter hire (see Item 8A) has been jointly lodged with another claimant's claim against the same defendant. By early March 2014, just under \$25 million had been received in partial settlement. An additional \$25 million at least is expected during 2014. No assurance can be provided that the additional amount will be collected. The Company expects to receive approximately 40% of the total settlement amounts received and to be received, to cover its share of the joint claims.

#### *Borrowing activities*

In July 2010, the Company entered into a \$58.24 million credit facility consisting of four tranches of \$14.56 million each relating to the VLCC vessels in the fleet to refinance the outstanding balance of \$56 million of debt under its previous \$140 million loan facility. The loan is secured by, among other things, a first priority mortgage on the applicable vessel. This loan was repayable on a quarterly basis with a balloon payment at the final maturity date June 2015 and had an interest rate of LIBOR plus a margin. During 2012, \$38.0 million of this loan was repaid as a result of the sales of the VLCCs *Hampstead*, *Titan Venus* and *Kensington*, in September, October and November 2012, respectively. The sales of these VLCCs generated net cash, after the repayment of debt, of approximately \$28 million. As of December 31, 2012, we had \$12.4 million of outstanding borrowings under this facility with no available undrawn amount. The remaining balance on this facility was repaid in the second quarter of 2013 upon the sale of the VLCC *Mayfair*.

In December 2010, the Company refinanced its previous \$105 million loan facility and entered into a \$175 million credit facility consisting of four tranches of \$25.0 million relating to each Capesize vessel and a revolving debt facility of \$75 million. The loan is secured by, among other things, a first priority mortgage on the applicable vessel. The loan is repayable in May 2015 and has an interest rate of LIBOR plus a margin. In May 2013, the revolving debt facility of \$75 million was reduced to \$40 million. As of December 31, 2013, we had \$95.0 million of outstanding borrowings under this facility. The revolving debt facility of \$40 million was available for vessel acquisitions but undrawn at December 31, 2013.

The Company's \$175 million loan agreement contains a loan-to-value clause, which could require the Company to post collateral or prepay a portion of the outstanding borrowings should the value of the vessels securing borrowings decrease below a required level. In addition, the loan agreement contains certain financial covenants including the requirement to maintain a certain level of free cash. Failure to comply with any of the covenants in this loan agreement could result in a default, which would permit the lender to accelerate the maturity of the debt and to foreclose upon any collateral securing the debt. Under those circumstances, the Company might not have sufficient funds or other resources to satisfy its obligations. The Company was in compliance with all of the financial and other covenants contained in the Company's \$175 million loan agreement as of December 31, 2013.

In addition, pursuant to the Company's \$175 million loan agreement, none of its vessel owning subsidiaries may sell, transfer or otherwise dispose of their interests in the vessels they own without the prior written consent of the applicable lenders unless, in the case of a vessel sale, the outstanding borrowings under the credit facility applicable to that vessel are repaid in full.

#### *Equity offering*

On October 17, 2013, the Company announced a public offering of 6,000,000 common shares and a 30 day option granted to the book-running manager to purchase additional common shares representing 15% of the offered shares. The offering was priced at \$9.00 per share and the book-running manager did not exercise its option. As a result, 6,000,000 common shares were issued in October 2013 and the Company received net proceeds of approximately \$51.2 million. The Company intends to use the net proceeds of this offering to partially fund the acquisition of newbuilding vessels and for general corporate purposes.

### **C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC**

We do not undertake any significant expenditure on research and development, and have no significant interests in patents or licenses.

### **D. TREND INFORMATION**

The oil tanker and dry bulk industries have been highly cyclical, experiencing volatility in charter hire rates and vessel values resulting from changes in the supply of and demand for crude oil and tanker capacity, dry bulk cargoes and dry bulk vessels. See "Item 5. Operating and Financial Review and Prospects – A. Operating Results".

## E. OFF-BALANCE SHEET ARRANGEMENTS

None.

## F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

At December 31, 2013, the Company had the following contractual obligations:

<i>(In thousands of \$)</i>	<b>Total</b>	<b>Payment due by period</b>			
		<b>Less than one year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>More than 5 years</b>
Debt (1)	95,000	—	95,000	—	—
Newbuilding installment	185,482	24,436	161,046	—	—
Total contractual cash obligations	280,482	24,436	256,046	—	—

(1) All of the Company's loan facilities are at floating interest rates based on LIBOR plus a margin and the Company has not entered into any interest rate swaps. The amounts included above do not include interest payments.

## G. SAFE HARBOR

Forward-looking information discussed in this Item 5 includes assumptions, expectations, projections, intentions and beliefs about future events. These statements are intended as "forward-looking statements." We caution that assumptions, expectations, projections, intentions and beliefs about future events may and often do vary from actual results and the differences can be material. Please see "Cautionary Statement Regarding Forward-Looking Statements" in this report.

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### A. DIRECTORS AND SENIOR MANAGEMENT

Set forth below are the names and positions of the directors and executive officers of the Company.

#### The Company

<b>Name</b>	<b>Age</b>	<b>Position</b>
Ola Lorentzon	64	Director and Chairman
Robert D. Somerville	70	Director
David M. White	73	Director and Audit Committee Chairman
Hans Petter Aas	68	Director and Audit Committee member
Herman Billung	56	Director
Inger M. Klemp	50	Chief Financial Officer
Georgina Sousa	64	Company Secretary

Pursuant to the Amended General Management Agreement with the Company, the General Manager provides management and advisory services to the Company. Set forth below are the names and positions of the directors, executive officers and officers of the General Manager.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Inger M. Klemp	50	Director and President
Kate Blankenship	49	Director
Graham Baker	54	Director

Directors of both the Company and the General Manager are elected annually, and each director elected holds office until a successor is elected. Officers of both the Company and the General Manager are elected from time to time by vote of the respective Board and hold office until a successor is elected. Certain biographical information with respect to each director and executive officer of the Company and the General Manager is set forth below.

**Ola Lorentzon** has been a director of the Company since September 18, 1996, Chairman since May 26, 2000 and Chief Executive Officer since May 5, 2010. Mr. Lorentzon is also a director of Erik Thun AB. Mr. Lorentzon was the Managing Director of Frontline Management AS, a subsidiary of Frontline, from April 2000 until September 2003.

**Robert D. Somerville** has been a director of the Company since September 20, 2013. Mr. Somerville was the President or Chairman of the American Bureau of Shipping ("ABS") for 20 years to April 2013. Mr. Somerville also serves as a director of GasLog Ltd., Keppel Offshore & Marine Limited and is Vice Chairman of the Maine Maritime Academy Board of Trustees.

**David M. White** has been a director of the Company since September 18, 1996. Mr. White was Chairman of Dan White Investment Limited which is now closed. Mr. White has also served as a director of NatWest Equity Primary Markets Limited from January 1992 to March 1996, and was previously a director of both NatWest Markets Corporate Finance Limited and NatWest Markets Securities Limited until December 1991.

**Herman Billung** has been a director since September 2010. Mr. Billung has served as Chief Executive Officer of Golden Ocean Management AS since April 1, 2005. Mr. Billung's previous position was as Managing Director of Maritime Services in The Torvald Klaveness Group, responsible for the commercial management of the group's dry bulk pools, Bulkhandling and Baumarine. Mr. Billung was Managing Director of the dry bulk operating company, Frapaco Shipping Ltd. between 1994 and 1998. Mr. Billung graduated from the Royal Norwegian Naval Academy in 1984.

**Hans Petter Aas** has been a director of the Company since September 2008. Mr. Aas has been a director of Ship Finance International Limited since August 2008 and Chairman since January 2009. Mr. Aas has been a director of Golar LNG Limited since September 2008 and a director of Golar LNG Partners LP since March 2011. Mr. Aas is also a director of Knutsen NYK Offshore Tankers AS, Knutsen NYK Offshore Partners LLC, Solvang ASA and Gearbulk Holding Limited. Mr. Aas had a long career as banker in the international shipping and offshore market, and retired from his position as Global Head of the Shipping, Offshore and Logistics Division of DnB NOR Bank ASA ("DnB NOR") in August 2008. He joined DnB NOR (then Bergen Bank) in 1989, and has previously worked for the Petroleum Division of the Norwegian Ministry of Industry and the Ministry of Energy, as well as for VestaInsurance and Nevi Finance.

**Inger M. Klemp** has served as Chief Financial Officer of the Company since September 2007. Mrs. Klemp has served as Chief Financial Officer of Frontline Management AS and has been a director of the General Manager since June 1, 2006. Mrs. Klemp has served as a director of Independent Tankers Corporation Limited since February 2008. Mrs. Klemp served as Vice President Finance of Frontline Management AS from August 2001 until she was promoted in May 2006. Mrs. Klemp graduated as MSc in Business and Economics from the Norwegian School of Management (BI) in 1986. Prior to joining Frontline, Mrs. Klemp was Assistant Director Finance in Color Group ASA and Group Financial Manager in Color Line ASA, an OSE listed company and before that was Assistant Vice President in Nordea Bank Norge ASA handling structuring and syndication of loan facilities in the international banking market and a lending officer of Fokus Bank ASA.

**Kate Blankenship** was Chief Financial Officer of the Company from April 2000 to September 2007 and served as Secretary of the Company from December 2000 to March 2007. Mrs. Blankenship has been a director of the General Manager since March 2000. Mrs. Blankenship served as the Chief Accounting Officer and Secretary of Frontline between 1994 and October 2005. Mrs. Blankenship also serves as a director of Golar LNG Limited, Golar LNG Partners LP, Ship Finance International Limited, Seadrill Limited, Seadrill Partners LLC, Archer Limited, Golden Ocean Group Limited, Independent Tankers Corporation Limited and Frontline 2012 Ltd.. She is a member of the Institute of Chartered Accountants in England and Wales.

**Graham Baker** has been a director of the General Manager since December 6, 2006. Mr. Baker is Chief Accounting Officer of Frontline having joined the company in July 2006. Prior to joining Frontline, Mr. Baker was the Head of Group Reporting at NTL Inc. (now Virgin Media Inc.), a large NASDAQ listed company and before that was the European Chief Financial Officer of DVI Inc., a NYSE listed group. He is a member of the Institute of Chartered Accountants in England and Wales and the Association of Corporate Treasurers.

**Georgina E. Sousa** has served as Secretary of the Company since March 15, 2007 and has been employed by Frontline since February 2007. Mrs. Sousa is also a director of Frontline, Frontline 2012 Ltd., Golar LNG Limited and Golden Ocean. Prior to joining Frontline, Mrs. Sousa was Vice-President-Corporate Services of Consolidated Services Limited, a Bermuda management

company having joined that firm in 1993 as Manager of Corporate Administration. From 1976 to 1982 she was employed by the Bermuda law firm of Appleby, Spurling & Kempe as a Company Secretary and from 1982 to 1993 she was employed by the Bermuda law firm of Cox & Wilkinson as Senior Company Secretary.

## B. COMPENSATION

The Company incurred directors' fees of \$430,000 in 2013.

### *Employment Agreement*

On May 19, 2010, the Company entered into an employment agreement with its Chief Executive Officer, Mr. Ola Lorentzon. The employment agreement had a term of three years, unless terminated earlier in accordance with its terms, and has been renewed for a term of three years. Under the employment agreement, Mr. Lorentzon receives an annual base salary of \$130,000 and is entitled to receive a discretionary bonus and additional incentive compensation as determined by the Board.

Under the employment agreement, Mr. Lorentzon is prohibited from participating in marine transportation business activities in direct competition with us or our operating subsidiaries during the term of the employment agreement and for 12 months following its termination. Upon termination of the employment agreement by us without cause (as defined in the employment agreement), Mr. Lorentzon will be entitled to (i) his base salary through the date of termination, (ii) a lump sum payment equal to the aggregate of his base salary plus a discretionary bonus, based on the average of his two prior years' total compensation, or a lump sum of \$130,000 if no average is available, and (iii) any amounts Mr. Lorentzon may be entitled to under the terms of the 2010 Equity Incentive Plan.

### *2010 Equity Incentive Plan*

The Company adopted the 2010 Equity Incentive Plan, which we refer to as the Plan, under which directors, officers, employees, consultants and service providers to the Company and its subsidiaries and affiliates are eligible to receive options to acquire common stock, stock appreciation rights, restricted stock, restricted stock units and unrestricted common stock. A total of 800,000 common shares have been reserved for issuance under the Plan, subject to adjustment for changes in capitalization as provided in the Plan. The Plan is administered by the Board or such committee of the Board as may be appointed by the Board to serve as Plan administrator. The units will vest over three years at a rate of 1/3 of the number of units granted on each anniversary of the date of grant, subject to the participant continuing to provide services to the Company from the grant date through the applicable vesting date.

Payment upon vesting of RSUs can be in cash, in shares of common stock or a combination of both as determined by the Board. They must be valued in an amount equal to the fair market value of a share of common stock on the date of vesting. The participant shall receive a 'dividend equivalent right' with respect to each RSU entitling the participant to receive amounts equal to the ordinary dividends that would be paid during the time the RSU is outstanding and unvested on the shares of common stock underlying the RSU as if such shares were outstanding from the date of grant through the applicable vesting date of the RSU. Such payments shall be paid to the participant at the same time at which the RSUs vesting event occurs, conditioned upon the occurrence of the vesting event.

The following table summarizes restricted stock unit transactions in the years ended December 31, 2013, 2012 and 2011:

	Number of units			Fair value
	Directors	Management companies	Total	
Units outstanding as of December 31, 2010	29,571	29,572	59,143	\$ 22.27
Granted	46,593	46,596	93,189	\$ 13.95
Units outstanding as of December 31, 2011	76,164	76,168	152,332	\$ 13.67
Settled	(9,857)	(9,857)	(19,714)	\$ 13.63
Units outstanding as of December 31, 2012	66,307	66,311	132,618	\$ 5.25
Granted	47,238	47,238	94,476	\$ 6.74
Settled	(25,388)	(25,388)	(50,776)	\$ 9.65
Units outstanding as of December 31, 2013	88,157	88,161	176,318	\$ 9.19

The fair values in the table above are the closing share prices on December 31, the share prices on the date of grant or the share prices on the date of vesting, as appropriate.

In May 2012, the Company issued 11,301 common shares and paid \$159,763 to members of the Board and to the General Manager and the Dry bulk Manager in settlement of the first tranche of the RSUs granted in December 2010, which vested in December 2011.

In January 2013, the Company issued 35,061 common shares and paid \$181,610 to members of the Board and to the General Manager and the Dry Bulk Manager in settlement of the first and second tranches of the RSUs granted in December 2011 and December 2010, respectively, which vested in December 2012.

These settlements represent 50% of the value in common shares and 50% of the value in cash for each of the directors and each of the two management companies.

In January 2013, the Board granted a total of 94,476 RSUs pursuant to the Plan to members of the Board and the two management companies. These RSUs will vest over 3 years at a rate of one-third of the number of RSUs granted on each anniversary of the date of grant.

In January 2014, the Board granted a total of 55,111 RSUs pursuant to the Plan to members of the Board and the two management companies. These RSUs will vest over 3 years at a rate of one-third of the number of RSUs granted on each anniversary of the date of grant.

In February 2014, the Company issued 49,489 common shares and paid \$464,629 to members of the Board and to the General Manager and the Dry Bulk Manager in settlement of the first, second and third tranches of the RSUs granted in January 2013, December 2011 and December 2010, respectively.

### **C. BOARD PRACTICES**

As provided in the Company's bye-laws, each director shall hold office until the next Annual General Meeting following his election or until his successor is elected. The officers of the Company are elected by the Board as soon as possible following each Annual General Meeting and shall hold office for such period and on such terms as the Board may determine.

The Company has established an audit committee comprised of Messrs. White and Aas, independent directors of the Company. The audit committee is responsible for assisting the Board with its oversight responsibilities regarding the integrity of our financial statements, our compliance with legal and regulatory requirements, our independent registered public accounting firm's qualifications and independence, and the performance of our internal audit functions.

There are no service contracts between us and any of our directors providing for benefits upon termination of their employment, other than the employment agreement with our Chief Executive Officer, Mr. Ola Lorentzon.

#### **Board practices and exemptions from the NASDAQ corporate governance rules**

As a foreign private issuer we are exempt from certain requirements of the NASDAQ Global Select Market that are applicable to domestic companies.

We have certified to NASDAQ that our corporate governance practices are in compliance with, and are not prohibited by, the laws of Bermuda. Accordingly, we are exempt from many of NASDAQ's corporate governance practices other than the requirements regarding the disclosure of a going concern audit opinion, submission of a listing agreement, notification of material non-compliance with NASDAQ corporate governance practices and the establishment and composition of an audit committee and a formal written audit committee charter. The practices that we follow in lieu of NASDAQ's corporate governance rules are as follows:

- Our Board is currently comprised by a majority of independent directors. Under Bermuda law, we are not required to have a majority of independent directors and cannot assure you that we will continue to do so.
- In lieu of holding regular meetings at which only independent directors are present, our entire Board may hold regular meetings as is consistent with Bermuda law.
- In lieu of an audit committee comprised of three independent directors, our audit committee has two members, which is consistent with Bermuda law. Both members of the audit committee currently meet NASDAQ's requirement of independence.

- In lieu of a nomination committee comprised of independent directors, our Board is responsible for identifying and recommending potential candidates to become board members and recommending directors for appointment to board committees. Shareholders are permitted to identify and recommend potential candidates to become board members, but pursuant to the bye-laws, directors are elected by the shareholders in duly convened annual or special general meetings.
- In lieu of a compensation committee comprised of independent directors, our Board is responsible for establishing the executive officers' compensation and benefits. Under Bermuda law, compensation of the executive officers is not required to be determined by an independent committee.
- In lieu of obtaining an independent review of related party transactions for conflicts of interests, consistent with Bermuda law requirements, our bye-laws do not prohibit any director from being a party to, or otherwise interested in, any transaction or arrangement with the Company or in which the Company is otherwise interested, provided that the director makes proper disclosure of same as required by the bye-laws and Bermuda law.
- Prior to the issuance of securities, we are required to obtain the consent of the Bermuda Monetary Authority as required by law. We have obtained blanket consent from the Bermuda Monetary Authority for the issue and transfer of the Company's securities provided that such securities remain listed on a recognized stock exchange.
- Pursuant to NASDAQ corporate governance rules and as a foreign private issuer, we are not required to solicit proxies or provide proxy statements to NASDAQ. Bermuda law does not require that we solicit proxies or provide proxy statements to NASDAQ. Consistent with Bermuda law and as provided in our bye-laws, we are also required to notify our shareholders of meetings no less than five days before the meeting. Our bye-laws also provide that shareholders may designate a proxy to act on their behalf.

Other than as noted above, we are in full compliance with all other applicable NASDAQ corporate governance standards. Please see Item 16G of this Annual Report.

## D. EMPLOYEES

The General Manager is responsible for the management and administration of the Company. We have not had any employees since our inception other than Ola Lorentzon who was appointed as our Chief Executive Officer in May 2010 and Inger M. Klemp who has served as our Chief Financial Officer since September 2007.

## E. SHARE OWNERSHIP

As of February 28, 2014, the beneficial interests of our Directors and officers in our common shares were as follows:

Director or Officer	Common Shares of \$0.01 each	Percentage of Common Shares Outstanding	Unvested RSUs (1)
Ola Lorentzon	14,747	(2)	22,944
Robert D. Somerville	—	—	1,590
David M. White	11,058	(2)	17,211
Hans Petter Aas	11,058	(2)	17,211
Herman Billung	—	—	—
Inger M. Klemp	—	—	—
Georgina Sousa	—	—	—

(1) All vested RSUs have been settled.

(2) Less than 1%.

## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### A. MAJOR SHAREHOLDERS

The following table presents certain information as of February 28, 2014 regarding the ownership of our common shares with respect to each shareholder whom we know to beneficially own more than 5% of our outstanding common shares.



Owner	Number of shares owned	Percentage owned (2)
Edward C. Johnson 3d <sup>(1)</sup>	1,600,000	5.24%

(1) Based on information obtained in a schedule 13G filed with the commission on February 14, 2014 filed by Edward C. Johnson 3d, a citizen of the United States, FMR LLC, which has a business address of 245 Summer Street, Boston, Massachusetts, 02210 and Fidelity Management & Research Company, or Fidelity, which has a business address of 245 Summer Street, Boston, Massachusetts, 02210.

Fidelity, a wholly- owned subsidiary of FMR LLC and an investment adviser registered under Section 203 of the Investment Advisers Act of 1940, is the beneficial owner of 1,400,000 common shares or 4.594% of the outstanding common shares of the Company as a result of acting as investment adviser to various investment companies registered under Section 8 of the Investment Company Act of 1940.

Edward C. Johnson 3d and FMR LLC, through its control of Fidelity, and the funds each has sole power to dispose of the 1,400,000 shares owned by the Funds.

Members of the family of Edward C. Johnson 3d, Chairman of FMR LLC, are the predominant owners, directly or through trusts, of Series B voting common shares of FMR LLC, representing 49% of the voting power of FMR LLC. The Johnson family group and all other Series B shareholders have entered into a shareholders' voting agreement under which all Series B voting common shares will be voted in accordance with the majority vote of Series B voting common shares. Accordingly, through their ownership of voting common shares and the execution of the shareholders' voting agreement, members of the Johnson family may be deemed, under the Investment Company Act of 1940, to form a controlling group with respect to FMR LLC.

Neither FMR LLC nor Edward C. Johnson 3d, Chairman of FMR LLC, has the sole power to vote or direct the voting of the shares owned directly by the Fidelity Funds, which power resides with the Funds' Boards of Trustees. Fidelity carries out the voting of the shares under written guidelines established by the Funds' Boards of Trustees.

Pyramis Global Advisors, LLC, or PGALLC, 900 Salem Street, Smithfield, Rhode Island, 02917, an indirect wholly-owned subsidiary of FMR LLC and an investment adviser registered under Section 203 of the Investment Advisers Act of 1940, is the beneficial owner of 200,000 shares or 0.656% of the outstanding Common Stock of the Company as a result of its serving as investment adviser to institutional accounts, non-U.S. mutual funds, or investment companies registered under Section 8 of the Investment Company Act of 1940 owning such shares.

Edward C. Johnson 3d and FMR LLC, through its control of PGALLC, each has sole dispositive power over 200,000 common shares and sole power to vote or to direct the voting of 200,000 common shares of the Company owned by the institutional accounts or funds advised by PGALLC as reported above.

(2) Percentage amounts based on 30,521,550 common shares outstanding as of February 28, 2014.

The Company is not directly or indirectly controlled by another corporation, by a foreign government or by any other natural or legal person. We are not aware of any arrangements, the operation of which may at a subsequent date result in a change in control of the Company.

## **B. RELATED PARTY TRANSACTIONS**

Management fees, which represent a commission of 1.25% of gross freight earned by the dry bulk carriers, of \$0.5 million were invoiced by Golden Ocean and paid by the Company during 2011. As of December 31, 2011, \$0.3 million was payable to Golden Ocean. On December 22, 2011, 23,298 RSUs were issued to Golden Ocean Management (Bermuda) Limited, a wholly-owned subsidiary of Golden Ocean.

In March 2012, Golden Ocean sold its entire holding of shares in the Company and Golden Ocean is no longer considered to be a related party.

We periodically issue RSUs to our directors and management companies. Please see Item 6B. "Directors, Senior Management and Employees – Compensation."

## **C. INTERESTS OF EXPERTS AND COUNSEL**



Not applicable.

## **ITEM 8. FINANCIAL INFORMATION**

### **A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION**

See Item 18.

#### **Legal Proceedings**

The Company has claims for unpaid charter hire owed by (i) Titan Petrochemicals Limited with respect to its bare boat charters of the *Titan Venus* and *Mayfair*, and (ii) Hong Xiang with respect to its time charter of the *Golden Zhejiang*. The Company is also seeking recovery of damages for the remaining periods of these charter contracts. The aggregate amount of these claims is approximately \$59 million.

In December 2013, the Company received \$756,000 from Sanko as a partial settlement of a \$17 million claim for unpaid charter hire and claims of the *Battersea*. The Company received approximately \$170,000 from Sanko in the first quarter of 2014 as final settlement of this claim.

In August 2012, the VLCC *Hampstead* was contracted to be sold to an unrelated third party, but the sale was not completed due to the buyer's default, and the Company retained the deposit in the amount of \$2.4 million. The Company has received notice of a claim for return of the deposit amount plus accrued interest.

Except as described above, to the best of our knowledge, there are no legal or arbitration proceedings existing or pending which have had or may have significant effects on our financial position or profitability and no such proceedings are pending or known to be contemplated.

#### **Cash Distribution Policy**

Our cash distribution policy is to declare quarterly cash distributions to shareholders, substantially equal to net cash flow in the reporting quarter less reserves that our Board may from time to time determine are necessary, such as reserves for drydocking and other possible cash needs. We intend to finance our future vessel acquisitions not from our cash flow from operations, but from external sources, such as by undertaking equity offerings, incurring additional indebtedness in line with our current low-leverage capital structure and utilizing the proceeds from the sale of our vessels.

There is no guarantee that our shareholders will receive quarterly cash distributions from us. Our cash distribution policy may be changed at any time at the sole discretion of our Board, who will take into account, among other things, our contingent liabilities, financial condition and future prospects, the terms of our credit facilities, and the requirements of Bermuda law in determining the timing and amount of cash distributions, if any, that we may pay.

In 2013, 2012 and 2011, the Company paid the following cash distributions to shareholders.

<b>Record Date</b>	<b>Payment Date</b>	<b>Amount per share</b>
<b>2013</b>		
February 20, 2013	March 6, 2013	\$0.175
May 22, 2013	June 5, 2013	\$0.175
August 28, 2013	September 10, 2013	\$0.175
November 29, 2013	December 10, 2013	\$0.175
<b>2012</b>		
February 23, 2012	March 8, 2012	\$0.50
May 23, 2012	June 6, 2012	\$0.35
August 30, 2012	September 12, 2012	\$0.175
November 28, 2012	December 12, 2012	\$0.175
<b>2011</b>		
February 17, 2011	March 3, 2011	\$0.50
May 25, 2011	June 9, 2011	\$0.50
August 31, 2011	September 14, 2011	\$0.50
November 18, 2011	December 2, 2011	\$0.50

On February 5, 2014, the Board declared a cash distribution of \$0.175 per share for the fourth quarter of 2013 that was paid on March 6, 2014.

## **B. SIGNIFICANT CHANGES**

None.

## **ITEM 9. THE OFFER AND LISTING**

The following table sets forth, for the five most recent fiscal years during which the Company's common shares were traded on the NASDAQ Global Select Market, the annual high and low prices for the common shares as reported by the NASDAQ Global Select Market.

<b>Fiscal year ended December 31,</b>	<b>High</b>	<b>Low</b>
2013	\$10.69	\$5.31
2012	\$15.81	\$4.94
2011	\$25.80	\$13.50
2010	\$24.49	\$13.36
2009	\$17.16	\$11.00

The following table sets forth, for the two most recent fiscal years, the high and low prices for the common shares as reported by the NASDAQ Global Select Market.

<b>Fiscal year ended December 31, 2013</b>	<b>High</b>	<b>Low</b>
First quarter	\$8.33	\$5.31
Second quarter	\$8.30	\$6.10
Third quarter	\$10.69	\$6.75
Fourth quarter	\$10.42	\$7.21

<b>Fiscal year ended December 31, 2012</b>	<b>High</b>	<b>Low</b>
First quarter	\$15.81	\$13.48
Second quarter	\$14.40	\$7.77
Third quarter	\$8.94	\$5.91
Fourth quarter	\$6.73	\$4.94

The following table sets forth, for the most recent six months, the high and low prices for the common shares as reported by the NASDAQ Global Select Market.

<b>Month</b>	<b>High</b>	<b>Low</b>
March 2014 (through March 5)	\$11.40	\$9.99
February 2014	\$10.68	\$8.51
January 2014	\$10.50	\$8.94
December 2013	\$9.71	\$7.38
November 2013	\$8.75	\$7.21
October 2013	\$10.42	\$8.08
September 2013	\$10.69	\$8.46

The Company's shares of common stock have been quoted on the NASDAQ Global Select Market under the symbol "VLCCF" since its initial public offering in February 1997.

## **ITEM 10. ADDITIONAL INFORMATION**

### **A. SHARE CAPITAL**

Not applicable.

### **B. MEMORANDUM AND ARTICLES OF ASSOCIATION**

Incorporated by reference to "Description of Capital Stock" in the prospectus contained in the Company's Registration Statement on Form F-3, as amended and supplemented, which was initially filed on June 24, 2011 (File No. 333-175125).

At the 2005 Annual General Meeting of the Company the shareholders voted to amend the Company's bye-laws 83 and 85 by removing the restrictions that limited the Company's business activities. The changes to the bye-laws removed restrictions on the Company's activities such as rechartering the VLCCs, refinancing or replacing the credit facility, acting in connection with the management agreement, offering common shares and listing them, enforcing its rights in connection with the Charters, the Credit Facility, the UK Finance Leases, the management agreement and other agreements into which the Company and its subsidiaries entered at the time of its initial public offering, and leasing, selling or otherwise disposing of a VLCC (or VLCC owning subsidiaries) on termination of the Charters or subsequent charters. The amended bye-laws of the Company as adopted on June 27, 2005, have been filed as Exhibit 4.2 to the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2005, filed with Securities and Exchange Commission on June 15, 2006, and are hereby incorporated by reference into this Annual Report.

On September 23, 2011, at the Company's 2011 Annual General Meeting, the shareholders approved an increase of the Company's authorized common shares, par value \$0.01, from 35,000,000 to 50,000,000. The Company currently has issued and outstanding 30,521,550 common shares.

### **C. MATERIAL CONTRACTS**

None.

#### **D. EXCHANGE CONTROLS**

The Bermuda Monetary Authority, or the BMA, must give permission for all issuances and transfers of securities of a Bermuda exempted company like ours. We have received general permission from the BMA to issue any unissued common shares and for the free transferability of our common shares as long as our common shares are listed on an "appointed stock exchange". Our common shares are listed on the NASDAQ Global Select Market, which is an "appointed stock exchange". Our common shares may therefore be freely transferred among persons who are residents and non-residents of Bermuda.

Although we are incorporated in Bermuda, we are classified as a non-resident of Bermuda for exchange control purposes by the BMA. Other than transferring Bermuda Dollars out of Bermuda, there are no restrictions on our ability to transfer funds into and out of Bermuda or to pay dividends to U.S. residents who are holders of common shares or other nonresidents of Bermuda who are holders of our common shares in currency other than Bermuda Dollars.

In accordance with Bermuda law, share certificates may be issued only in the names of corporations, individuals or legal persons. In the case of an applicant acting in a special capacity (for example, as an executor or trustee), certificates may, at the request of the applicant, record the capacity in which the applicant is acting. Notwithstanding the recording of any such special capacity, we are not bound to investigate or incur any responsibility in respect of the proper administration of any such estate or trust.

We will take no notice of any trust applicable to any of our shares or other securities whether or not we had notice of such trust.

As an "exempted company", we are exempt from Bermuda laws which restrict the percentage of share capital that may be held by non-Bermudians, but as an exempted company, we may not participate in certain business transactions including: (i) the acquisition or holding of land in Bermuda (except that required for its business and held by way of lease or tenancy for terms of not more than 21 years) without the express authorization of the Bermuda legislature; (ii) the taking of mortgages on land in Bermuda to secure an amount in excess of \$50,000 without the consent of the Minister of Business Development and Tourism of Bermuda; (iii) the acquisition of any bonds or debentures secured on any land in Bermuda except bonds or debentures issued by the Government of Bermuda or by a public authority in Bermuda; or (iv) the carrying on of business of any kind in Bermuda, except in so far as may be necessary for the carrying on of its business outside Bermuda or under a license granted by the Minister of Business Development and Tourism of Bermuda.

The Bermuda government actively encourages foreign investment in "exempted" entities like us that are based in Bermuda but do not operate in competition with local business. In addition to having no restrictions on the degree of foreign ownership, we are subject neither to taxes on our income or dividends nor to any exchange controls in Bermuda. In addition, there is no capital gains tax in Bermuda, and profits can be accumulated by us, as required, without limitation. There is no income tax treaty between the United States and Bermuda pertaining to the taxation of income other than applicable to insurance enterprises.

#### **E. TAXATION**

The following discussion summarizes the material United States federal income tax and Bermuda tax consequences to United States Holders, as defined below, of the purchase, ownership and disposition of common shares. This summary does not purport to deal with all aspects of United States federal income taxation and Bermuda taxation that may be relevant to an investor's decision to purchase common shares, nor any tax consequences arising under the laws of any state, locality or other foreign jurisdiction.

##### **United States Federal Income Tax Considerations**

In the opinion of Seward & Kissel LLP, our United States counsel, the following are the material United States federal income tax consequences to us of our activities and to United States Holders of our common shares. The following discussion of U.S. federal income tax matters is based on the Code, judicial decisions, administrative pronouncements, and existing and proposed regulations issued by the U.S. Department of the Treasury, all of which are subject to change, possibly with retroactive effect. Except as otherwise noted, this discussion is based on the assumption that we will not maintain an office or other fixed place of business within the United States.

##### **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, charterhire 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% United States source income.

Shipping income attributable to transportation exclusively between non-United States 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 United States federal income tax.

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

### **Application of Section 883**

Under the relevant provisions of Section 883, the Company will be exempt from United States federal income taxation on its United States source shipping income if:

- i. It is organized in a "qualified foreign country", which is one that grants an equivalent exemption from taxation to corporations organized in the United States in respect of the shipping income for which exemption is being claimed under Section 883, and which the Company refers to as the "country of organization requirement"; and
- ii. It can satisfy any one of the following two ownership requirements for more than half the days during the taxable year:
  - the Company's stock is "primarily and regularly" traded on an established securities market located in the United States or a qualified foreign country, which the Company refers to as the "Publicly-Traded Test"; or
  - more than 50% of the Company's stock, in terms of value, is beneficially owned by any combination of one or more individuals who are residents of a qualified foreign country or foreign corporations that satisfy the country of organization requirement and the Publicly-Traded Test.

The United States Treasury Department has recognized Bermuda, the country of incorporation of the Company, as a qualified foreign country. In addition, the United States Treasury Department has recognized Liberia, the country of incorporation of certain of the Company's vessel-owning subsidiaries, as a qualified foreign country. Accordingly, the Company and its vessel owning subsidiaries satisfy the country of organization requirement.

Therefore, the Company's eligibility for exemption under Section 883 is wholly dependent upon being able to satisfy one of the stock ownership requirements.

For the 2013 taxable year, the Company satisfied the Publicly-Traded Test since, on more than half the days of the taxable year, the Company's common shares were primarily and regularly traded on the NASDAQ Global Select Market.

### **Taxation in Absence of Section 883 Exemption**

To the extent the benefits of Section 883 are unavailable with respect to any item of United States source income, the Company's United States source shipping income, would be subject to a 4% tax imposed by Section 887 of the Code on a gross basis, without the benefit of deductions, which the Company refers 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 United States sources, the maximum effective rate of United States federal income tax on the Company's shipping income would never exceed 2% under the 4% gross basis tax regime.

### **Gain on Sale of Vessels**

Regardless of whether the Company qualifies for exemption under Section 883, the Company will not be subject to United States 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 United States 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 the Company will be considered to occur outside of the United States.

### **Taxation of United States Holders**

The following is a discussion of the material United States federal income tax considerations relevant to an investment decision by a United States Holder, as defined below, with respect to the common shares. This discussion is not intended to be applicable to all categories of investors, such as dealers in securities, banks, thrifts or other financial institutions, insurance companies, regulated investment companies, tax-exempt organizations, United States expatriates, persons that hold common shares as part of a straddle, conversion transaction or hedge, persons who own 10% or more of our outstanding stock, persons deemed to sell common shares under the constructive sale provisions of the United States Internal Revenue Code of 1986, as amended, or the Code, a United States Holder whose "functional currency" is other than the United States dollar, or holders subject to the alternative minimum tax, each of which may be subject to special rules. In addition, this discussion is limited to persons who hold common shares as "capital assets" (generally, property held for investment) within the meaning of Code Section 1221. You are encouraged to consult your own tax advisors concerning the overall tax consequences arising in your own particular situation under United States federal, state, local or foreign law of the ownership of common shares.

As used herein, the term "United States Holder" means a beneficial owner of common shares that (i) is a United States citizen or resident, a United States corporation or other United States entity taxable as a corporation, an estate, the income of which is subject to United States 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 United States persons have the authority to control all substantial decisions of the trust and (ii) owns common shares as a capital asset, generally, for investment purposes.

If a partnership holds common shares, 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 common shares, you are encouraged to consult your own tax advisor regarding the United States federal income tax consequences of owning an interest in a partnership that holds common shares.

### **Distributions**

Subject to the discussion of passive foreign investment companies below, any distributions made by the Company with respect to common shares to a United States 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 United States 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 United States Holder's tax basis in its common shares on a dollar-for-dollar basis and thereafter as capital gain. Because the Company is not a United States corporation, United States 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 on common shares to a United States Holder which is an individual, trust or estate (a "United States Non-Corporate Holder") will generally be treated as "qualified dividend income" that is taxable to such shareholder at preferential United States federal income tax rates provided that (1) common shares are readily tradable on an established securities market in the United States (such as the NASDAQ Global Select Market on which the common shares are 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 since the beginning of its 2004 taxable year, or will be); and (3) the United States Non-Corporate Holder has owned common shares for more than 60 days in the 121-day period beginning 60 days before the date on which the common shares become ex-dividend.

Any dividends paid by the Company which are not eligible for these preferential rates will be taxed as ordinary income to a United States Holder.

### **Sale, Exchange or other Disposition of Our Common Shares**

Assuming the Company does not constitute a passive foreign investment company for any taxable year, a United States Holder generally will recognize taxable gain or loss upon a sale, exchange or other disposition of the Company's common shares in an amount equal to the difference between the amount realized by the United States Holder from such sale, exchange or other disposition and the United States Holder's tax basis in the common shares. Such gain or loss will be treated as long-term capital

gain or loss if the United States Holder's holding period in the common shares is greater than one year at the time of the sale, exchange or other disposition. A United States Holder's ability to deduct capital losses is subject to certain limitations.

### **Passive Foreign Investment Company Status and Significant Tax Consequences**

Special United States federal income tax rules apply to a United States Holder that holds stock in a foreign corporation classified as a passive foreign investment company, or a PFIC, for United States federal income tax purposes. In general, the Company will be treated as a PFIC with respect to a United States Holder if, for any taxable year in which such holder held the Company's common shares, 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 Company during such taxable year produce, or are held for the production of, 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.

The Company was a PFIC for United States federal income tax purposes through its 2003 taxable year. The Company has not been a PFIC beginning with its 2004 taxable year. United States Holders who held the Company's common shares prior to the 2004 taxable year are encouraged to consult their tax advisors regarding the proper tax treatment of any dispositions of common shares and any distributions by the Company.

Based on the Company's current operations and future projections, the Company does not believe that it is or that it has been since the beginning of its 2004 taxable year, nor does it expect to become, a PFIC with respect to any taxable year. Although there is no legal authority directly on this 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 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.

Although there is no direct legal authority under the PFIC rules, the Company believes there is substantial legal authority supporting its position consisting of case law and United States 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. Accordingly, in the absence of any legal authority specifically relating to the Code provisions governing PFICs, the IRS or a court could disagree with our position. In addition, although the Company intends to conduct its affairs in such a manner as 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 United States Holder would be subject to different taxation rules depending on whether the United States Holder makes an election to treat the Company as a "Qualified Electing Fund", which the Company refers to as a "QEF election". As an alternative to making a QEF election, a United States Holder should be able to elect to mark-to-market the Company's common shares, which the Company refers to as a "Mark-to-Market election" as discussed below.

### **Taxation of United States Holders Making a Timely QEF Election**

If a United States Holder makes a timely QEF election, which United States Holder is referred to by the Company as an "Electing United States Holder", the Electing United States Holder must report each year for United States federal income tax purposes its pro rata share of the Company's ordinary earnings and its net capital gain, if any, for the Company's taxable year that ends with or within the taxable year of the Electing United States Holder, regardless of whether or not distributions were received from the Company by the Electing United States Holder. The Electing United States Holder's adjusted tax basis in the common shares will be increased to reflect taxed but undistributed earnings and profits. Distributions of earnings and profits that had been previously

taxed will result in a corresponding reduction in the adjusted tax basis in the common shares and will not be taxed again once distributed. An Electing United States Holder would generally recognize capital gain or loss on the sale, exchange or other disposition of the common shares. A United States Holder will be eligible to make a QEF election with respect to its common shares only if the Company provides the United States Holder with annual tax information relating to the Company. There can be no assurance that the Company will provide such tax information on an annual basis.

### **Taxation of United States 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 shares are treated as "marketable stock", a United States Holder would be allowed to make a Mark-to-Market election with respect to the Company's common shares. If that election is made, the United States Holder generally would include as ordinary income in each taxable year the excess, if any, of the fair market value of the common shares at the end of the taxable year over such holder's adjusted tax basis in the common shares. The United States Holder would also be permitted an ordinary loss in respect of the excess, if any, of the United States Holder's adjusted tax basis in the common shares 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 United States Holder's tax basis in its common shares would be adjusted to reflect any such income or loss amount. Gain realized on the sale, exchange or other disposition of the common shares would be treated as ordinary income, and any loss realized on the sale, exchange or other disposition of the common shares 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 United States Holder.

### **Taxation of United States Holders Not Making a Timely QEF or Mark-to-Market Election**

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

- the excess distribution or gain would be allocated ratably over the Non-Electing United States Holders' aggregate holding period for the common shares;
- 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 tax payer 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 shares. If a Non-Electing United States Holder who is an individual dies while owning the common shares, the successor of such deceased Non-Electing United States Holder generally would not receive a step-up in tax basis with respect to such stock.

### **PFIC Annual Filing Requirements**

If the Company were to be treated as a PFIC, a United States Holder may be required to file an information return on an IRS Form 8621 with respect to its ownership of the Company's common stock for each taxable year ending on or after December 31, 2013.

### **Backup Withholding and Information Reporting**

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

- fails to provide an accurate tax payer identification number;



- is notified by the IRS that he has failed to report all interest or dividends required to be shown on his United States federal income tax returns; or
- in certain circumstances, fails to comply with applicable certification requirements.

If a holder sells his common shares to or through a United States office of a broker, the payment of the proceeds is subject to both United States information reporting and backup withholding unless the holder establishes an exemption. If a holder sells his common shares through a non-United States office of a non-United States 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, United States 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 shares through a non-United States office of a broker that is a United States person or has some other contacts with the United States.

Non-United States Holders may be required to establish their exemption from information reporting and backup withholding by certifying their status on an applicable IRS Form W-8.

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 income tax liability by filing a refund claim with the IRS.

### **Other U.S. Information Reporting Obligations**

Pursuant to recently enacted legislation, individuals who are United States Holders (and to the extent specified in applicable Treasury regulations, certain United States entities and Non-United States Holders) 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 shares, unless the common shares held through an account maintained with a United States 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 an individual United States Holder (and to the extent specified in applicable Treasury regulations, a United States entity or Non-United States Holder) that is required to file IRS Form 8938 does not file such form, the statute of limitations on the assessment and collection of United States federal income taxes of such holder for the related tax year may not close until three years after the date that the required information is filed. United States Holders (including United States entities) and Non-United States Holders are encouraged consult their own tax advisors regarding their reporting obligations under this legislation.

### **Bermuda Taxation**

As of the date of this annual report, we are not subject to taxation under the laws of Bermuda and distributions to us by our subsidiaries also are not subject to any Bermuda tax. As of the date of this document, there is no Bermuda income, corporation or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by non-residents of Bermuda in respect of capital gains realized on a disposition of our common shares or in respect of distributions by us with respect to our common shares. This does not, however, apply to the taxation of persons ordinarily resident in Bermuda. Bermuda holders should consult their own tax advisors regarding possible Bermuda taxes with respect to dispositions of, and distributions on, our common shares.

The Minister of Finance in Bermuda has granted the Company a tax exempt status until March 31, 2035, under which no income taxes or other taxes (other than duty on goods imported into Bermuda and payroll tax in respect of any Bermuda-resident employees) are payable by the Company in Bermuda. If the Minister of Finance in Bermuda does not grant a new exemption or extend the current tax exemption, and if the Bermudian Parliament passes legislation imposing taxes on exempted companies, the Company may become subject to taxation in Bermuda after March 31, 2035.

Currently, there are no withholding taxes payable in Bermuda on dividends distributed by the Company to its shareholders.

### **Liberian Taxation**

Under the Consolidated Tax Amendments Act of 2010, our Liberian subsidiaries should be considered non-resident Liberian corporations which are wholly exempted from Liberian taxation effective as of 1977.

## **F. DIVIDENDS AND PAYING AGENTS**

Not applicable.

#### **G. STATEMENT BY EXPERTS**

Not applicable.

#### **H. DOCUMENTS ON DISPLAY**

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended. In accordance with these requirements, we file reports and other information with the Securities and Exchange Commission. These materials, including this annual report and the accompanying exhibits, may be inspected and copied at the public reference facilities maintained by the Commission 100 F Street, N.E., Room 1580 Washington, D.C. 20549. 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 from the public reference facilities maintained by the Commission at its principal office in Washington, D.C. 20549. The Commission maintains a website (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Commission. In addition, documents referred to in this annual report may be inspected at our principal executive offices at Par-la-Ville Place, 14 Par-la-Ville Road, Hamilton, Bermuda HM 08.

#### **I. SUBSIDIARY INFORMATION**

Not applicable.

#### **ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company is exposed to market risk from changes in interest rates primarily resulting from the floating rate of the Company's borrowings. The Company does not currently utilize interest rate swaps to manage such interest rate risk. The Company has not entered into any financial instruments for speculative or trading purposes.

The Company's borrowings as of December 31, 2013 of \$95.0 million, compared to \$111.7 million as of December 31, 2012, bear interest at LIBOR plus a margin. A 1% change in interest rates would increase or decrease interest expense by \$0.95 million per year as of December 31, 2013. The fair value of the loan facility at December 31, 2013 was equal to the carrying amount of the facility at the same date.

Although the Company's activities are conducted worldwide, the international shipping industry's functional currency is the United States Dollar and virtually all of the Company's operating revenues and most of its anticipated cash expenses are expected to be denominated in United States Dollars. Accordingly, the Company's operating revenues are not expected to be adversely affected by movements in currency exchange rates or the imposition of currency controls in the jurisdictions in which the vessels operate.

#### **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 assessed the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15(e) of the Securities Exchange Act of 1934, as of the end of the period covered by this annual report as of December 31, 2013. Based upon that evaluation, the principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective as of the evaluation date.

#### **b) Management's annual report on internal controls over financial reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) promulgated under the Securities Exchange Act of 1934.

Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's Board, management and other personnel, 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 and includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of Company's management and directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our 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 or compliance with the policies or procedures may deteriorate.

Management conducted the evaluation of the effectiveness of the internal controls over financial reporting using the control criteria framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 1992 in its report entitled Internal Control-Integrated Framework.

Our management with the participation of our principal executive officer and principal financial officer assessed the effectiveness of the design and operation of the Company's internal controls over financial reporting pursuant to Rule 13a-15 of the Securities Exchange Act of 1934, as of December 31, 2013. Based upon that evaluation, our management with the participation of our principal executive officer and principal financial officer concluded that the Company's internal controls over financial reporting are effective as of December 31, 2013.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2013 has been audited by PricewaterhouseCoopers AS, an independent registered public accounting firm, as stated in their report which appears herein.

#### **c) Attestation report of the registered public accounting firm**

The independent registered public accounting firm that audited the consolidated financial statements, PricewaterhouseCoopers AS, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2013, appearing under Item 18, and such report is incorporated herein by reference.

**d) Changes in internal control over financial reporting**

There were no changes in our internal controls over financial reporting that occurred during the period covered by this annual report that have materially effected or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**ITEM 16. [Reserved]**

**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

The Board has determined that the Company's audit committee has one audit committee financial expert. Mr. David White is an independent director and is the audit committee financial expert.

**ITEM 16B. CODE OF ETHICS**

The Company has adopted a code of ethics that applies to all entities controlled by the Company and all employees, directors, officers and agents of the Company, including representatives and agents of the Company's General Manager. The Company has posted a copy of its code of ethics on its website at [www.knightsbridgetankers.com](http://www.knightsbridgetankers.com). The Company will provide any person, free of charge, a copy of its code of ethics upon written request to the Company's registered office.

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Our principal accountant for 2013 and 2012 was PricewaterhouseCoopers AS. The following table sets forth for the two most recent fiscal years the fees paid or accrued for audit and services provided by PricewaterhouseCoopers AS.

<i>(in thousands of \$)</i>	<b>2013</b>	<b>2012</b>
Audit Fees (a)	<b>379</b>	343
Audit-Related Fees (b)	—	—
Tax Fees (c)	—	—
All Other Fees (d)	—	—
<b>Total</b>	<b>379</b>	343

**(a) Audit Fees**

Audit fees represent professional services rendered for the audit of our annual financial statements and services provided by the principal accountant in connection with statutory and regulatory filings or engagements. The amount in 2013 includes \$115,000 for costs incurred in connection with the Prospectus Supplement filed on October 17, 2013 in connection with the offering of 6 million new ordinary shares.

**(b) Audit-Related Fees**

Audit-related fees consisted of assurance and related services rendered by the principal accountant related to the performance of the audit or review of our financial statements which have not been reported under Audit Fees above.

**(c) Tax Fees**

Tax fees represent fees for professional services rendered by the principal accountant for tax compliance, tax advice and tax planning.

**(d) All Other Fees**

All other fees include services other than audit fees, audit-related fees and tax fees set forth above.

Our Board has adopted pre-approval policies and procedures in compliance with paragraph (c)(7)(i) of Rule 2-01 of Regulation S-X that require the Board to approve the appointment of the independent auditor of the Company before such auditor is engaged and approve each of the audit and non-audit related services to be provided by such auditor under such engagement by the Company. All services provided by the principal auditor in 2013 were approved by the Board pursuant to the pre-approval policy.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Not applicable.

**ITEM 16E. PURCHASE OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

None.

**ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**

Not applicable.

**ITEM 16G. CORPORATE GOVERNANCE**

Pursuant to the NASDAQ listing standards available to foreign private issuers, we are not required to comply with all of the corporate governance practices followed by U.S. companies under the NASDAQ listing standards. The significant differences between our corporate governance practices and the NASDAQ standards applicable to listed U.S. companies are set forth below.

*Executive Sessions.* NASDAQ requires that non-management directors meet regularly in executive sessions without management. As permitted under Bermuda law and our bye-laws, our non-management directors do not regularly hold executive sessions without management and we do not expect them to do so in the future.

*Audit Committee.* NASDAQ requires, among other things, that a listed U.S. company have an audit committee with a minimum of three independent members. As permitted under Bermuda law and our bye-laws, our audit committee consists of two members which currently meets the NASDAQ independence requirements.

*Nominating/Corporate Governance Committee.* NASDAQ requires that a listed U.S. company have a nominating/corporate governance committee composed solely of independent directors. As permitted under Bermuda law and our bye-laws, we do not currently have a nominating or corporate governance committee. Our Board is responsible for identifying and recommending potential candidates to become board members and recommending directors for appointment to board committees.

*Compensation Committee.* NASDAQ requires that a listed U.S. company have a compensation committee composed solely of independent directors. As permitted under Bermuda law and our bye-laws, compensation of executive officers is not required to be determined by a committee composed of independent members.

*Related Party Transactions.* NASDAQ requires that a listed U.S. company conduct appropriate review and oversight of all related party transactions for potential conflict of interest situations on an ongoing basis by the company's audit committee or another independent body of the board of directors. As permitted under Bermuda law and our bye-laws, our directors are not prohibited from being a party to, or otherwise interested in, any transaction or arrangement with us or in which we are otherwise interested, provided that the director makes proper disclosure of same as required by our bye-laws and Bermuda law.

*Proxy Materials.* NASDAQ requires that a listed U.S. company solicit proxies and provide proxy statements for all shareholder meetings. Such company must also provide copies of its proxy solicitation to NASDAQ. As permitted under Bermuda law and our bye-laws, we do not currently solicit proxies or provide proxy materials to NASDAQ. Our bye-laws also require that we notify our shareholders of meetings no less than 5 days before the meeting.

**ITEM 16H. MINE SAFETY DISCLOSURES**

Not applicable.

## **PART III**

### **ITEM 17. FINANCIAL STATEMENTS**

Not applicable.

### **ITEM 18. FINANCIAL STATEMENTS**

The following financial statements listed below and set forth on pages F-1 through F-19 are filed as part of this annual report:

#### **Consolidated Financial Statements of Knightsbridge Tankers Limited**

Index to Consolidated Financial Statements of Knightsbridge Tankers Limited	F-1
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Statements of Operations for the years ended December 31, 2013, 2012 and 2011	F-3
Consolidated Balance Sheets as of December 31, 2013 and 2012	F-4
Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011	F-5
Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2013, 2012 and 2011	F-7
Notes to Consolidated Financial Statements	F-8

## ITEM 19. EXHIBITS

Number	Description of Exhibit
--------	------------------------

- |      |  |
|------|--|
| 1.1  | Memorandum of Association of the Company (1)   |
| 1.2  | Bye-Laws of the Company (1)  |
| 4.1  | 2010 Equity Incentive Plan (2)   |
| 4.4  | Amended and Restated General Management Agreement entered into between the Company and ICB Shipping (Bermuda) Limited (3)                            |
| 4.5  | Dry bulk Commercial Management Agreement entered into between the Company and Golden Ocean Management Limited (3)                                    |
| 4.6  | Supplemental Agreement to Dry bulk Commercial Management Agreement (Golden Zhejiang joins as party) (3)  |
| 8.1  | Significant Subsidiaries   |
| 12.1 | Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.           |
| 12.2 | Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.           |
| 13.1 | Principal Executive Officer Certifications pursuant to 18 U.S.C. Section 1350 as adopted, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 13.2 | Principal Financial Officer Certifications 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. | INS XBRL Instance Document   |
| 101. | SCH XBRL Taxonomy Extension Schema   |
| 101. | CAL XBRL Taxonomy Extension Schema Calculation Linkbase  |
| 101. | DEF XBRL Taxonomy Extension Schema Definition Linkbase   |
| 101. | LAB XBRL Taxonomy Extension Schema Label Linkbase  |
| 101. | PRE XBRL Taxonomy Extension Schema Presentation Linkbase   |
| (1)  | Incorporated by reference to Exhibit No. 4.1 in the Company's Registration Statement on Form F-1, filed December 13, 1996.                           |
| (2)  | Incorporated by reference to Exhibit No. 2 of the Company's Report on Form 6-K filed September 27, 2010.   |
| (3)  | Incorporated by reference to the Company's Annual Report on Form 20-F for the year ended December 31, 2010, filed on March 18, 2011.                 |

## **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.

KNIGHTSBRIDGE TANKERS LIMITED

/s/ Inger M. Klemp

Inger M. Klemp

Chief Financial Officer and Principal Financial Officer

Dated: March 6, 2014



## **Consolidated Financial Statements of Knightsbridge Tankers Limited**

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

### To the Board of Directors and Shareholders of Knightsbridge Tankers Limited.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, consolidated statements of cash flows and changes in equity present fairly, in all material respects, the financial position of Knightsbridge Tankers Limited and its subsidiaries at December 31, 2013 and December 31, 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Controls Over Financial Reporting appearing under item 15(b) of Knightsbridge Tankers Limited's Annual Report on Form 20-F. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated 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 and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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 (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) 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 (iii) 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.

/s/PricewaterhouseCoopers AS

PricewaterhouseCoopers AS  
Oslo, Norway  
March 6, 2014

**Knightsbridge Tankers Limited**
**Consolidated Statements of Operations for the years ended December 31, 2013, 2012 and 2011**
*(in thousands of \$, except per share data)*

	2013	2012	2011
<b>Operating revenues</b>			
Time charter revenues	27,677	35,046	55,497
Voyage charter revenues	9,869	2,269	—
<b>Total operating revenues</b>	<b>37,546</b>	<b>37,315</b>	<b>55,497</b>
<b>Operating expenses</b>			
Voyage expenses and commission	6,809	4,323	2,020
Ship operating expenses	7,897	7,608	7,830
Administrative expenses	4,937	4,259	3,528
Depreciation	11,079	11,117	11,079
<b>Total operating expenses</b>	<b>30,722</b>	<b>27,307</b>	<b>24,457</b>
<b>Net operating income</b>	<b>6,824</b>	<b>10,008</b>	<b>31,040</b>
<b>Other income (expenses)</b>			
Interest income	41	106	36
Interest expense	(2,827)	(3,765)	(3,529)
Other financial items	(508)	(467)	(489)
<b>Net other expenses</b>	<b>(3,294)</b>	<b>(4,126)</b>	<b>(3,982)</b>
<b>Net income from continuing operations</b>	<b>3,530</b>	<b>5,882</b>	<b>27,058</b>
<b>Net (loss) income from discontinued operations</b>	<b>(7,433)</b>	<b>(59,311)</b>	<b>5,594</b>
<b>Net (loss) income</b>	<b>(3,903)</b>	<b>(53,429)</b>	<b>32,652</b>
Per share information:			
Earnings per share from continuing operations: basic	\$ 0.14	\$ 0.24	\$ 1.11
Earnings per share from continuing operations: diluted	\$ 0.14	\$ 0.24	\$ 1.10
(Loss) earnings per share from discontinued operations: basic	\$ (0.29)	\$ (2.43)	\$ 0.23
(Loss) earnings per share from discontinued operations: diluted	\$ (0.29)	\$ (2.41)	\$ 0.23
(Loss) earnings per share: basic	\$ (0.15)	\$ (2.19)	\$ 1.34
(Loss) earnings per share: diluted	\$ (0.15)	\$ (2.17)	\$ 1.33
Cash distributions per share declared	\$ 0.70	\$ 1.20	\$ 2.00

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

**Knightsbridge Tankers Limited**  
**Consolidated Balance Sheets as of December 31, 2013 and 2012**  
*(in thousands of \$)*

	2013	2012
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	98,250	79,259
Trade accounts receivable, net	3,298	2,102
Other receivables	943	2,691
Inventories	1,729	1,181
Prepaid expenses and accrued income	521	616
<b>Total current assets</b>	<b>104,741</b>	<b>85,849</b>
Restricted cash	15,000	15,000
Vessels, net	262,747	273,826
Newbuildings	26,706	—
Vessel held for sale	—	21,523
Deferred charges	664	1,222
<b>Total assets</b>	<b>409,858</b>	<b>397,420</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Current portion of long-term debt	—	4,700
Trade accounts payable	1,430	1,277
Accrued expenses	2,364	2,501
Deferred charter revenue	3,623	3,020
<b>Total current liabilities</b>	<b>7,417</b>	<b>11,498</b>
<b>Long-term liabilities</b>		
Long-term debt	95,000	106,978
Deferred charter revenue	—	1,250
<b>Total liabilities</b>	<b>102,417</b>	<b>119,726</b>
<b>Commitments and contingencies</b>	<b>—</b>	<b>—</b>
<b>Equity</b>		
Share capital (30,472,061 shares outstanding, par value \$0.01, 2012: 24,437,000)	305	244
Additional paid in capital	183,535	131,766
Contributed capital surplus	131,520	149,700
Retained deficit	(7,919)	(4,016)
<b>Total equity</b>	<b>307,441</b>	<b>277,694</b>
<b>Total liabilities and equity</b>	<b>409,858</b>	<b>397,420</b>

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

**Knightsbridge Tankers Limited**
**Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011**
*(in thousands of \$)*

	2013	2012	2011
<b>Net (loss) income</b>	<b>(3,903)</b>	<b>(53,429)</b>	<b>32,652</b>
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation	11,079	20,485	22,759
Amortization of deferred charges	558	879	599
Net (gain) loss on sale of assets	(254)	13,088	—
Impairment loss on vessels	5,342	41,597	—
Amortization of time charter contract value	—	2,303	845
Restricted stock unit expense	919	906	230
Provision for doubtful accounts	226	10,155	1,700
Changes in operating assets and liabilities:			
Trade accounts receivable	(1,422)	(4,536)	(7,413)
Related party balances	—	(319)	388
Other receivables	1,748	983	(2,485)
Inventories, net of disposals	(1,189)	1,535	(2,299)
Voyages in progress	—	931	(931)
Prepaid expenses and accrued income	95	1,952	(1,955)
Trade accounts payable	153	(943)	(1,811)
Accrued expenses	(392)	(2,400)	1,000
Deferred charter revenue	(647)	3,612	(672)
<b>Net cash provided by operating activities</b>	<b>12,313</b>	<b>36,799</b>	<b>42,607</b>
<b>Investing activities</b>			
Additions to newbuildings	(26,706)	—	—
Proceeds from sale of assets	17,075	66,993	—
<b>Net cash (used in) provided by investing activities</b>	<b>(9,631)</b>	<b>66,993</b>	<b>—</b>
<b>Financing activities</b>			
Repayment of long-term debt	(16,678)	(42,062)	(3,600)
Debt fees paid	—	—	(79)
Net proceeds from share issuance	51,167	—	—
Distributions to shareholders	(18,180)	(29,319)	(48,851)
<b>Net cash provided by (used in) financing activities</b>	<b>16,309</b>	<b>(71,381)</b>	<b>(52,530)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>18,991</b>	<b>32,411</b>	<b>(9,923)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>79,259</b>	<b>46,848</b>	<b>56,771</b>
<b>Cash and cash equivalents at end of year</b>	<b>98,250</b>	<b>79,259</b>	<b>46,848</b>
<b>Supplemental disclosure of cash flow information:</b>			
Interest paid, net of capitalized interest	2,851	4,477	4,287

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

**Knightsbridge Tankers Limited****Consolidated Statements of Changes in Equity for the years ended December 31, 2013, 2012 and 2011***(in thousands of \$, except number of shares)*

	2013	2012	2011
<b>Number of shares outstanding</b>			
Balance at beginning of year	24,437,000	24,425,699	24,425,699
Shares issued	6,035,061	11,301	—
Balance at end of year	30,472,061	24,437,000	24,425,699
<b>Share capital</b>			
Balance at beginning of year	244	244	244
Shares issued	61	—	—
Balance at end of year	305	244	244
<b>Additional paid in capital</b>			
Balance at beginning of year	131,766	131,256	131,026
Shares issued	51,106	—	—
Restricted stock unit expense	663	510	230
Balance at end of year	183,535	131,766	131,256
<b>Contributed capital surplus</b>			
Balance at beginning of year	149,700	179,019	179,019
Distributions to shareholders	(18,180)	(29,319)	—
Balance at end of year	131,520	149,700	179,019
<b>Retained (deficit) earnings</b>			
Balance at beginning of year	(4,016)	49,413	65,612
Net (loss) income	(3,903)	(53,429)	32,652
Distributions to shareholders	—	—	(48,851)
Balance at end of year	(7,919)	(4,016)	49,413
<b>Total equity</b>	<b>307,441</b>	<b>277,694</b>	<b>359,932</b>

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

**Knightsbridge Tankers Limited**  
**Notes to Consolidated Financial Statements**

**1 DESCRIPTION OF BUSINESS**

Knightsbridge Tankers Limited (the "Company") was incorporated in Bermuda in September 1996 and was originally founded for the purpose of owning and operating an initial fleet of five very large crude carriers, or VLCCs. One of these vessels was sold in 2007, three vessels were sold in 2012 and the remaining vessel was sold in 2013. The Company expanded the scope of its activities and acquired two Capesize newbuilding dry bulk vessels in 2009 and two 2010-built Capesize dry bulk vessels in 2010. The Company's shares are listed on the NASDAQ Global Select Market under the symbol "VLCCF."

The Company's tankers were managed by ICB Shipping (Bermuda) Limited, or the General Manager, a wholly-owned subsidiary of Frontline Ltd., or Frontline, a Bermuda based shipping company whose shares are listed on the New York Stock Exchange, the Oslo Stock Exchange and the London Stock Exchange under the symbol "FRO". The Company's dry bulk carriers are managed by Golden Ocean Management (Bermuda) Ltd., or the Dry bulk Manager, a wholly-owned subsidiary of Golden Ocean Group Limited, a Bermuda based dry bulk shipping company whose shares are listed on the Oslo Stock Exchange and the Singapore Stock Exchange under the symbol "GOGL." In addition, the General Manager provides us with general administrative and technical services.

Effective July 1, 2011, the daily gross hire rate per the *Golden Zhejiang* time charter was reduced from \$29,900 to \$19,900 for a period of one year and the amount of lost revenues resulting from this reduction of \$3.66 million were expected to be recovered in the period from July 1, 2012 to September 2, 2014 in accordance with a signed charter party amendment, by payment of an additional charter hire amount of \$4,581 per day in addition to the \$29,900 per day. As such, there was no change in the total expected charter hire or the total expected charter hire divided by the number of days remaining. The Company did not believe that the reduction and deferral of charter hire had an impact on the fixed and determinable criteria for revenue recognition as the changes were documented in a signed agreement and there were no change to the period over which payments were made, which remains as the period the vessel is being used. Accordingly, the Company accounted for the change in the charter agreement by amortizing the total expected charter hire payments on a straight line basis from July 1, 2011 over the remaining period of the charter party. In July 2012, the charterer of the *Golden Zhejiang*, Hong Xiang Shipping Holding (Hong Kong) Co Limited, redelivered the vessel before the final maturity of the charter, and the vessel operated in the spot market until September 2012. See Notes 10 and 23.

Following the sale of its one remaining VLCC during 2013, the Company owns four Capesize dry bulk vessels with a total carrying capacity of approximately 0.7 million dwt. Three of these vessels were operating on time charters as of December 31, 2013: (i) on time charter that was extended in December 2013 for a minimum period of 11 months and a maximum period of 13 months at a market index based daily rate; (ii) on time charter until August 2014 at a rate of \$46,412 per day less 2.5% commission. The rate was reduced from \$52,670 in March 2012 after renegotiations with the charterer; (iii) on time charter that was extended in January 2014 for a minimum period of 11 months and a maximum period of 13 months at a market index based daily rate. The fourth vessel is operating in the spot market.

The Company currently has four Capesize dry bulk vessels under construction. Two are approximately 182,000 dwt and two are 180,000 dwt. They are scheduled for delivery in 2015.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of presentation**

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements include the assets and liabilities of Knightsbridge Tankers Limited and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated upon consolidation.

The preparation of financial statements in accordance with generally accepted accounting principles requires that management make estimates and assumptions affecting the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Discontinued operations**

The Company has determined that an individual vessel within a vessel class is not a component as defined by the accounting standard as the Company does not believe that the operations of an individual vessel within a vessel class can be clearly distinguished. Generally, the Company believes that all of the vessels in a vessel class represent a component as defined for the purpose of



discontinued operations and has presented the operations of the VLCCs as discontinued operations since three of those vessels were sold during 2012 and the remaining VLCC met the criteria for held for sale at December 31, 2012. The remaining VLCC was sold during 2013.

#### **Vessel held for sale**

The Company records a vessel as held for sale when it determines that management, having the authority, commits to a plan to sell the vessel, which is available for immediate sale in its present condition, the vessel is being marketed for sale at a price that is reasonable in relation to its fair value, it is unlikely that there will be significant changes in the plan and a sale is expected within one year.

#### **Reporting and functional currency**

The functional currency of the Company and all of its subsidiaries is the United States dollar as all revenues are received in United States dollars and a majority of the Company's expenditures are made in United States dollars. The Company and its subsidiaries report in United States dollars.

#### **Foreign currency**

Transactions in foreign currencies during the year are translated into United States dollars at the rates of exchange in effect at the date of the transaction. Foreign currency monetary assets and liabilities are translated using rates of exchange at the balance sheet date. Foreign currency non-monetary assets and liabilities are translated using historical rates of exchange. Foreign currency transaction gains or losses are included in the consolidated statements of operations.

#### **Revenue and expense recognition**

Revenues and expenses are recognized on the accruals basis. Revenues are generated from voyage charter, time charter and bareboat charter hires. Voyage revenues are recognized ratably over the estimated length of each voyage and, therefore, are allocated between reporting periods based on the relative transit time in each period. Voyage expenses are recognized as incurred. Probable losses on voyages are provided for in full at the time such losses can be estimated. Time charter and bareboat charter revenues are recorded over the term of the charter as a service is provided. The Company uses a discharge-to-discharge basis in determining percentage of completion for all spot voyages and voyages servicing contracts of affreightment whereby it recognizes revenue ratably from when product is discharged (unloaded) at the end of one voyage to when it is discharged after the next voyage. However, the Company does not recognize revenue if a charter has not been contractually committed to by a customer and the Company, even if the vessel has discharged its cargo and is sailing to the anticipated load port on its next voyage.

#### **Losses from Uncollectible Receivables**

Losses from uncollectible receivables are accrued when collection of the invoiced revenues is not assured. Management makes a judgment with regards to whether or not this should be recognized as income and if collection is not reasonably assured and the amount of the loss can be reasonably estimated, no revenue will be recognized until cash has been received. These conditions are considered in relation to individual receivables or in relation to groups of similar types of receivable.

#### **Leases**

The charters for the Company's vessels are classified as operating leases for all periods presented.

#### **Cash and cash equivalents**

All demand and time deposits and highly liquid, low risk investments with maturities of 3 months or less at the date of purchase are considered equivalent to cash.

#### **Restricted cash**

Restricted cash is the minimum balance that must be maintained at all times in accordance with our loan agreements with Nordea Bank Norge ASA.

#### **Trade accounts receivable**

Trade and other receivables are presented net of allowances for doubtful balances. If amounts become uncollectible, they are charged against the appropriate revenue category when that determination is made.

#### **Inventories**

Inventories, which are comprised principally of fuel and lubricating oils, are stated at the lower of cost and market value. Cost is determined on a first-in, first-out basis.

#### **Vessels and depreciation**

Vessels are stated at cost less accumulated depreciation. Depreciation is calculated based on cost less estimated residual value, using the straight-line method, over the useful life of each vessel. The useful life of each vessel is deemed to be 25 years. The residual value is calculated by multiplying the lightweight tonnage of the vessel by the market price of scrap per tonne. The market price of scrap per tonne is calculated as the 10 year average, up to the date of delivery of the vessel, across the three main recycling markets (Far East, Indian sub continent and Bangladesh). Residual values are reviewed annually.

### **Newbuildings**

The carrying value of the vessels under construction ("Newbuildings") represents the accumulated costs to the balance sheet date which the Company has had to pay by way of purchase installments and other capital expenditures together with capitalized interest and associated finance costs. No charge for depreciation is made until the vessel is available for use.

### **Interest expense**

Interest costs are expensed as incurred except for interest costs that are capitalized. Interest expenses are capitalized during construction of newbuildings based on accumulated expenditures for the applicable project at the Company's current rate of borrowing. The amount of interest expense capitalized in an accounting period shall be determined by applying an interest rate ("the capitalization rate") to the average amount of accumulated expenditures for the asset during the period. The capitalization rates used in an accounting period shall be based on the rates applicable to borrowings outstanding during the period. The Company does not capitalize amounts beyond the actual interest expense incurred in the period.

### **Deferred charges**

Loan costs, including debt arrangement fees, are capitalized and amortized on a straight-line basis over the term of the relevant loan. The straight line basis of amortization approximates the effective interest method in the Company's consolidated statement of operations. Amortization of loan costs is included in interest expense. If a loan is repaid early, any unamortized portion of the related deferred charges is charged against income in the period in which the loan is repaid.

### **(Loss) earnings per share**

(Loss) earnings per share is based on the net (loss) income and the weighted average number of common shares outstanding for the period presented. Diluted (loss) earnings per share is based on net (loss) income and the weighted average number of shares outstanding is adjusted to include the restricted stock units based on the treasury stock method.

### **Impairment of long-lived assets**

The carrying values of long-lived assets that are held and used by the Company and newbuildings under development are reviewed for potential impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. Such indicators may include depressed spot rates and depressed second hand vessel values. The Company assesses recoverability of the carrying value of each asset or newbuilding on an individual basis by estimating the future undiscounted cash flows expected to result from the asset, including eventual disposal. The carrying value of a time charter contract that was acquired with one of the vessels is included in the assessment. If the future net undiscounted cash flows are less than the carrying value of the asset, or the current carrying value plus future newbuilding commitments, an impairment loss is recorded equal to the difference between the asset's or newbuildings carrying value and fair value. In addition, long-lived assets to be disposed of are reported at the lower of carrying amount and fair value less estimated costs to sell.

Fair value is estimated based on values achieved for the sale/purchase of similar vessels and appraised valuations. In addition, vessels to be disposed of by sale are reported at the lower of their carrying amount or fair value less estimated costs to sell.

### **Distributions to shareholders**

Distributions to shareholders are applied first to retained earnings. When retained earnings are not sufficient, distributions are applied to the contributed capital surplus account.

### **Drydocking**

Normal vessel repair and maintenance costs are expensed when incurred. The Company recognizes the cost of a drydocking at the time the drydocking takes place, that is, it applies the "expense as incurred" method.

### **Stock-based compensation**

Up to December 31, 2012, the Company accounted for the restricted stock units ("RSUs") issued to the directors as equity classified awards and amortized the fair value of the RSUs over the vesting period. The Company changed this method of accounting during 2013 due to actual settlements in cash of vested RSUs to date and now accounts for 50% of the RSUs issued to the directors as equity classified and a liability classification for the remaining 50% of the RSUs granted to the directors. This change did not have a significant impact on the results for the year ended December 31, 2013. The Company accounts for the RSUs issued to the

management companies as liability classified awards. The RSU expense has been recognized in the consolidated statement of operations based on the straight-line method.

The fair value of an equity instrument issued to a nonemployee is measured by using the stock price and other measurement assumptions as of the date at which either (i) a commitment for performance by the counterparty has been reached; or (ii) the counterparty's performance is complete. This criterion is not considered to be met in the absence of considerable evidence, and liability accounting is applied with a re-measurement at each period end date. The Company has obtained a right to receive future services in exchange for unvested, forfeitable equity instruments, and the fair value of the equity instruments does not create equity until the future services are received (i.e. the instruments are not considered issued until they vest).

#### **Other comprehensive income**

The Company has no other comprehensive income.

### **3. NEWLY ISSUED ACCOUNTING STANDARDS**

ASU 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. This ASU addresses implementation issues about the scope of ASU 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. ASU 2013-01 is effective for reporting periods beginning on or after January 1, 2013. This guidance did not have a material impact on the Company's consolidated financial statements.

### **4. TAXATION**

The Company is incorporated in Bermuda. Under current Bermuda law, the Company is not required to pay taxes in Bermuda on either income or capital gains. The Company has received written assurance from the Minister of Finance in Bermuda that, in the event of any such taxes being imposed, the Company will be exempted from taxation until March 31, 2035. Based upon review of applicable laws and regulations, and after consultation with counsel, the Company does not believe it is subject to material income taxes in any jurisdiction.

### **5. DISCONTINUED OPERATIONS**

The Company has determined that an individual vessel within a vessel class is not a component as defined by the accounting standard for the purpose of discontinued operations as the Company does not believe that the operations of an individual vessel within a vessel class can be clearly distinguished. Generally, the Company believes that all of the vessels in a vessel class represent a component as defined for the purpose of discontinued operations and presented the operations of the VLCCs as discontinued operations in 2012 since three of those vessels were sold in 2012 and the remaining VLCC met the criteria for held for sale at December 31, 2012.

In August 2012, the VLCC *Hampstead* was contracted to be sold to an unrelated third party, but the sale was not completed due to the buyer's default. The Company retained the deposit received in the amount of \$2.4 million. In September 2012, the Company sold the VLCC *Hampstead* for net proceeds of \$22.2 million and recorded a loss on sale of \$12.7 million (including the deposit received). In October 2012, the Company sold the VLCC *Titan Venus* for net proceeds of \$19.8 million. The Company recorded an impairment loss of \$14.7 million in the third quarter of 2012 with respect to this vessel and there was no gain or loss on its sale. In December 2012, the Company sold the VLCC *Kensington* for net proceeds of \$22.5 million. The Company recorded an impairment loss of \$13.5 million in the third quarter of 2012 with respect to this vessel and there was a loss on sale of \$0.4 million. The Company recorded an impairment loss of \$13.4 million in the third quarter of 2012 with respect to the VLCC *Mayfair*. This vessel was classified as held for sale at December 31, 2012. In April 2013, the Company sold the VLCC *Mayfair* for scrap for net proceeds of \$16.9 million. The Company recorded an impairment loss of \$5.3 million in the first quarter of 2013 with respect to this vessel and there was no gain or loss on its sale. The Company recorded a gain of \$0.2 million in 2013 from the sale of equipment for cash proceeds of \$0.2 million.

Amounts recorded with respect to discontinued operations in each of the years ended December 31, 2013, 2012 and 2011 are as follows;

<i>(in thousands of \$)</i>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Carrying value of vessels disposed of in 2012	—	107,027	113,527
Carrying value of vessel held for sale at December 31, 2012	—	21,523	37,804
Per Statement of Operations;			
Operating revenues	<b>(226)</b>	24,513	39,020
Net gain (loss) on sale of assets	<b>254</b>	(13,088)	—
Impairment loss on vessels	<b>(5,342)</b>	(41,597)	—
Net (loss) income	<b>(7,433)</b>	(59,311)	5,594

## 6. SEGMENT INFORMATION

The Company and the chief operating decision maker ("CODM") measure performance based on the Company's overall return to shareholders based on consolidated net income. The CODM does not review a measure of operating result at a lower level than the consolidated group and the Company has only one reportable segment.

The Company's vessels operate worldwide and therefore management does not evaluate performance by geographical region as this information is not meaningful. The Company operated in two markets from 2009 through 2012; the tanker and dry bulk carrier markets as an international provider of seaborne transportation of crude oil and dry bulk cargoes. Following the sale of three VLCCs during 2012 and the balance sheet classification of the fourth as 'held for sale' at December 31, 2012, the results of the four VLCCs, which operated in the tanker market, have been recorded as discontinued operations. An analysis of revenues from continuing operations is as follows:

<i>(in thousands of \$)</i>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Total operating revenues – dry bulk carrier market	<b>37,546</b>	37,315	55,497

Revenues from three customers in the year ended December 31, 2013 each accounted for 10 percent or more of the Company's consolidated revenues from discontinued and continuing operations, in the amount of \$17.0 million, \$5.0 million, and \$4.3 million, respectively. Revenues from three customers in the year ended December 31, 2012 each accounted for 10 percent or more of the Company's consolidated revenues from discontinued and continuing operations, in the amount of \$17.4 million, \$11.6 million and \$5.1 million, respectively. Revenues from six customers in the year ended December 31, 2011 each accounted for 10 percent or more of the Company's consolidated revenues from discontinued and continuing operations, in the amount of \$19.2 million, \$16.1 million, \$14.7 million, \$11.6 million, \$11.6 million and \$10.0 million respectively.

## 7. EARNINGS PER SHARE

The computation of basic earnings per share is based on net income and the weighted average number of shares outstanding during the year. The computation of diluted earnings per share is based on net income and the weighted average number of shares outstanding to include the restricted stock units based on the treasury stock method.

The components of the numerator for the calculation of basic EPS and diluted EPS for net income from continuing operations, net (loss) income from discontinued operations and net (loss) income are as follows:

<i>(in thousands of \$)</i>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Net income from continuing operations	<b>3,530</b>	5,882	27,058
Net (loss) income from discontinued operations	<b>(7,433)</b>	(59,311)	5,594
Net (loss) income	<b>(3,903)</b>	(53,429)	32,652

The components of the denominator for the calculation of basic EPS and diluted EPS are as follows:

<i>(in thousands)</i>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Weighted average number of shares outstanding - basic	<b>25,620</b>	24,432	24,426
Impact of restricted stock units	<b>176</b>	133	152
Weighted average number of shares outstanding - diluted	<b>25,796</b>	24,565	24,578

## 8. IMPAIRMENT OF LONG TERM ASSETS

The Company recorded impairment losses on vessels of \$5.3 million, \$41.6 million and nil in the years ended December 31, 2013, 2012 and 2011, respectively. The Company continually monitors events and changes in circumstances that could indicate that the carrying amounts of each of its vessels may not be recoverable.

During the first quarter of 2013, one VLCC, which was classified in the balance sheet as held for sale at December 31, 2012 and had been recorded at its estimated fair value less costs to sell based on its sale as a trading vessel, was identified as being impaired as it was believed that the vessel would have to be sold at a lower value for scrap. The loss recorded was equal to the difference between the carrying value and estimated fair value based on a sale for scrap less costs to sell. The impairment loss in 2013 is included in discontinued operations.

During the third quarter of 2012, three VLCCs were identified as being impaired. The loss recorded is equal to the difference between the carrying value and estimated fair value of the vessels. Two of the vessels were sold during the fourth quarter of 2012 and the remaining vessel was classified as held for sale at December 31, 2012. The impairment loss in 2012 is included in discontinued operations.

## 9. LEASES

The minimum future revenues to be received on a fixed rate time charter, which is accounted for as an operating lease as of December 31, 2013 is as follows. These minimum future revenues exclude payments from two time charters that are based on market rate indices.

*(in thousands of \$)*

Year ending December 31,

2014	11,185
2015	—
2016	—
2017	—
2018	—
Thereafter	—
	11,185

As of December 31, 2013, three of the Company's vessels were leased out to third parties on time charters for remaining periods of up to one year.

The cost and accumulated depreciation of vessels leased to third parties at December 31, 2013 were \$216.9 million and \$28.6 million, respectively, and at December 31, 2012 were \$305.6 million and \$31.8 million, respectively.

## 10. TRADE ACCOUNTS RECEIVABLE, NET

Trade accounts receivable are stated net of a provision for doubtful accounts. Movements in the provision for doubtful accounts in the three years ended December 31, 2013 may be summarized as follows;

(in thousands of \$)

Balance at December 31, 2010	226
Additions charged to income	1,700
Deductions credited to income	—
Balance at December 31, 2011	1,926
Additions charged to income	10,634
Deductions credited to income	(479)
Balance at December 31, 2012	12,081
Additions charged to income	226
Deductions - amounts written off	(2,990)
<b>Balance at December 31, 2013</b>	<b>9,317</b>

The provision for doubtful accounts at December 31, 2013 of \$9.3 million primarily relates to three charters, which were terminated in 2012. \$7.4 million of the provision relates to the VLCCs, which are recorded as discontinued operations, and \$1.9 million of the provision relates to the Capesize vessels.

In December 2013, the Company received \$756,000 from Sanko Steamship Co., Ltd., or Sanko, as a partial settlement for a \$17 million claim for unpaid charter hire and claims of the *Battersea*. This amount was recorded as time charter income in the fourth quarter of 2013. Trade accounts receivable of \$3.0 million and a provision for doubtful accounts in the same amount were written off.

## 11. VESSELS

(in thousands of \$)	Cost	Accumulated Depreciation	Net Book Value
Balance at December 31, 2010	657,890	(198,858)	459,032
Depreciation	—	(22,759)	
Balance at December 31, 2011	657,890	(221,617)	436,273
Transfer to vessel held for sale	(74,455)	52,932	
Impairment loss	(41,597)	—	
Disposal of vessels	(236,257)	157,415	
Depreciation	—	(20,485)	
Balance at December 31, 2012	305,581	(31,755)	273,826
Depreciation	—	(11,079)	
<b>Balance at December 31, 2013</b>	<b>305,581</b>	<b>(42,834)</b>	<b>262,747</b>

In August 2012, the VLCC *Hampstead* was contracted to be sold to an unrelated third party, but the sale was not completed due to the buyer's default, and we retained the deposit received in the amount of \$2.4 million. In September 2012, the Company sold the VLCC *Hampstead* for net proceeds of \$22.2 million and recorded a loss on sale of \$12.7 million (including the deposit received). In October 2012, the Company sold the VLCC *Titan Venus* for net proceeds of \$19.8 million. The Company recorded an impairment loss of \$14.7 million in the third quarter of 2012 with respect to this vessel and there was no gain or loss on its sale. In December 2012, the Company sold the VLCC *Kensington* for net proceeds of \$22.5 million. The Company recorded an impairment loss of \$13.5 million in the third quarter of 2012 with respect to this vessel and there was a loss on sale of \$0.4 million. The Company recorded an impairment loss of \$13.4 million in the third quarter of 2012 with respect to the VLCC *Mayfair*. This vessel was classified as held for sale at December 31, 2012.

At December 31, 2013, the Company owned four Capesize vessels.

Total depreciation expense was \$11.1 million, \$20.5 million, and \$22.8 million in the years ended December 31, 2013, 2012 and 2011, respectively. These amounts include depreciation for the VLCCs of nil, \$9.4 million and \$11.7 million in the years ended December 31, 2013, 2012 and 2011, respectively, which are recorded in discontinued operations.

## 12. VESSEL HELD FOR SALE

The balance at December 31, 2012, represents the VLCC *Mayfair*. This vessel was sold in April 2013 for net proceeds of \$16.9 million. The Company recorded an impairment loss of \$5.3 million in 2013, which is included in results from discontinued operations. There was no gain or loss on the sale.

### 13. NEWBUILDINGS

The carrying value of newbuildings relates to the four Capesize dry bulk vessels, which the Company has under construction and represents the accumulated costs which the Company has paid by way of purchase installments and other capitalized expenditures together with capitalized interest. Movements in the year ended December 31, 2013 may be summarized as follows:

(in thousands of \$)

Balance at December 31, 2012	—
Installments and newbuilding supervision fees paid	26,298
Interest capitalized	408
<b>Balance at December 31, 2013</b>	<b>26,706</b>

### 14. DEFERRED CHARGES

(in thousands of \$)

	2013	2012
Capitalized financing fees and expenses	2,699	3,405
Accumulated amortization	(2,035)	(2,183)
	664	1,222

During the year ended December 31, 2013, fully amortized deferred charges of \$0.7 million were removed from cost and accumulated amortization.

During the years ended December 31, 2013, 2012 and 2011, \$0.1 million, \$0.3 million and nil respectively, were charged against income as a result of early loan repayments.

### 15. ACCRUED EXPENSES

(in thousands of \$)

	2013	2012
Voyage expenses	354	117
Ship operating expenses	489	1,090
Administrative expenses	1,332	981
Interest expense	189	313
	2,364	2,501

### 16. DEFERRED CHARTER REVENUE

In March 2012, the Company agreed an amendment to the time charter for the Capesize vessel *Belgravia* whereby \$5.0 million was paid in advance by the charterer and \$95,000 was to be deducted by the charterer from each future hire payment, which are each payable 15 days in advance, until \$5.7 million was deducted in total. The Company accounted for this by calculating the total expected charter hire payments at the date of change and recording this expected revenue over the remaining term of the charter party to August 2014 on a straight line basis. The \$5.0 million prepayment was recorded as a liability and is being amortized over the remaining term of the charter party on a straight line basis. As of December 31, 2013, \$1.3 million (2012: \$2.0 million) and nil (2012: \$1.3 million) are recorded in short term and long term liabilities, respectively, with respect to the unamortized balance of the \$5.0 million prepayment. As of December 31, 2013, \$2.3 million (2012:\$1.0 million) is recorded in short term liabilities in respect of income received in advance on other charters.

### 17. DEBT

<i>(in thousands of \$)</i>	<b>2013</b>	<b>2012</b>
U.S. dollar denominated floating rate debt:		
\$58.24 Million Loan	—	12,392
\$175 Million Loan	<b>95,000</b>	99,286
<b>Total debt</b>	<b>95,000</b>	111,678
Less: current portion	—	(4,700)
	<b>95,000</b>	106,978

The average interest rate for the floating rate debt was 2.81% for the year ended December 31, 2013 and 2.93% for the year ended December 31, 2012.

#### **\$58.24 Million Loan**

In July 2010, the Company entered into a \$58.24 million credit facility consisting of four tranches of \$14.56 million each in respect of each VLCC in the fleet at that time. Repayments are made on a quarterly basis with a balloon payment at the final maturity date in June 2015. The loan bears interest at LIBOR plus a margin. As of December 31, 2012, the outstanding balance was \$12.4 million as a result of loan repayments of \$41.3 million due to the sale of three VLCCs. The remaining outstanding balance on this facility was repaid in the second quarter of 2013 upon the sale of the VLCC *Mayfair*.

#### **\$175 Million Loan**

In December 2010, the Company refinanced the \$105 million loan facility and entered into a \$175 million credit facility consisting of four tranches of \$25.0 million each in respect of each Capesize vessel and a revolving debt facility of \$75 million. The loan is repayable in May 2015, has an interest rate of LIBOR plus a margin and is secured by the four Capesize vessels. In May 2013, the revolving debt facility of \$75 million was reduced to \$40 million. As of December 31, 2013, the outstanding balance was \$95.0 million. The revolving debt facility of \$40 million was available for vessel acquisitions but undrawn at December 31, 2013.

The Company's \$175 million loan agreement contains a loan-to-value clause, which could require the Company to post collateral or prepay a portion of the outstanding borrowings should the value of the vessels securing borrowings decrease below a required level. In addition, the loan agreement contains certain financial covenants including the requirement to maintain a certain level of free cash. Failure to comply with any of the covenants in this loan agreement could result in a default, which would permit the lender to accelerate the maturity of the debt and to foreclose upon any collateral securing the debt. Under those circumstances, the Company might not have sufficient funds or other resources to satisfy its obligations. The Company was in compliance with all of the financial and other covenants contained in the Company's \$175 million loan agreement as of December 31, 2013.

In addition, pursuant to the Company's \$175 million loan agreement, none of its vessel owning subsidiaries may sell, transfer or otherwise dispose of their interests in the vessels they own without the prior written consent of the applicable lenders unless, in the case of a vessel sale, the outstanding borrowings under the credit facility applicable to that vessel are repaid in full.

All of the outstanding debt as of December 31, 2013 is repayable in May 2015.

## **18. SHARE CAPITAL**

Authorized share capital:

<i>(in thousands of \$ except per share amount)</i>	<b>2013</b>	<b>2012</b>
50 million common shares of \$0.01 each	<b>500</b>	500

Issued and fully paid share capital:

<i>(in thousands of \$ except per share amount)</i>	<b>2013</b>	<b>2012</b>
30,472,061 common shares of \$0.01 par value (2012: 24,437,000 shares)	<b>305</b>	244

The Company's common shares are listed on the NASDAQ Global Select Market.

In May 2012, 11,301 common shares were issued as partial settlement of the first tranche of the RSUs granted in December 2010.



In January 2013, 35,061 common shares were issued as partial settlement of the first and second tranche of RSUs granted in December 2012 and December 2011, respectively.

In October 2013, 6,000,000 common shares were issued at \$9.00 per share through a public offering and net proceeds of \$51.2 million were received.

## 19. RESTRICTED STOCK UNITS

In September 2010, the Board of Directors (the "Board") approved the adoption of the 2010 Equity Incentive Plan (the "Plan") and reserved 800,000 common shares of the Company for issuance pursuant to the Plan. The Plan permits RSUs to be granted to directors, officers, employees of the Company and its subsidiaries, affiliates, consultants and service providers. The RSUs will vest over 3 years at a rate of 1/3 of the number of RSUs granted on each annual anniversary of the date of grant, subject to the participant continuing to provide services to the Company from the grant date through the applicable vesting date.

Payment upon vesting of RSUs may be in cash, in shares of common stock or a combination of both as determined by the Board. They must be valued in an amount equal to the fair market value of a share of common stock on the date of vesting. The participant shall receive a 'cash distribution equivalent right' with respect to each RSU entitling the participant to receive amounts equal to the ordinary dividends that would be paid during the time the RSU is outstanding and unvested on the shares of common stock underlying the RSU as if such shares were outstanding from the date of grant through the applicable vesting date of the RSU. Such payments shall be paid to the participant at the same time at which the RSUs vesting event occurs, conditioned upon the occurrence of the vesting event.

The following table summarizes restricted stock unit transactions in the years ended December 31, 2013, 2012 and 2011:

	Number of units			Fair value
	Directors	Management companies	Total	
Units outstanding as of December 31, 2010	29,571	29,572	59,143	\$22.27
Granted	46,593	46,596	93,189	\$13.95
Units outstanding as of December 31, 2011	76,164	76,168	152,332	\$13.67
Settled	(9,857)	(9,857)	(19,714)	\$13.63
Units outstanding as of December 31, 2012	66,307	66,311	132,618	\$5.25
Granted	47,238	47,238	94,476	\$6.74
Settled	(25,388)	(25,388)	(50,776)	\$9.65
Units outstanding as of December 31, 2013	88,157	88,161	176,318	\$9.19

The fair values in the table above are the closing share prices on December 31, the share prices on the date of grant or the share prices on the date of vesting, as appropriate. The RSU expense for the years ended December 31, 2013, 2012 and 2011 was \$0.9 million, \$0.9 million and \$0.2 million respectively.

In May 2012, the Company issued 11,301 common shares and paid \$159,763 to members of the Board and to the General Manager and the Dry bulk Manager in settlement of the first tranche of the RSUs granted in December 2010, which vested in December 2011.

In January 2013, the Company issued 35,061 common shares and paid \$181,610 to members of the Board and to the General Manager and the Dry Bulk Manager in settlement of the first and second tranches of the RSUs granted in December 2011 and December 2010, respectively, which vested in December 2012.

These settlements represent 50% of the value in common shares and 50% of the value in cash for each of the directors and each of the two management companies.

In January 2013, the Board granted a total of 94,476 RSUs pursuant to the 2010 Equity Plan to members of the Board and the two management companies. These RSUs will vest over 3 years at a rate of 1/3 of the number of RSUs granted on each anniversary of the date of grant.

## 20. FINANCIAL INSTRUMENTS

### Interest rate risk management

In certain situations, the Company may enter into financial instruments to reduce the risk associated with fluctuations in interest rates. The Company does not hold or issue instruments for speculative or trading purposes. As at December 31, 2013, the Company is not party to any interest rate swaps to hedge interest rate exposure.

### Foreign currency risk

The majority of the Company's transactions, assets and liabilities are denominated in United States dollars, the functional currency of the Company. There is no significant risk that currency fluctuations will have a negative effect of the value of the Company's cash flows.

### Fair values

The carrying value and estimated fair value of the Company's financial instruments at December 31, 2013 and 2012 are as follows:

	2013 Fair Value	2013 Carrying Value	2012 Fair Value	2012 Carrying Value
<i>(in thousands of \$)</i>				
Cash and cash equivalents	98,250	98,250	79,259	79,259
Restricted cash	15,000	15,000	15,000	15,000
Floating rate debt	95,000	95,000	111,678	111,678

The carrying value of cash and cash equivalents, and restricted cash, is a reasonable estimate of fair value.

The estimated fair value for floating rate long-term debt is considered to be equal to the carrying value since it bears variable interest rates, which are reset on a quarterly basis.

### Assets Measured at Fair Value on a Nonrecurring Basis

The Company recorded an impairment loss of \$41.6 million in 2012 in respect of three VLCCs. Two of these vessels were sold during 2012 and the third was classified as 'held for sale' at December 31, 2012. This vessel was measured at an estimated fair value of \$21.5 million at December 31, 2012, which was determined using level two inputs being the average of three broker values for a vessel of a similar age and type to be sold as a trading vessel less estimated selling costs. The sale of this vessel as a trading vessel was considered the principal market as of December 31, 2012. In April 2013, the Company sold the VLCC *Mayfair* for scrap for net proceeds of \$16.9 million. The Company recorded an impairment loss of \$5.3 million in the first quarter of 2013 with respect to this vessel and there was no gain or loss on its sale.

### Concentrations of risk

There is a concentration of credit risk with respect to cash and cash equivalents to the extent that substantially all of the amounts are carried with Skandinaviska Enskilda Banken, DnB and Nordea Bank Norge ASA. The Company does not require collateral or other security to support financial instruments subject to credit risk.

## 21. RELATED PARTY TRANSACTIONS

Management fees, which represent a commission of 1.25% of gross freight earned by the dry bulk carriers, of \$0.5 million were invoiced by Golden Ocean and paid by the Company during 2011. As of December 31, 2011, \$0.3 million was payable to Golden Ocean. On December 22, 2011, 23,298 RSUs were issued to Golden Ocean Management (Bermuda) Limited, a wholly-owned subsidiary of Golden Ocean.

In March 2012, Golden Ocean sold its entire holding of shares in the Company and Golden Ocean is no longer considered to be a related party.

## 22. MANAGEMENT OF COMPANY

On February 12, 1997, the Company entered into a management agreement with the General Manager under which the General Manager provided certain administrative, management and advisory services to the Company for an amount of \$750,000 per year.

Effective February 2004, the Company entered into an amendment to the agreement with the General Manager. The management fee was amended to \$630,000 per year, in addition to a commission of 1.25% on gross freight revenues. Pursuant to the terms of the amendment, the Company became responsible for paying its own administrative expenses. In February 2006, the management

fee was increased to \$1,150,000 per annum. On August 12, 2010, the Company entered into an Amended and Restated Management Agreement, which increased the management fee to \$2,315,000 per annum effective January 1, 2010.

On June 25, 2010, the Company entered into a commercial management agreement with the Dry bulk Manager, under which the Dry bulk Manager provides administrative and commercial expertise relating to the Company's dry bulk vessels. The Dry bulk Manager will receive 1.25% on gross freight revenues earned by the dry bulk vessels.

### **23. COMMITMENTS AND CONTINGENCIES**

The General Manager insures the legal liability risks for the Company's shipping activities with Assuranceforeningen SKULD and Assuranceforeningen Gard Gjensidig, both mutual protection and indemnity associations. The Company is subject to calls payable to the associations based on the Company's claims record in addition to the claims records of all other members of the associations. A contingent liability exists to the extent that the claims records of the members of the associations in the aggregate show significant deterioration, which result in additional calls on the members.

The Company has claims for unpaid charter hire owed by (i) Titan Petrochemicals Limited with respect to its bare boat charters of the *Titan Venus* and *Mayfair*, and (ii) Hong Xiang with respect to its time charter of the *Golden Zhejiang*. The Company is also seeking recovery of damages for the remaining periods of these charter contracts. The aggregate amount of these claims is approximately \$59 million.

In December 2013, the Company received \$756,000 from Sanko as a partial settlement of a \$17 million claim for unpaid charter hire and claims of the *Battersea*. The Company received approximately \$170,000 from Sanko in the first quarter of 2014 as a final settlement of this claim.

In August 2012, the VLCC *Hampstead* was contracted to be sold to an unrelated third party, but the sale was not completed due to the buyer's default, and the Company retained the deposit received in the amount of \$2.4 million. The Company has received notice of a claim for return of the deposit amount plus accrued interest.

Except as described above, to the best of the Company's knowledge, there are no legal or arbitration proceedings existing or pending which have had or may have significant effects on the Company's financial position or profitability and no such proceedings are pending or known to be contemplated.

At December 31, 2013, the Company has purchase commitments of \$185.5 million relating to its four Capesize newbuilding contracts with expected payments of \$24.4 million and \$161.1 million in 2014 and 2015, respectively.

### **24. SUBSEQUENT EVENTS**

In January 2014, the Board granted a total of 55,111 RSUs pursuant to the 2010 Equity Plan to members of the Board and the two management companies. These RSUs will vest over 3 years at a rate of 1/3 of the number of RSUs granted on each anniversary of the date of grant.

In January 2014, the market index based time charter for *Golden Future*, which commenced in January 2013, was extended from February 2014 for a minimum period of 11 months and a maximum period of 13 months.

In February 2014, the Company issued 49,489 common shares and paid \$464,629 to members of the Board and to the General Manager and the Dry Bulk Manager in settlement of the first, second and third tranches of the RSUs granted in January 2013, December 2011 and December 2010, respectively. A RSU expense has been recognized for these vested RSU's.

On February 5, 2014, the Board declared a cash distribution of \$0.175 per share. The record date was February 19, 2014 and the cash distribution was paid on March 6, 2014.

One of the Company's claims for charter hire (see Note 23) has been jointly lodged with another claimant's claim against the same defendant. By early March 2014, just under \$25 million had been received in partial settlement. An additional \$25 million at least is expected during 2014. No assurance can be provided that the additional amount will be collected. The Company expects to receive approximately 40% of the total settlement amounts received and to be received, to cover its share of the joint claims. The Company has not recognized any of this settlement in its statement of operations for the year ended December 31, 2013.