

SCORPIO BULKERS INC.
Form 20-F
March 20, 2019
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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, 2018

OR

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

For the transition period from _____ to _____

OR

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

Date of event requiring this shell company report _____

Commission file number: 001-36231

SCORPIO BULKERS INC.

(Exact name of Registrant as specified in its charter)

(Translation of Registrant's name into English)

Republic of the Marshall Islands

(Jurisdiction of incorporation or organization)

9, Boulevard Charles III Monaco 98000

(Address of principal executive offices)

Mr. Emanuele Lauro

377-9798-5715

info@scorpiobulkers.com

9, Boulevard Charles III Monaco 98000

(Name, Telephone, E-mail and/or Facsimile, 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
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Common stock, par value \$0.01 per share	New York Stock Exchange
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7.50% Senior Notes due 2019	New York Stock Exchange
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Securities registered or to be registered pursuant to section 12(g) of the Act.

NONE

(Title of class)

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

NONE

(Title of class)

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

As of December 31, 2018, there were 71,217,258 outstanding shares of common stock, 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 every Interactive Data File required to be submitted 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 such files).

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Emerging growth company

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

† The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

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 Nox

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Scorpio Bulkera Inc. 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 therewith. This document and any other written or oral statements made by the Company or on its behalf may include forward-looking statements, which reflect its current views with respect to future events and financial performance. The Private Securities Litigation Reform Act of 1995 provides safe harbor protections for forward-looking statements in order to encourage companies to provide prospective information about their business. Forward-looking statements 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. This document 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. When used in this document, the words "believe," "expect," "anticipate," "estimate," "intend," "plan," "targets," "projects," "likely," "will," "would," "could" and similar expressions or phrases may indicate forward-looking statements.

All statements in this document that are not statements of historical fact are forward-looking statements.

Forward-looking statements include, but are not limited to, such matters as:

- our future operating or financial results;
 - statements about planned, pending or recent acquisitions, business strategy and expected capital spending or operating expenses, including drydocking, surveys, upgrades and insurance costs;
 - the strength of world economies;
 - the stability of Europe and the Euro;
 - fluctuations in interest rates and foreign exchange rates;
 - changes in the supply of drybulk vessels, including when caused by new newbuilding vessel orders or changes to or terminations of existing orders, and vessel scrapping levels;
 - general drybulk shipping market conditions, including fluctuations in charter hire rates and vessel values;
 - changes in demand in the drybulk shipping industry, including the market for our vessels;
 - changes in the value of our vessels;
 - changes in our operating expenses, including bunker prices, drydocking and insurance costs;
 - compliance with, and our liabilities under, governmental, tax environmental and safety laws and regulations;
 - changes in governmental rules and regulations or actions taken by regulatory authorities;
 - potential liability from pending or future litigation;
 - general domestic and international political conditions;
 - potential disruption of shipping routes due to accidents or political events;
 - our ability to procure or have access to financing, our liquidity and the adequacy of cash flows for our operations;
 - our continued borrowing availability under our debt agreements and compliance with the covenants contained therein;
 - our ability to successfully employ our drybulk vessels;
 - our ability to fund future capital expenditures and investments in the construction, acquisition and refurbishment of our vessels (including the amount and nature thereof and the timing of completion thereof, the delivery and commencement of operations dates, expected downtime and lost revenue);
 - potential exposure or loss from investment in derivative instruments or other equity investments in which we invest;
-

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potential conflicts of interest involving members of our board and senior management and our significant shareholders;
our expectations regarding the availability of vessel acquisitions and our ability to complete acquisition transactions planned;
vessel breakdowns and instances of off-hire; and
drybulk shipping market trends, charter rates and factors affecting supply and demand.

We have based these statements on assumptions and analyses formed by applying our experience and perception of historical trends, current conditions, expected future developments and other factors we believe are appropriate in the circumstances. All future written and verbal forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained in or referred to in this section. We undertake no obligation, and specifically decline any obligation, except as required by law, to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this annual report might not occur. See “Item 3. Key Information—D. Risk Factors” for a more complete discussion of these risks and uncertainties and for other risks and uncertainties. These factors and the other risk factors described in this annual report are not necessarily all of the important factors that could cause actual results or developments to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors also could harm our results. Consequently, there can be no assurance that actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, us. Given these uncertainties, prospective investors are cautioned not to place undue reliance on such forward-looking statements.

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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

Unless otherwise indicated, references to “Scorpio Bulkiers,” the “Company,” “we,” “our,” “us” or similar terms refer to the registrant, Scorpio Bulkiers Inc., and its subsidiaries, except where the context otherwise requires. We use the term deadweight tons, or dwt, expressed in metric tons, each of which is equivalent to 1,000 kilograms, in describing the size of our vessels.

On December 31, 2015, we effected a one-for-twelve reverse stock split. All share and per share information throughout this annual report has been retroactively adjusted to reflect the reverse stock split. The par value was not adjusted as a result of the reverse stock split.

A. Selected Financial Data

The selected Consolidated Statement of Operations data and the Consolidated Balance Sheet data presented for the years ended December 31, 2018, 2017, 2016, 2015 and 2014, are derived from our audited consolidated financial statements. Such selected financial data should be read in connection with the consolidated financial statements contained in this report.

	For the Year Ended December 31,				
	2018	2017	2016	2015	2014
Dollars in thousands, except per share data					
Consolidated Statement of Operations Data:					
Total vessel revenue	\$242,502	\$162,205	\$78,402	\$62,521	\$48,987
Total operating expenses	199,192	187,777	179,133	554,130	166,475
Operating Income (loss)	43,310	(25,572)	(100,731)	(491,609)	(117,488)
Total other (loss) income	(56,008)	(34,154)	(24,104)	(19,180)	923
Net loss	\$(12,698)	\$(59,726)	\$(124,835)	\$(510,789)	\$(116,565)
Basic weighted average shares outstanding	71,827	71,794	56,174	21,410	11,466
Diluted weighted average shares outstanding	71,827	71,794	56,174	21,410	11,466
Basic loss per share	\$(0.18)	\$(0.83)	\$(2.22)	\$(23.86)	\$(10.17)
Diluted loss per share	\$(0.18)	\$(0.83)	\$(2.22)	\$(23.86)	\$(10.17)

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Dollars in thousands	As of December 31,				
	2018	2017	2016	2015	2014
Consolidated Balance Sheet Data:					
Cash and cash equivalents	\$67,495	\$68,535	\$101,734	\$200,300	\$272,673
Assets held for sale	—	—	—	172,888	43,781
Vessels, net	1,507,918	1,534,782	1,234,081	764,454	66,633
Vessels under construction	—	6,710	180,000	288,282	866,844
Equity method investment	92,281	—	—	—	—
Total assets	1,703,826	1,643,410	1,547,157	1,473,093	1,321,024
Current liabilities (including current portion of bank loans, financing obligations and Senior Notes, net)	152,614	58,590	24,550	124,577	20,265
Bank loans, net	621,179	576,967	493,793	342,314	29,549
Financing obligations	69,229	17,747	—	—	—
Senior Notes, net	—	72,726	72,199	71,671	71,222
Total liabilities	843,022	726,030	590,542	538,562	121,036
Shareholders' equity	860,804	917,380	956,615	934,561	1,199,988

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

The following risks relate principally to the industry in which we operate and our business in general. Other risks relate principally to the securities market and ownership of our securities, including our common shares and our 7.50% Senior Notes due 2019, which we refer to as our Senior Notes. The occurrence of any of the events described in this section could significantly and negatively affect our business, financial condition, operating results or cash available for the payment of dividends on our common shares and interest on our Senior Notes, or the trading price of our securities.

INDUSTRY SPECIFIC RISK FACTORS

Charter hire rates for drybulk vessels are volatile, which has in the past and may in the future adversely affect our earnings, revenue and profitability and our ability to comply with our loan covenants.

The drybulk shipping industry is cyclical with high volatility in charter hire rates and profitability. The degree of charter hire rate volatility among different types of drybulk vessels has varied widely, and in recent years charter hire rates for drybulk vessels have declined significantly from historically high levels. In the past, time charter and spot market charter rates for drybulk carriers have declined below operating costs of vessels. The Baltic Dry Index, or the BDI, a daily average of charter rates for key drybulk routes published by the Baltic Exchange Limited, which has long been viewed as the main benchmark to monitor the movements of the drybulk vessel charter market and the performance of the entire drybulk shipping market, declined from a high of 11,793 on May 20, 2008 to a low of 290 on February 10, 2016, which represents a decline of 98%. In 2018, the BDI ranged from a low of 948 on April 6, 2018, to a high of 1,774 on July 24, 2018. As of February 28, 2019, the BDI was 658.

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Fluctuations in charter rates result from changes in the supply of and demand for vessel capacity and changes in the supply of and demand for the major commodities carried by water internationally. Because the factors affecting the supply of 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. Since we primarily charter our vessels in the spot market we are exposed to the cyclical and volatility of the spot market. Spot market charter hire rates may fluctuate significantly based upon available charters and the supply of and demand for seaborne shipping capacity, and we may be unable to keep our vessels fully employed in these short-term markets. Alternatively, charter rates available in the spot market may be insufficient to enable our vessels to operate profitably. A significant decrease in charter rates would affect asset values and adversely affect our profitability, cash flows and ability to pay dividends on our common shares, and interest on our Senior Notes. Furthermore, a continued decrease in charter rates may cause asset values to decline, and we may have to record an impairment charge in our consolidated financial statements which could adversely affect our financial results.

Factors that influence demand for drybulk vessel capacity include:

- supply of and demand for energy resources, commodities and industrial products;
- changes in the exploration or production of energy resources, commodities, consumer and industrial products;
- the location of regional and global production and manufacturing facilities;
- the location of consuming regions for energy resources, commodities, consumer and industrial products;
- the globalization of production and manufacturing;
- global and regional economic and political conditions, including armed conflicts and terrorist activities, embargoes and strikes;
- natural disasters;
- disruptions and 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 drybulk vessel capacity include:

- the number of newbuilding orders and deliveries, including slippage in deliveries;
- the number of shipyards and ability of shipyards to deliver vessels;
- port and canal congestion;
- the scrapping rate of older vessels;
- speed of vessel operation;
- vessel casualties; and
- the number of vessels that are out of service, namely those that are laid-up, drydocked, awaiting repairs or otherwise not available for hire.

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

We anticipate that the future demand for our drybulk vessels will be dependent upon economic growth in the world's economies, including China and India, seasonal and regional changes in demand, changes in the capacity of the global drybulk fleet and the sources and supply of drybulk cargo to be transported by sea. Adverse economic, political, social or other developments could have a material adverse effect on our business and operating results.

Global economic conditions may continue to negatively impact the drybulk shipping industry.

Global financial markets and economic conditions have been, and continue to be, volatile. Relatively weak global economic conditions during periods of volatility have and may continue to have a number of adverse consequences for

drybulk and other shipping sectors, including, among other things:

- low charter rates, particularly for vessels employed on short-term time charters or in the spot market;
- decreases in the market value of drybulk vessels and limited second-hand market for the sale of vessels;

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limited financing for vessels;

widespread loan covenant defaults; and

declaration of bankruptcy by certain vessel operators, vessel owners, shipyards and charterers.

The occurrence of one or more of these events could have a material adverse effect on our business, results of operations, cash flows and financial condition.

If economic conditions throughout the world decline, particularly in China and the rest of the Asia-Pacific region, this could negatively affect our results of operations, financial condition, cash flows and ability to obtain financing, and may adversely affect the market price of our common shares.

Negative trends in the global economy that emerged in 2008 continue to adversely affect global economic conditions. The credit markets in the United States and Europe have experienced contraction, deleveraging and reduced liquidity since the financial crisis in 2008, and the U.S. federal and state governments and European authorities have implemented or are considering a broad variety of governmental action and/or new regulation of the financial markets and may implement additional regulations in the future. Securities and futures markets and the credit markets are subject to comprehensive statutes, regulations and other requirements. The Securities and Exchange Commission, or the SEC, other regulators, self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies, and may effect changes in law or interpretations of existing laws.

As a result of any renewed concerns about the stability of financial markets generally and the solvency of counterparties specifically, the cost of obtaining money from the credit markets may increase as 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 to the extent required, or that we will be able to refinance our credit facilities, on acceptable terms or at all. If financing or refinancing 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 the acquisition of our newbuildings and additional vessel acquisitions or otherwise take advantage of business opportunities as they arise.

We face risks attendant to changes in economic environments, changes in interest rates, and instability in the banking and securities markets around the world, among other factors. Major market disruptions may adversely affect our business or impair our ability to borrow amounts under credit facilities or any future financial arrangements.

Economic slowdown in the Asia Pacific region, particularly in China, may have a materially adverse effect on us, as we anticipate a significant number of the port calls made by our vessels will continue to involve the loading or discharging of drybulk commodities in ports in the Asia Pacific region. Before the global economic financial crisis that began in 2008, China had one of the world's fastest growing economies in terms of GDP, which had a significant impact on shipping demand. The growth rate of China's GDP is estimated to be approximately 6.5% for the year ended December 31, 2018, which is 0.3% lower than the growth rate for the year ended December 31, 2017. This forecasted growth would be China's slowest growth rate for the previous five years, and continues to remain below pre-2008 levels. Our business, financial condition and results of operations, ability to pay dividends, as well as our future prospects, will likely be materially and adversely affected by an economic downturn in China or other countries in the Asia Pacific region.

The fair market values of our vessels have declined and may decline further, which could cause us to breach certain financial covenants in our credit facilities, or result in an impairment charge, and we may incur a loss if we sell vessels following a decline in their market value.

The fair market values of drybulk vessels, including our vessels, have generally experienced high volatility and have declined in recent years. The fair market value of our vessels may continue to fluctuate depending on a number of factors, including:

prevailing level of charter rates;

general economic and market conditions affecting the shipping industry;

types, sizes and ages of vessels;

supply of and demand for vessels;

other modes of transportation;

- cost of newbuildings;
- governmental or other regulations;
- the need to upgrade vessels as a result of charterer requirements, technological advances in vessel design or equipment or otherwise;
- technological advances; and

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competition from other shipping companies and other modes of transportation.

If the fair market values of our vessels decline further, we may not be in compliance with certain covenants contained in our secured credit facilities, which may result in an event of default. In such circumstances, we may not be able to refinance our debt or obtain additional financing. If we are not able to comply with the covenants in our secured credit facilities, and are unable to remedy the relevant breach, our lenders could accelerate our debt and foreclose on our fleet. In addition, if we sell one or more of our vessels at a time when vessel prices have fallen, the sale may be less than the vessel's carrying value on our consolidated financial statements, resulting in a loss and a reduction in earnings. Conversely, if vessel values are elevated at a time when we wish to acquire additional vessels, the cost of such acquisitions may increase and this could adversely affect our business, results of operations, cash flow and financial condition.

A reduction in charter rates and other market deterioration may require us to record impairment charges related to our long-lived assets (our vessels) and such charges may be large and have a material impact on our consolidated financial statements.

At December 31, 2018, we had vessels of \$1.5 billion in total on our consolidated balance sheet, representing 175% of our shareholders' equity.

Our vessels are assessed if an event occurs or circumstances change that would more likely than not reduce the fair value of our vessels and vessels under construction below their carrying value. As of December 31, 2018, we have determined that the estimated undiscounted future cash flows (as determined under U.S. GAAP) of our vessels exceeded the carrying value. However, if our charter rates decline, we may be required to record impairment charges on our vessels and vessels under construction, which would require us to write down the carrying value of these assets to their fair value. Since vessels and vessels under construction comprise a substantial portion of our balance sheet, such charges could have a material impact on our consolidated financial statements.

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

Our operations are subject to numerous international, national, state and local laws, regulations, treaties and conventions in force in international waters and the jurisdictions in which our vessels operate or are registered, which can significantly affect the ownership and operation of our vessels. These laws and regulations include, but are not limited to, the U.S. Oil Pollution Act of 1990, or OPA, the Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, the U.S. Clean Air Act, the U.S. Clean Water Act, or the CWA, and the U.S. Maritime Transportation Security Act of 2002, or the MTSA, and regulations of the International Maritime Organization, or IMO, including the International Convention for the Prevention of Pollution from Ships of 1973 (as from time to time amended and generally referred to as MARPOL) including the designation of Emission Control Areas, or ECAs, thereunder, the International Convention for the Safety of Life at Sea of 1974 (as from time to time amended and generally referred to as SOLAS), the International Convention on Civil Liability for Bunker Oil Pollution Damage, and the International Convention on Load Lines of 1966 (as from time to time amended), or the LL Convention. Compliance with such laws, regulations and standards, where applicable, may require installation of costly equipment or implementation of operational changes and may affect the resale value or useful lives of our vessels. These costs could have a material adverse effect on our business, results of operations, cash flows and financial condition. A failure to comply with applicable laws and regulations may result in administrative and civil penalties, criminal sanctions or the suspension or termination of our operations. Because such conventions, laws, and regulations are often revised, we cannot predict the ultimate cost of complying with them or the impact thereof on the resale prices or useful lives of our vessels. Additional conventions, laws and regulations may be adopted which could limit our ability to do business or increase the cost of our doing business and which may materially adversely affect our operations. For example, the International Convention for the Control and Management of Ships' Ballast Water and Sediments, or the BWM Convention, which was adopted by the UN International Maritime Organization in February 2004 and entered into force on September 8, 2017, calls for the phased introduction of mandatory reducing living organism limits in ballast water over time (as discussed further below). In order to comply with these living organism limits, vessel owners must install expensive ballast water treatment systems or make port facility disposal arrangements and modify existing vessels to accommodate those systems.

Environmental laws often impose strict liability for remediation of spills and releases of oil and hazardous substances, which could subject us to liability without regard to whether we were negligent or at fault. Under OPA, for example, owners, operators and bareboat charterers are jointly and severally strictly liable for the discharge of oil within the 200-mile exclusive economic zone around the United States.

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We are required by various governmental and quasi-governmental agencies to obtain certain permits, licenses, and certificates with respect to our operations, and satisfy insurance and financial responsibility requirements for potential oil (including marine fuel) spills and other pollution incidents. Although we have insurance to cover certain environmental risks, there can be no assurance that such insurance will be sufficient to cover all such risks or that any claims will not have a material adverse effect on our business, results of operations, cash flows, financial condition, and our future ability to pay dividends on our common shares, and interest on our Senior Notes.

Regulations relating to ballast water discharge coming into effect during September 2019 may adversely affect our revenues and profitability.

The IMO has imposed updated guidelines for ballast water management systems specifying the maximum amount of viable organisms allowed to be discharged from a vessel's ballast water. Depending on the date of the IOPP renewal survey, existing vessels constructed before September 8, 2017 must comply with the updated D-2 standard on or after September 8, 2019. For most vessels, compliance with the D-2 standard will involve installing on-board systems to treat ballast water and eliminate unwanted organisms. Our vessels have been fitted with alternate management systems ("AMS") (IMO-approved ballast water treatment systems) that comply with the updated guideline and standards, and all but two of these have also been approved by the U.S. Coast Guard. While we believe that our vessels have been fitted with systems that comply with the updated guideline and standards, we cannot be assured that these systems will be approved by the regulatory bodies of every jurisdiction in which we may wish to conduct our business. If they are not approved it could have an adverse material impact on our business, financial condition, and results of operations depending on the available ballast water treatment systems and the extent to which existing vessels must be modified to accommodate such systems.

Furthermore, United States regulations are currently changing. Although the 2013 Vessel General Permit ("VGP") program and U.S. National Invasive Species Act ("NISA") are currently in effect to regulate ballast discharge, exchange and installation, the Vessel Incidental Discharge Act ("VIDA"), which was signed into law on December 4, 2018, requires that the U.S. Coast Guard develop implementation, compliance, and enforcement regulations regarding ballast water within two years. The new regulations could require the installation of new equipment, which may cause us to incur substantial costs.

Sulfur regulations to reduce air pollution from ships are likely to require retrofitting of vessels and may cause us to incur significant costs.

In October 2016, the International Maritime Organization, the United Nations agency for maritime safety and the prevention of pollution by vessels, set January 1, 2020 as the implementation date for vessels to comply with its low sulfur fuel oil requirement, which cuts sulfur levels from 3.5% to 0.5%. The interpretation of "fuel oil used on board" includes use in main engines, auxiliary engines and boilers. Shipowners may comply with this regulation by (i) using 0.5% sulfur fuels on board, which is likely to be available around the world by 2020 but likely at a higher cost; (ii) installing scrubbers for cleaning of the exhaust gas; or (iii) by retrofitting vessels to be powered by liquefied natural gas, which may not be a viable option for shipowners due to the lack of supply network and high costs involved in this process. Costs of compliance with these regulatory changes may be significant and may have a material adverse effect on our future performance, results of operations, cash flows and financial position.

On November 30, 2018, we entered into agreements with third parties to purchase Exhaust Gas Cleaning Systems, known as "Scrubbers," for 18 of our vessels in 2019 and 10 of our vessels in 2020 for an estimated total cost of \$41.9 million, or approximately \$1.5 million per vessel. The systems that are being fitted are of 'hybrid ready' design, which allows them to be upgraded to a 'closed loop' configuration at a future date. As part of these agreements, we also have an option to purchase exhaust gas cleaning systems for up to 18 additional vessels in 2020.

An over-supply of drybulk carrier capacity may prolong or further depress the current low charter rates, which may limit our ability to operate our drybulk carriers profitably.

The supply of drybulk vessels has increased significantly since the beginning of 2006. According to SSY, as of December 2018, newbuilding orders have been placed for approximately 11.2% of the existing fleet capacity. Vessel supply growth has been outpacing vessel demand growth over the past few years causing downward pressure on charter rates. Until the new supply is fully absorbed by the market, charter rates may continue to be under pressure due to vessel supply in the near to medium term.

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

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

Negative trends in the global economy that emerged in 2008 continue to adversely affect global economic conditions. In addition, the world economy is currently facing a number of new challenges. Geopolitical events such as the withdrawal of the U.K. from the European Union, or "Brexit," and changes in U.S. trade policies, treaties and tariffs. Brexit, or similar events in other jurisdictions, could impact global markets, including foreign exchange and securities markets; any resulting changes in currency exchange rates, tariffs, treaties and other regulatory matters could in turn adversely impact our business and operations.

Further, governments may turn to trade barriers to protect their domestic industries against foreign imports, thereby depressing shipping demand. In particular, leaders in the United States have indicated the United States may seek to implement more protective trade measures. President Trump was elected on a platform promoting trade protectionism. The results of the presidential election have thus created significant uncertainty about the future relationship between the United States, China and other exporting countries, including with respect to trade policies, treaties, government regulations and tariffs. For example, on January 23, 2017, President Trump signed an executive order withdrawing the United States from the Trans-Pacific Partnership, a global trade agreement intended to include the United States, Canada, Mexico, Peru and a number of Asian countries. In March 2018, President Trump announced tariffs on imported steel and aluminum into the United States that could have a negative impact on international trade generally. Most recently, in January 2019, the United States announced expanded sanctions against Venezuela, which may have an effect on its oil output and in turn affect global oil supply. Protectionist developments, or the perception they may occur, may have a material adverse effect on global economic conditions, and may significantly reduce global trade. Moreover, increasing trade protectionism may cause an increase in (a) the cost of goods exported from regions globally, (b) the length of time required to transport goods and (c) the risks associated with exporting goods. Such increases may significantly affect the quantity of goods to be shipped, shipping time schedules, voyage costs and other associated costs, which could have an adverse impact on our charterers' business, operating results and financial condition and could thereby affect their ability to make timely charter hire payments to us and to renew and increase the number of their time charters with us. This could have a material adverse effect on our business, results of operations, financial condition and our ability to pay any cash distributions to our shareholders.

Acts of piracy on ocean-going vessels have had and may continue to have an adverse effect on 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. Sea piracy incidents continue to occur with drybulk vessels particularly vulnerable to such attacks. If these piracy attacks result in regions in which our vessels are deployed being characterized as "war risk" zones by insurers or Joint War Committee "war and strikes" listed areas, premiums payable for such coverage could increase significantly and such insurance coverage may be more difficult to obtain. In addition, crew costs, including due to employing onboard security guards, could increase in such circumstances. Furthermore, while we believe the charterer remains liable for charter payments when a vessel is seized by pirates, the charterer may dispute this and withhold charter hire until the vessel is released. A charterer may also claim that a vessel seized by pirates was not "on-hire" for a certain number of days and is therefore entitled to cancel the charter party, a claim that we would dispute. We may not be adequately insured to cover losses from these incidents, which could have a material adverse effect on us. In addition, any detention hijacking as a result of an act of

piracy against our vessels, or an increase in cost, or unavailability, of insurance for our vessels, could have a material adverse impact on our business, financial condition and results of operations.

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 common shares.

Although we do not expect that our vessels will call on ports located in countries subject to sanctions and embargoes imposed by the U.S. government and other authorities or countries identified by the U.S. government or other authorities as state sponsors of terrorism, such as Iran, Sudan, Syria and North Korea, from time to time on charterers' instructions, our vessels may call on ports located in such countries in the future. The U.S. sanctions and embargo laws and regulations vary in their application,

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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.

Although we believe that we are 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 or other penalties and 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 securities may adversely affect the price at which our securities trade. 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 securities may be adversely affected by the consequences of war, the effects of terrorism, civil unrest and governmental actions in these and surrounding countries.

Our operating results are subject to seasonal fluctuations, which could affect our operating results.

We operate our vessels in markets that have historically exhibited seasonal variations in demand and, as a result, in charter hire rates. This seasonality may result in volatility in our operating results to the extent that we enter into new charter agreements or renew existing agreements during a time when charter rates are weaker or we operate our vessels on the spot market or index based time charters, which may result in quarter-to-quarter volatility in our operating results. The drybulk sector is typically stronger in the fall and winter months in anticipation of increased consumption of coal and other raw materials in the northern hemisphere. The celebration of Chinese New Year in the first quarter of each year, also results in lower volumes of seaborne trade into China during this period. In addition, unpredictable weather patterns in these months tend to disrupt vessel scheduling and supplies of certain commodities. As a result, our revenues from our drybulk carriers may be weaker during the fiscal quarters ended June 30 and September 30, and, conversely, our revenues from our drybulk carriers may be stronger in fiscal quarters ended December 31 and March 31.

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

The operation of our vessels is affected by the requirements set forth in the International Management Code for the Safe Operation of Ships and for Pollution Prevention, or the ISM Code. The ISM Code requires ship owners, ship managers and bareboat charterers to develop and maintain an extensive "Safety Management System" that includes the adoption of a safety and environmental protection policy setting forth instructions and procedures for safe operation of vessels and describing procedures for dealing with emergencies. In addition, vessel classification societies impose significant safety and other requirements on our vessels.

The failure of a shipowner or bareboat charterer to comply with the ISM Code may subject it to increased liability, may invalidate existing insurance or decrease available insurance coverage for the affected vessels and may result in a denial of access to, or detention in, certain ports. Each of our vessels is ISM Code-certified. However, if we are subject to increased liability for non-compliance or if our insurance coverage is adversely impacted as a result of non-compliance, it may negatively affect our ability to pay dividends on our common shares and interest on our Senior Notes. If any of our vessels are denied access to, or are detained in, certain ports as a result of non-compliance with the ISM Code, our revenues may be adversely impacted.

In addition, the hull and machinery of every commercial vessel must be classed 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. The cost of maintaining our vessels' classifications may be substantial. 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 and uninsurable, which could negatively impact our results of operations and financial condition. Increased inspection procedures and tighter import and export controls could increase costs and disrupt our business.

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

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

Since we primarily employ our vessels in the spot market or in spot market-oriented pools, we expect that fuel, or bunkers, will be typically the largest expense in our shipping operations for our vessels. While we believe that we will experience a competitive advantage as a result of increased bunker prices due to the greater fuel efficiency of our vessels compared to the average global fleet, changes in the price of fuel may adversely affect our profitability. The price and supply of fuel is unpredictable and fluctuates based on events outside our control, including geopolitical developments, supply and demand for oil and gas, actions by the Organization of the Petroleum Exporting Countries, or 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 our profitability and the competitiveness of our business compared to other forms of transportation.

We operate drybulk vessels worldwide and as a result, our business has inherent operational risks, which may reduce our revenue or increase our expenses, and we may not be adequately covered by insurance.

The international shipping industry is an inherently risky business involving global operations. Our vessels and their cargoes are at risk of being damaged or lost because of events such as marine disasters, bad weather, mechanical failures, human error, environmental accidents, war, terrorism, piracy and other circumstances or events. In addition, transporting cargoes across a wide variety of international jurisdictions creates a risk of business interruptions due to political circumstances in foreign countries, hostilities, labor strikes and boycotts, the potential for changes in tax rates or policies, and the potential for government expropriation of our vessels. Any of these events 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.

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

In the event of a casualty to a vessel or other catastrophic event, we will rely on our insurance to pay the insured value of the vessel or the damages incurred. We procure insurance for the vessels in our fleet against those risks that we believe the shipping industry commonly insures against. These insurances include marine hull and machinery insurance, protection and indemnity insurance, which include pollution risks and crew insurances, and war risk insurance. 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.

We have procured hull and machinery insurance, protection and indemnity insurance, which includes environmental damage and pollution insurance coverage, and war risk insurance for our fleet. We do not maintain for our vessels

insurance against loss of hire, which covers business interruptions that result from the loss of use of a vessel. We cannot assure you that we will be adequately insured against any or all risks, or that we will be able to obtain adequate insurance coverage for our fleet in the future. For example, in the past more stringent environmental regulations have led to increased costs for, and in the future may result in the lack of availability of, insurance against risks of environmental damage or pollution. Additionally, our insurers may not pay particular claims, or may default on claims they are required to pay. Our insurance policies may contain deductibles for which we will be responsible and limitations and exclusions which may increase our costs or lower our revenue. Moreover, insurers may

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default on claims they are required to pay. Any significant loss or liability for which we are not insured could have a material adverse effect on our financial condition.

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

Crew members, suppliers of goods and services to a vessel, shippers of cargo, lenders, 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 interrupt our cash flows and require us to pay large sums of money to have the arrest or attachment lifted. In addition, in some jurisdictions, such as South Africa, under the “sister ship” theory of liability, a claimant may arrest both the vessel that is subject to the claimant’s maritime lien and any “associated” vessel, which is any vessel owned or controlled by the same owner. Claimants could attempt to assert “sister ship” liability against one vessel in our fleet for claims relating to another of our vessels.

Governments could requisition our vessels during a period of war or emergency, which could negatively impact our business, financial condition, results of operations, and available cash.

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

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

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

COMPANY SPECIFIC RISK FACTORS

We cannot assure you that our available liquidity will be sufficient to meet our ongoing capital and operating needs. We are exposed to the cyclicity and volatility of spot market charter hire rates, which have fluctuated, and may continue to fluctuate, significantly based upon available charters and the supply of and demand for seaborne shipping capacity. If charter rates available in the spot market are insufficient to enable our vessels to operate profitably it could adversely affect our available liquidity, profitability, cash flows, and financial results. Furthermore, a prolonged period of depressed charter rates or a significant decrease in charter rates may negatively impact our liquidity position and may cause our vessel values to decline, which could, among other things, affect our ability to comply with the financial covenants in our loan agreements. Please see “The fair market values of our vessels have declined and may decline further, which could limit the amount of funds that we can borrow, cause us to breach certain financial covenants in our credit facilities, or result in an impairment charge, and we may incur a loss if we sell vessels following a decline in their market value” and “We are leveraged, which could significantly limit our ability to execute our business strategy, and we may be unable to comply with our covenants in our credit facilities that impose operating and financial restrictions on us, which could result in a default under the terms of these agreements.”

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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 negatively impact our results of operations and cash flows. We have entered, and may enter, into various contracts, including pooling arrangements, time charters, spot voyage charters, bareboat charters, shipbuilding contracts, credit facilities and other agreements. Such agreements subject us to counterparty risks. The ability and willingness of each of our counterparties to perform its obligations under a contract with us will depend on a number of factors that are beyond our control and may include, among other things, general economic conditions, the condition of the maritime and offshore industries, the overall financial condition of the counterparty, and various expenses. Should a counterparty fail to honor its obligations under agreements with us, we could sustain significant losses which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

In addition, in depressed market conditions, our charterers may no longer need a vessel that is then under charter or may be able to obtain a comparable vessel at lower rates. As a result, charterers may seek to renegotiate the terms of their existing charter agreements or avoid their obligations under those contracts. If our charterers fail to meet their obligations to us or attempt to renegotiate our charter agreements, it may be difficult to secure substitute employment for such vessel, and any new charter arrangements we secure in the spot market or on time charters may be at lower rates given currently depressed drybulk carrier charter rate levels. As a result, 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 dividends on our common shares and interest on our Senior Notes, and comply with covenants in our credit facilities.

We are, and expect to continue to be, dependent on spot market-oriented pools and spot charters and currently low spot charter rates, or any further decrease in spot charter rates in the future will result in significant operating losses. All of our vessels are employed in the Scorpio Kamsarmax Pool or the Scorpio Ultramax Pool, which we refer to together as the Scorpio Pools. During the year ended December 31, 2018, we earned approximately 36% and 64% of our revenue from the Scorpio Kamsarmax Pool and the Scorpio Ultramax Pool, respectively. The Scorpio Pools in which our vessels operate are spot market-oriented commercial pools managed by our commercial manager, which are exposed to fluctuations in spot market charter rates. The spot charter market may fluctuate significantly based upon drybulk carrier supply and demand. The successful operation of our vessels in the competitive spot charter market, including within the Scorpio Pools, depends on, among other things, obtaining profitable spot charters and minimizing, to the extent possible, time spent waiting for charters and time spent traveling unladen to pick up cargo. The spot market is very volatile, and, there have been periods when spot charter rates have declined below the operating cost of vessels. If future spot charter rates decline we may be unable to operate our vessels trading in the spot market profitably, meet our obligations, including payments on indebtedness, or pay dividends in the future. Furthermore, as charter rates for spot charters are fixed for a single voyage which may last up to several weeks, during periods in which spot charter rates are rising, we will generally experience delays in realizing the benefits from such increases.

Our ability to renew expiring charters or obtain new charters will depend on the prevailing market conditions at the time. If we are not able to obtain new charters in direct continuation with previous charters or for our newbuilding vessels upon their delivery to us, or if new charters are entered into at charter rates substantially below the existing charter rates or on terms otherwise less favorable compared to previous charter terms, our revenues and profitability could be adversely affected.

We cannot assure you that our Board of Directors will continue to declare dividends.

Our board of directors, or our Board of Directors, declared and we paid quarterly cash dividends of \$0.02 per share in 2018. However, we cannot assure you that we will continue to declare dividends in the future. The declaration and payment of dividends, if any, will always be subject to the discretion of our Board of Directors, restrictions contained in our credit facilities and the requirements of Marshall Islands law. The timing and amount of any dividends declared will depend on, among other things, our earnings, financial condition and cash requirements and availability, our ability to obtain debt and equity financing on acceptable terms as contemplated by our growth strategy, the terms of our outstanding indebtedness and the ability of our subsidiaries to distribute funds to us. The international drybulk shipping industry is highly volatile, and we cannot predict with certainty the amount of cash, if any, that will be

available for distribution as dividends in any period. Also, there may be a high degree of variability from period to period in the amount of cash that is available for the payment of dividends.

We may incur expenses or liabilities or be subject to other circumstances in the future that reduce or eliminate the amount of cash that we have available for distribution as dividends, including as a result of the risks described herein. Our growth strategy contemplates that we will finance our acquisitions of additional vessels through debt financings or the net proceeds of future equity issuances on terms acceptable to us. If financing is not available to us on acceptable terms, our Board of Directors may determine to finance or refinance acquisitions with cash from operations, which would reduce the amount of any cash available for the payment of dividends.

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In general, under the terms of our credit facilities, we are not permitted to pay dividends if there is a default or a breach of a loan covenant. Please see “Item 5. Operating and Financial Review and Prospects-B. Liquidity and Capital Resources” for more information relating to restrictions on our ability to pay dividends under the terms of our credit facilities.

The Republic of Marshall Islands laws generally prohibit the payment of dividends other than from surplus (retained earnings and the excess of consideration received for the sale of shares above the par value of the shares) or while a company is insolvent or would be rendered insolvent by the payment of such a dividend. We may not have sufficient surplus in the future to pay dividends and our subsidiaries may not have sufficient funds or surplus to make distributions to us. We can give no assurance that we will continue to declare dividends on our common shares in the future. Please see “Item 8. Financial Information-A. Consolidated Statements and other Financial Information-Dividend Policy.”

We may have difficulty managing growth properly.

As of the date of this annual report, our operating fleet of 57 vessels consists of 56 wholly-owned or finance leased drybulk vessels (including 19 Kamsarmax vessels and 37 Ultramax vessels), and one time chartered-in Ultramax vessel. One of our principal strategies is to continue to grow by expanding our operations, and we may, in the future, increase the size of our fleet through timely and selective acquisitions. Our future growth will primarily depend upon a number of factors, some of which may not be within our control. These factors include our ability to:

- identify suitable drybulk carriers, including newbuilding slots at shipyards and/or shipping companies for acquisitions at attractive prices;
- obtain required financing for our existing and new operations;
- identify businesses engaged in managing, operating or owning drybulk carriers for acquisitions or joint ventures;
- integrate any acquired drybulk carriers or businesses successfully with our existing operations, including obtaining any approvals and qualifications necessary to operate vessels that we acquire;
- hire, train and retain qualified personnel and crew to manage and operate our growing business and fleet;
- identify additional new markets;
- enhance our customer base; and
- improve our operating, financial and accounting systems and controls.

Our failure to effectively identify, acquire, develop and integrate any drybulk carriers or businesses, or our inability to effectively manage the size of our fleet, could adversely affect our business, financial condition and results of operations.

Furthermore, the number of employees that perform services for us and our current operating and financial systems may not be adequate as we expand the size of our fleet in the drybulk sector, and we may not be able to effectively hire more employees or adequately improve those systems. In addition, if we further expand our fleet, we will need to recruit suitable additional seafarers and shore side administrative and management personnel. We cannot guarantee that we will be able to hire suitable employees as we expand our fleet. If we or our crewing agent encounters business or financial difficulties, we may not be able to adequately staff our vessels. If we are unable to grow our financial and operating systems or to recruit suitable employees as we expand our fleet, our financial performance may be adversely affected and, among other things, the amount of cash available for distribution as dividends to our shareholders may be reduced. Finally, acquisitions may require additional equity issuances, which may dilute our common shareholders if issued at lower prices than the price at which they acquired their shares, or debt issuances (with amortization payments), both of which could lower our available cash. If any such events occur, our financial condition may be adversely affected.

Additionally, in the event we undertake newbuilding projects, construction projects are subject to risks of delay or cost overruns inherent in any large construction project from numerous factors. Significant cost overruns or delays could adversely affect our financial position, results of operations and cash flows. Additionally, failure to complete a project on time may result in the delay of revenue from that vessel.

In addition, in the event the shipyard does not perform under its contract and we are unable to enforce the refund guarantee with a third-party bank for any reason, we may lose all or part of our investment, which would have an adverse effect on our results of operations, financial condition and cash flows.

Growing any business by acquisition presents numerous risks such as undisclosed liabilities and obligations, difficulty in obtaining additional qualified personnel and managing relationships with customers and suppliers and integrating newly acquired operations into existing infrastructures. The expansion of our fleet may impose significant additional responsibilities on our management and staff, and the management and staff of our commercial and technical managers, and may necessitate that we, and they, increase the number of personnel. We cannot give any assurance that we will be successful in executing our growth plans or that we will not incur significant expenses and losses in connection with our future growth.

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Operating secondhand vessels exposes us to increased operating costs which may adversely affect our earnings and, as our fleet ages, the risks associated with older vessels could adversely affect our ability to obtain profitable charters. We have and may continue to acquire and operate secondhand vessels. While we typically inspect secondhand vessels prior to acquisition, this does not provide us with the same knowledge about their condition that we would have had if these vessels had been built for and operated exclusively by us. Generally, purchasers of secondhand vessels do not receive the benefit of warranties from the builders for the secondhand vessels that they acquire. A secondhand vessel may have conditions or defects that we were not aware of when we bought the vessel and which may require us to incur costly repairs to the vessel. These repairs may require us to put a vessel into drydock, which would reduce our operating days.

Governmental 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 the vessels may engage. As our vessels age, market conditions may not justify those expenditures or enable us to operate our vessels profitably during the remainder of their useful lives.

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. As our vessels age typically they will become less fuel-efficient and more costly to maintain than more recently constructed vessels due to improvements in engine technology. Cargo insurance rates increase with the age of a vessel, making older vessels less desirable to charterers. Governmental regulations and safety or other equipment standards related to the age of vessels may also require expenditures for alterations or the addition of new equipment to our vessels and may restrict the type of activities in which our vessels may engage. We cannot assure you that, as our vessels age, market conditions will justify those expenditures or enable us to operate our vessels profitably during the remainder of their useful lives.

Technological innovation could reduce our charter hire income and the value of our vessels.

The charter hire rates and the value and operational life of a vessel are determined by a number of factors including the vessel's efficiency, operational flexibility and physical life. Efficiency includes speed, fuel economy and the ability to load and discharge cargo quickly. Flexibility includes the ability to enter harbors, utilize related docking facilities and pass through canals and straits. The length of a vessel's physical life is related to its original design and construction, its maintenance and the impact of the stress of operations. If new drybulk carriers are built that are more efficient or more flexible or have longer physical lives than our vessels, competition from these more technologically advanced vessels could adversely affect the amount of charter hire payments we receive for our vessels once their initial charters expire and the resale value of our vessels could significantly decrease. As a result, our business, results of operations, cash flows and financial condition could be adversely affected.

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

Our vessels are employed in a highly competitive market that is capital intensive and highly fragmented. Competition arises primarily from other vessel owners, some of whom have substantially greater resources than we do.

Competition for the transportation of drybulk cargo by sea is intense and depends on price, location, size, age, condition and the acceptability of the vessel and its operators to the charterers. Due in part to the highly fragmented market, competitors with greater resources could enter the drybulk shipping industry and operate larger fleets through consolidations or acquisitions and may be able to offer lower charter rates and higher quality vessels than we are able to offer. If we are unable to successfully compete with other drybulk shipping companies, our results of operations would be adversely impacted.

We may be subject to litigation that, if not resolved in our favor and not sufficiently insured against, could have a material adverse effect on us.

We may be, from time to time, involved in various litigation matters. These matters may include, among other things, contract disputes, personal injury claims, environmental claims or proceedings, asbestos and other toxic tort claims, employment matters, governmental claims for taxes or duties, and other litigation that arises in the ordinary course of our business. Although we intend to defend these matters vigorously, we cannot predict with certainty the outcome or

effect of any claim or other litigation matter, and the ultimate outcome of any litigation or the potential costs to resolve them may have a material adverse effect on us. Insurance may not be applicable or sufficient in all cases and/or insurers may not remain solvent which may have a material adverse effect on our financial condition.

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

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

Our costs of operating as a public company are significant, and our management is required to devote substantial time to complying with public company regulations. We cannot assure you that our internal controls and procedures over financial reporting will be sufficient.

We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and the other rules and regulations of the SEC, including the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, and as such, we will have significant legal, accounting and other expenses. These reporting obligations impose various requirements on public companies, including changes in corporate governance practices, and these requirements may continue to evolve. We and our management personnel, and other personnel, if any, need to devote a substantial amount of time to comply with these requirements. Moreover, these rules and regulations increase our legal and financial compliance costs and make some activities more time-consuming and costly.

The Sarbanes-Oxley Act requires, among other things, that we maintain and periodically evaluate our internal control over financial reporting and disclosure controls and procedures. In particular, we need to perform system and process evaluation and testing of our internal control over financial reporting to allow management and our independent registered public accounting firm to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. If we have a material weakness in our internal controls over financial reporting, we may not detect errors on a timely basis and our financial statements may be materially misstated. We dedicate a significant amount of time and resources and incur substantial accounting expenses to ensure compliance with these regulatory requirements. We will continue to evaluate areas such as corporate governance, corporate control, internal audit, disclosure controls and procedures and financial reporting and accounting systems. We will make changes in any of these and other areas, including our internal control over financial reporting, which we believe are necessary. However, these and other measures we may take may not be sufficient to allow us to satisfy our obligations as a public company on a timely and reliable basis.

Because we are organized under the laws of the Marshall Islands, it may be difficult to serve us with legal process or enforce judgments against us, our directors or our management.

We are organized under the laws of the Marshall Islands, and substantially all of our assets are located outside of the United States. In addition, the majority of our directors and officers are non-residents of the United States, and all or a substantial portion of the assets of these non-residents are located outside the United States. As a result, it may be difficult or impossible for someone to bring an action against us or against these individuals in the United States if they believe that their rights have been infringed under securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Marshall Islands and of other jurisdictions may prevent or restrict them from enforcing a judgment against our assets or the assets of our directors or officers.

The international nature of our operations may make the outcome of any bankruptcy proceedings difficult to predict. We are incorporated under the laws of the Republic of the Marshall Islands and we conduct operations in countries around the world. Consequently, in the event of any bankruptcy, insolvency, liquidation, dissolution, reorganization or similar proceeding involving us or any of our subsidiaries, bankruptcy laws other than those of the United States could apply. If we become a debtor under U.S. bankruptcy law, bankruptcy courts in the United States may seek to assert jurisdiction over all of our assets, wherever located, including property situated in other countries. There can be no assurance, however, that we would become a debtor in the United States, or that a U.S. bankruptcy court would be entitled to, or accept, jurisdiction over such a bankruptcy case, or that courts in other countries that have jurisdiction over us and our operations would recognize a U.S. bankruptcy court's jurisdiction if any other bankruptcy court would determine it had jurisdiction.

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

Under the U.S. Internal Revenue Code of 1986, as amended, or the Code, 50% of the gross shipping income of a vessel owning or chartering corporation, such as ourselves and our subsidiaries, that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States is characterized as U.S. source shipping income and such income is

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subject to a 4% U.S. federal income tax without allowance for any deductions, unless that corporation qualifies for exemption from tax under Section 883 of the Code and the Treasury regulations promulgated thereunder.

We believe that we qualify for this statutory exemption for our 2018 taxable year and we expect to so qualify for our subsequent taxable years. However, there are factual circumstances beyond our control that could cause us to lose the benefit of this tax exemption and thereby cause us to become subject to U.S. federal income tax on our U.S. source shipping income. For example, there is a risk that we could no longer qualify for exemption under Section 883 of the Code for a particular taxable year if “non-qualified” shareholders with a five percent or greater interest in our stock were, in combination with each other, to own 50% or more of the outstanding shares of our stock on more than half the days during the taxable year. Due to the factual nature of the issues involved, we can give no assurances on our tax-exempt status or that of any of our subsidiaries.

If we are not entitled to this exemption under Section 883 of the Code for any taxable year, we would be subject for such taxable year to a 4% U.S. federal income tax on our U.S. source shipping income on a gross basis. The imposition of this taxation could have a negative effect on our business and would result in decreased earnings and cash available for distribution to our shareholders and to pay amounts due on our Senior Notes.

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

A foreign corporation will be treated as a “passive foreign investment company,” or PFIC, for U.S. federal income tax purposes if either (1) at least 75% of its gross income for any taxable year consists of certain types of “passive income” or (2) at least 50% of the average value of the corporation’s assets produce or are held for the production of those types of “passive income,” including cash. For purposes of these tests, “passive income” includes dividends, 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 to third parties does not constitute “passive income.” U.S. shareholders of a PFIC are subject to a disadvantageous U.S. federal income tax regime with respect to the income derived by the PFIC, the distributions they receive from the PFIC and the gain, if any, they derive from the sale or other disposition of their shares in the PFIC.

For our 2018 taxable year and subsequent taxable years, whether we will be treated as a PFIC will depend upon the nature and extent of our operations. In this regard, we intend to treat the gross income we derive or are deemed to derive from our time chartering activities as services income, rather than rental income. Accordingly, we believe that our income from our time chartering activities does not constitute “passive income,” and the assets that we own and operate in connection with the production of that income do not constitute passive assets. There is, however, no direct legal authority under the PFIC rules addressing our method of operation. Accordingly, no assurance can be given that the United States Internal Revenue Service, or 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 taxable year if there were to be changes in the nature and extent of our operations.

If we were treated as a PFIC for any taxable year, our U.S. shareholders may face adverse U.S. federal income tax consequences and information reporting obligations. Under the PFIC rules, unless those shareholders made an election available under the Code (which election could itself have adverse consequences for such shareholders), such shareholders would be liable to pay U.S. federal income tax upon excess distributions and upon any gain from the disposition of our common shares at the then prevailing income tax rates applicable to ordinary income plus interest as if the excess distribution or gain had been recognized ratably over the shareholder’s holding period of our common shares. See “Item 10. Additional Information - E. Taxation - U.S. Federal Income Tax Considerations - U.S. Federal Income Taxation of U.S. Holders - Passive Foreign Investment Company Status and Significant Tax Consequences” for a more comprehensive discussion of the U.S. federal income tax consequences to U.S. holders of our common shares if we are or were to be treated as a PFIC.

Risks Related to Our Relationship with the Scorpio Group of Companies (“Scorpio”) and its Affiliates

We are dependent on our managers and their ability to hire and retain key personnel, and there may be conflicts of interest between us and our managers that may not be resolved in our favor.

Our success depends to a significant extent upon the abilities and efforts of our technical manager, Scorpio Ship Management S.A.M., or SSM, our commercial manager, Scorpio Commercial Management, or SCM, and our management team and upon our and our managers' ability to hire and retain key members of our and their management teams, respectively. The loss of any of these individuals could adversely affect our business prospects and financial condition. Difficulty in hiring and retaining personnel could adversely affect our results of operations. We do not maintain "key man" life insurance on any of our officers.

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Our technical and commercial managers are affiliates of Scorpio, which is owned and controlled by the Lolli-Ghetti family, of which our co-founder, Chairman and Chief Executive Officer, Mr. Emanuele Lauro, and our Vice President, Mr. Filippo Lauro, are members. Conflicts of interest may arise between us, on the one hand, and our commercial and technical managers, on the other hand. These conflicts may arise in connection with the chartering, purchase, sale and operation of the vessels in our fleet versus vessels managed by other companies affiliated with our commercial or technical managers. In particular, as of the date of this annual report, our commercial and technical managers, which are operated by entities affiliated with Scorpio, provide commercial and technical management services to approximately 180 and 145 vessels, respectively, in addition to vessels in our fleet, and our commercial and technical managers may operate additional vessels that will compete with our vessels in the future. Such conflicts may have an adverse effect on our results of operations. In addition, certain members of Scorpio may benefit from economies of scale, all of which may not be passed along to us.

Our Chief Executive Officer, President, Chief Operating Officer, Chief Financial Officer, Vice President and Secretary do not devote all of their time to our business, which may hinder our ability to operate successfully. Our Chief Executive Officer, President, Chief Operating Officer, Chief Financial Officer, Vice President and Secretary participate in business activities not associated with us, some of whom serve as members of the management teams of Scorpio Tankers Inc. (NYSE: STNG), or Scorpio Tankers, and Nordic American Offshore Ltd (NYSE: NAO), or NAO, and are not required to work full-time on our affairs. We expect that each of our executive officers will continue to devote a substantial portion of their business time to the management of the Company. Additionally, our Chief Executive Officer, President, Chief Operating Officer, Vice President and Secretary serve in similar positions in other entities within Scorpio. As a result, such executive officers may devote less time to us than if they were not engaged in other business activities and may owe fiduciary duties to both our shareholders as well as shareholders of other companies which they may be affiliated with, including Scorpio Tankers, NAO and Scorpio. This may create conflicts of interest in matters involving or affecting us and our customers and it is not certain that any of these conflicts of interest will be resolved in our favor. This could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our commercial and technical managers are each privately held companies and there is little or no publicly available information about them.

Our vessels are commercially managed by SCM and technically managed by SSM. SCM's and SSM's ability to render management services will depend in part on their own financial strength. Circumstances beyond our control could impair our commercial manager's or technical manager's financial strength, and because each is a privately held company, information about the financial strength of our commercial manager and technical manager is not available. As a result, we and our shareholders might have little advance warning of financial or other problems affecting our commercial manager or technical manager even though their financial or other problems could have a material adverse effect on us.

We rely on our information systems to conduct our business, and failure to protect these systems against security breaches could adversely affect our business and results of operations. Additionally, if these systems fail or become unavailable for any significant period of time, our business could be harmed.

The efficient operation of our business, including processing, transmitting and storing electronic and financial information, is dependent on computer hardware and software systems. Information systems are vulnerable to security breaches by computer hackers and cyber terrorists. We rely on industry accepted security measures and technology to securely maintain confidential and proprietary information maintained on our information systems. However, these measures and technology may not adequately prevent security breaches. In addition, the unavailability of the information systems or the failure of these systems to perform as anticipated for any reason could disrupt our business and could result in decreased performance and increased operating costs, causing our business and results of operations to suffer. Any significant interruption or failure of our information systems or any significant breach of security could adversely affect our business and results of operations.

RISKS RELATED TO OUR INDEBTEDNESS

Servicing our current or future indebtedness limits funds available for other purposes and if we cannot service our debt, we may lose our vessels.

Borrowing under our credit facilities requires us to dedicate a part of our cash flow from operations to paying interest on our indebtedness under such facilities. These payments limit funds available for working capital, capital expenditures and other purposes, including further equity or debt financing in the future. Amounts borrowed under our credit facilities bear interest at variable rates. Increases in prevailing rates could increase the amounts that we would have to pay to our lenders, even though the outstanding principal amount remains the same, and our net income and cash flows would decrease. We expect our earnings and

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cash flow to vary from year to year due to the cyclical nature of the drybulk carrier industry. If we do not generate or reserve enough cash flow from operations to satisfy our debt obligations, we may have to undertake alternative financing plans, such as:

- seeking to raise additional capital;
- refinancing or restructuring our debt;
- selling drybulk carriers; or
- reducing or delaying capital investments.

However, these alternative financing plans, if necessary, may not be sufficient to allow us to meet our debt obligations. If we are unable to meet our debt obligations or if some other default occurs under our credit facilities, our lenders could elect to declare that debt, together with accrued interest and fees, to be immediately due and payable and proceed against the collateral vessels securing that debt.

We are exposed to volatility in the London Interbank Offered Rate, or LIBOR, and have entered into derivative contracts, which can result in higher than market interest rates and charges against our income.

The loans under our secured credit facilities are generally advanced at a floating rate based on LIBOR, which has been stable, but was volatile in prior years, which can affect the amount of interest payable on our debt, and which, in turn, could have an adverse effect on our earnings and cash flow. Recently, however, there is uncertainty relating to the LIBOR calculation process which may result in the phasing out of LIBOR in the future. Indeed, the banks currently reporting information used to set LIBOR will likely stop such reporting after 2021, when their commitment to reporting information ends. The Alternative Reference Rate Committee, or "Committee", a committee convened by the Federal Reserve that includes major market participants, has proposed an alternative rate to replace U.S. Dollar LIBOR: the Secured Overnight Financing Rate, or "SOFR." As a result, lenders have insisted on provisions that entitle the lenders, in their discretion, to replace published LIBOR as the base for the interest calculation with their cost-of-funds rate. If we are required to agree to such a provision in future loan agreements, our lending costs could increase, which would have an adverse effect on our profitability, earnings and cash flow. As a result, our financial condition could be materially adversely affected.

We have entered, and may enter, into derivative contracts to hedge our overall exposure to interest rate risk exposure. Entering into swaps and derivatives transactions is inherently risky and presents various possibilities for incurring significant expenses. The derivatives strategies that we employ, and may employ, may not be successful or effective, and we could, as a result, incur substantial additional interest costs. Please see "Item 11. Quantitative and Qualitative Disclosures About Market Risk - Interest Rate Risk."

We are leveraged, which could significantly limit our ability to execute our business strategy and we may be unable to comply with our covenants in our credit facilities that impose operating and financial restrictions on us, which could result in a default under the terms of these agreements.

As of December 31, 2018, we had \$841.0 million of outstanding indebtedness under our credit facilities, financing obligation and debt securities.

Our credit facilities impose operating and financial restrictions on us, that limit our ability, or the ability of our subsidiaries party thereto, to:

- pay dividends and make capital expenditures if we do not repay amounts drawn under our credit facilities or if there is another default under our credit facilities;
- incur additional indebtedness, including the issuance of guarantees;
- create liens on our assets;
- change the flag, class or management of our vessels or terminate or materially amend the management agreement relating to each vessel;
- sell our vessels;
- merge or consolidate with, or transfer all or substantially all our assets to, another person; and/or
- enter into a new line of business.

Therefore, we may need to seek permission from our lenders in order to engage in some corporate actions. Our lenders' interests may be different from ours and we may not be able to obtain our lenders' permission when needed. This may limit our ability to pay dividends on our common shares and interest on our Senior Notes, finance our future

operations or capital requirements, make acquisitions or pursue business opportunities.

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In addition, our secured credit facilities require us to maintain specified financial ratios and satisfy financial covenants, including ratios and covenants based on the market value of the vessels in our fleet. Should our charter rates or vessel values materially decline in the future, we may seek to obtain waivers or amendments from our lenders with respect to such financial ratios and covenants, or we may be required to take action to reduce our debt or to act in a manner contrary to our business objectives to meet any such financial ratios and satisfy any such financial covenants. In 2016, we amended our credit facilities to reduce the minimum liquidity, interest coverage ratio and loan-to-value ratio covenants, as well as to amend the definition of net worth used in the leverage and net worth covenants. There can be no assurances that our lenders will grant any waivers or additional amendments in the future. Events beyond our control, including changes in the economic and business conditions in the shipping markets in which we operate, may affect our ability to comply with these covenants. We cannot assure you that we will meet these ratios or satisfy these covenants or that our lenders will waive any failure to do so or amend these requirements. A breach of any of the covenants in, or our inability to maintain the required financial ratios under, our credit facilities would prevent us from borrowing additional money under our credit facilities and could result in a default under our credit facilities. If a default occurs under our credit facilities, the lenders could elect to declare the outstanding debt, together with accrued interest and other fees, to be immediately due and payable and foreclose on the collateral securing that debt, which could constitute all or substantially all of our assets. Moreover, in connection with any waivers or amendments to our credit facilities that we may obtain, our lenders may impose additional operating and financial restrictions on us or modify the terms of our existing credit facilities. These restrictions may further restrict our ability to, among other things, pay dividends, repurchase our common shares, make capital expenditures, or incur additional indebtedness.

Furthermore, our debt agreements contain cross-default provisions that may be triggered if we default under the terms of any one of our financing agreements. In the event of default by us under one of our debt agreements, the lenders under our other debt agreements could determine that we are in default under such other financing agreements. Such cross defaults could result in the acceleration of the maturity of such debt under these agreements and the lenders thereunder may foreclose upon any collateral securing that debt, including our vessels, even if we were to subsequently cure such default. In the event of such acceleration or foreclosure, we might not have sufficient funds or other assets to satisfy all of our obligations, which would have a material adverse effect on our business, results of operations and financial condition.

Please see “Item 5. Operating Financial Review and Prospects-B. Liquidity and Capital Resources-Credit Facilities, Finance Lease and Unsecured Notes.”

RISKS RELATING TO OUR COMMON SHARES

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

The market price of our common shares has fluctuated widely and may fluctuate widely in the future, or there may be no continuing public market for you to resell our common shares.

The market price of our common shares has fluctuated widely since our common shares began trading on the NYSE in December 2013, and may continue to do so as a result of many factors such as actual or anticipated fluctuations in our

quarterly and annual results and those of other public companies in our industry, mergers and strategic alliances in the shipping industry, market conditions in the shipping industry, particularly the drybulk sector, changes in government regulation, shortfalls in our operating results from levels forecast by securities analysts, announcements concerning us or our competitors and the general state of the securities market. Further, there may be no continuing active or liquid public market for our common shares.

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If the market price of our common shares falls below \$5.00 per share, under NYSE rules, our shareholders will not be able to use such shares as collateral for borrowing in margin accounts. This inability to continue to use our common shares as collateral may lead to sales of such shares creating downward pressure on and increased volatility in the market price of our common shares.

The shipping industry has been highly unpredictable and volatile. The market for common shares in this industry may be equally volatile. Therefore, we cannot assure you that you will be able to sell any of our common shares you may have purchased at a price greater than or equal to its original purchase price, or that you will be able to sell them at all. Future sales of our common shares could cause the market price of our common shares to decline.

Our amended and restated articles of incorporation authorize us to issue 212.5 million common shares, of which we had issued approximately 79.8 million common shares as of December 31, 2018. Sales of a substantial number of common shares in the public market, or the perception that these sales could occur, may depress the market price for our common shares. These sales could also impair our ability to raise additional capital through the sale of our equity securities in the future. We intend to issue additional common shares in the future. Our shareholders may incur dilution from any future equity offering and upon the issuance of additional common shares upon the exercise of options we may grant to certain of our executive officers, or upon the issuance of additional common shares pursuant to our equity incentive plan.

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

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

- authorizing our Board of Directors to issue “blank check” preferred stock without shareholder approval;
- providing for a classified Board of Directors with staggered, three-year terms;
- establishing certain advance notice requirements for nominations for election to our Board of Directors or for proposing matters that can be acted on by shareholders at shareholder meetings;
- prohibiting cumulative voting in the election of directors;
- limiting the persons who may call special meetings of shareholders;
- authorizing the removal of directors only for cause and only upon the affirmative vote of the holders of a majority of the outstanding common shares entitled to vote for the directors; and
- establishing super majority voting provisions with respect to amendments to certain provisions of our amended and restated articles of incorporation and bylaws.

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

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Scorpio Bulkera Inc. is an international shipping company that was incorporated in the Republic of the Marshall Islands pursuant to the BCA on March 20, 2013. In December 2013, we completed our underwritten initial public offering of 2,608,333 common shares at \$117.00 per share, and in January 2014, the underwriters in the initial public offering exercised their option to purchase an additional 391,250 common shares. In February 2014, we completed our offer to exchange unregistered common shares that were previously issued in Norwegian equity private placements (other than the common shares owned by affiliates of us) for common shares that were registered under the Securities Act of 1933, as amended, or the Securities Act, which we refer to as the Exchange Offer. Upon completion of the Exchange Offer, holders of 7,980,565 unregistered common shares validly tendered their shares in exchange for such registered common shares, representing a participation rate of 99.7%. On July 31, 2014, we delisted from the Norwegian Over-the-Counter List, or Norwegian OTC List. Our common shares are listed for trading on the New

York Stock Exchange, or NYSE, under the symbol "SALT."

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Our principal executive offices are located at 9, Boulevard Charles III, Monaco 98000 and our telephone number at that location is +377-9798-5715. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of the SEC's Internet site is <http://www.sec.gov>. The address of the Company's Internet site is <http://www.scorpiobulkers.com/>.

B. Business Overview

We are an international shipping company that owns and operates the latest generation of newbuilding drybulk carriers with fuel-efficient specifications and carrying capacities of greater than 30,000 dwt. All of our owned vessels have carrying capacities of greater than 60,000 dwt. Our vessels transport a broad range of major and minor bulk commodities, including ores, coal, grains, and fertilizers, along worldwide shipping routes, and are employed primarily in the spot market or in spot market-oriented pools of similarly sized vessels. As of the date of this annual report, our operating fleet of 57 vessels consisted of 56 wholly-owned or finance leased drybulk vessels and one time chartered-in drybulk vessel, which we refer to collectively as our "Operating Fleet" (see below table for details). Our owned and financed leased fleet has a total carrying capacity of approximately 3.9 million dwt.

Our Fleet

The following tables set forth certain summary information regarding our Operating Fleet as of the date of this annual report:

Operating Fleet**Owned and Finance Leased fleet ****

Vessel Name	Year Built	DWT
Kamsarmax Vessels		
SBI Samba	2015	84,000
SBI Rumba	2015	84,000
SBI Capoeira	2015	82,000
SBI Electra *	2015	82,000
SBI Carioca	2015	82,000
SBI Conga	2015	82,000
SBI Flamenco *	2015	82,000
SBI Bolero	2015	82,000
SBI Sousta	2016	82,000
SBI Rock	2016	82,000
SBI Lambada	2016	82,000
SBI Reggae	2016	82,000
SBI Zumba	2016	82,000
SBI Macarena	2016	82,000
SBI Parapara	2017	82,000
SBI Mazurka	2017	82,000
SBI Swing	2017	82,000
SBI Jive	2017	82,000
SBI Lynx	2018	82,000
Total Kamsarmax		1,562,000
Ultramax Vessels		
SBI Antares	2015	61,000
SBI Athena	2015	64,000
SBI Bravo	2015	61,000
SBI Leo	2015	61,000
SBI Echo	2015	61,000
SBI Lyra	2015	61,000
SBI Tango	2015	61,000
SBI Maia	2015	61,000

SBI Hydra 2015 61,000

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Vessel Name	Year Built	DWT
SBI Subaru	2015	61,000
SBI Pegasus	2015	64,000
SBI Ursa	2015	61,000
SBI Thalia	2015	64,000
SBI Cronos	2015	61,000
SBI Orion	2015	64,000
SBI Achilles	2016	61,000
SBI Hercules	2016	64,000
SBI Perseus	2016	64,000
SBI Hermes	2016	61,000
SBI Zeus	2016	60,200
SBI Hera	2016	60,200
SBI Hyperion	2016	61,000
SBI Tethys	2016	61,000
SBI Phoebe	2016	64,000
SBI Poseidon	2016	60,200
SBI Apollo	2016	60,200
SBI Samson	2017	64,000
SBI Phoenix	2017	64,000
SBI Gemini	2015	64,000
SBI Libra	2017	64,000
SBI Puma	2014	64,000
SBI Jaguar	2014	64,000
SBI Cougar	2015	64,000
SBI Aries	2015	64,000
SBI Taurus	2015	64,000
SBI Pisces	2016	64,000
SBI Virgo	2017	64,000
Total Ultramax		2,307,800
Aggregate Owned and Financed Leased DWT		3,869,800

* During the first quarter of 2019, we agreed to sell the SBI Electra and SBI Flamenco. The vessels are expected to be delivered to the buyer in June 2019.

** Our vessels are flagged in the Republic of the Marshall Islands or Liberia.

Time chartered-in vessel

Vessel Type	Year Built	DWT	Where Built	Daily Base Rate	Earliest Expiry
Ultramax	2017	62,100	Japan	\$10,125	30-Sep-19 ⁽¹⁾
Aggregate Time Chartered-in DWT		62,100			

⁽¹⁾ This vessel has been time chartered-in for 22 to 24 months at our option at \$10,125 per day. We have the option to extend this time charter for one year at \$10,885 per day.

Employment of Our Fleet

We typically operate our vessels in spot market-oriented commercial pools, in the spot market or, under certain circumstances, on time charters.

Spot Market-Oriented Commercial Pools

To increase vessel utilization and thereby revenues, we participate in commercial pools with other shipowners with similar modern, well-maintained vessels. By operating a large number of vessels as an integrated transportation system, commercial pools offer customers greater flexibility and a higher level of service while achieving scheduling efficiencies. Pools employ experienced commercial managers and operators who have close working relationships with customers and brokers, while technical management

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is performed by each shipowner. The managers of the pools negotiate charters with customers primarily in the spot market but may also arrange time charter agreements. The size and scope of these pools enable them to enhance vessel utilization rates for pool vessels by securing backhaul voyages, which is when cargo is transported on the return leg of a journey, and contracts of affreightment, or COAs, thus generating higher effective time charter equivalent, or TCE, revenues than otherwise might be obtainable in the spot market, while providing a higher level of service offerings to customers.

As of the date of this annual report, all of the vessels in our Operating Fleet are employed in one of the Scorpio Pools, which are spot market-oriented commercial pools managed by our commercial manager, which exposes us to fluctuations in spot market charter rates. Our vessels participate in the Scorpio Pools under the same contractual terms and conditions as the third party vessels in the pool. Each pool aggregates the revenues and expenses of all of the pool participants and distributes the net earnings calculated on (i) the number of pool points for the vessel, which are based on vessel attributes such as cargo carrying capacity, fuel consumption, and construction characteristics, and (ii) the number of days the vessel operated in the period. SCM, a Monaco corporation controlled by the Lolli-Ghetti family of which our co-founder, Chairman and Chief Executive Officer is a member, as is our Vice President, is responsible for the administration of the pool and the commercial management of the participating vessels, including marketing the pool, negotiating charters, including voyage charters, short duration time charters and COAs, conducting pool operations, including the distribution of pool cash earnings, and managing bunker (fuel oil) purchases, port charges and administrative services for the vessels. SCM, as operator of the Scorpio Pools, charges \$300 a day for each vessel, whether owned by us or chartered-in, plus a 1.75% commission on the gross revenues per charter fixture. See “-Management of our Business” below.

The pool participants remain responsible for all other costs including the financing, insurance, manning and technical management of their vessels. The earnings of all of the vessels are aggregated and divided according to the relative performance capabilities of the vessel and the actual earning days each vessel is available.

Spot Market

A spot market voyage charter is generally a contract to carry a specific cargo from a load port to a discharge port for an agreed freight per ton of cargo or a specified total amount. Under spot market voyage charters, we pay specific voyage expenses such as port, canal and bunker costs. Spot charter rates are volatile and fluctuate on a seasonal and year-to-year basis.

Fluctuations derive from imbalances in the availability of cargoes for shipment and the number of vessels available at any given time to transport these cargoes. Vessels operating in the spot market generate revenue that is less predictable than those under time charters, but may enable us to capture increased profit margins during periods of improvements in drybulk vessel charter rates. Downturns in the drybulk industry would result in a reduction in profit margins.

Time Charters

Time charters give us a fixed and stable cash flow for a known period of time. Time charters also mitigate in part the volatility and seasonality of the spot market business, which is generally weaker in the second and third quarters of the year. We opportunistically employ vessels under time charter contracts. We may also enter into time charter contracts with profit sharing agreements, which enable us to benefit when the spot market rates increase.

Management of Our Business

In 2016, we agreed to amend our master agreement, or the Master Agreement, with SCM and SSM, and our administrative services agreement, or the Administrative Services Agreement, with Scorpio Services Holding Limited, or SSH, under a deed of amendment, or the Deed of Amendment. Pursuant to the terms of the Deed of Amendment, on December 9, 2016, we entered into definitive documentation to memorialize the agreed amendments to the Master Agreement, or the Amended and Restated Master Agreement. The Amended and Restated Master Agreement and the Administrative Services Agreement as amended by the Deed of Amendment, or the Amended Administrative Services Agreement, are effective as from September 29, 2016.

In December 2017, we agreed to amend the Amended and Restated Master Agreement to amend and restate the technical management agreement thereunder subject to bank consents being obtained (where required), which were subsequently obtained. On February 22, 2018, we entered into definitive documentation to memorialize the agreed

amendments to the Amended and Restated Master Agreement under a deed of amendment, or the Amendment Agreement. The Amended and Restated Master Agreement as amended by the Amendment Agreement, or the Revised Master Agreement, is effective as from January 1, 2018.

Set forth below is a description of the other material terms of the Revised Master Agreement and the Amended Administrative Services Agreement. Please also see Note 15, Related Party Transactions, to the Consolidated Financial Statements included herein for additional information.

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Commercial and Technical Management - Revised Master Agreement

Our vessels are commercially managed by SCM and technically managed by SSM pursuant to the Revised Master Agreement, which may be terminated by either party upon 24 months' notice, unless terminated earlier in accordance with the provisions of the Revised Master Agreement. In the event of the sale of one or more vessels, a notice period of three months' and a payment equal to three months of management fees will apply, provided that the termination does not amount to a change of control, including a sale of substantially all vessels, in which case a payment equal to 24 months of management fees will apply. Additional vessels that we may charter-in or acquire in the future are expected to be managed under the Revised Master Agreement or on substantially similar terms as the Revised Master Agreement.

SCM's commercial management services include securing employment for our vessels in the spot market or on time charters. SCM also manages the Scorpio Pools (spot market-oriented vessel pools) including the Scorpio Ultramax Pool, the Scorpio Kamsarmax Pool and the currently inactive Scorpio Capesize Pool in which our owned, finance leased and time chartered-in vessels are employed and from which a significant portion of our revenue is generated. For commercial management of any of our vessels that does not operate in one of these pools, we pay SCM a daily fee of \$300 per vessel, plus a 1.75% commission on the gross revenues per charter fixture. The Scorpio Ultramax Pool and Scorpio Kamsarmax Pool participants, including us and third-party owners of similar vessels, pay SCM a pool management fee of \$300 per vessel per day, plus a 1.75% commission on the gross revenues per charter fixture. SSM's technical management services include providing technical support, such as arranging the hiring of qualified officers and crew, supervising the maintenance and performance of vessels, purchasing supplies, spare parts and new equipment, arranging and supervising drydocking and repairs, and monitoring regulatory and classification society compliance and customer standards. We pay SSM an annual fee of \$160,000 plus charges for certain itemized services per vessel to provide technical management services for each of our owned or finance leased vessels. In addition, representatives of SSM, including certain subcontractors, previously provided us with construction supervisory services while our vessels were being constructed in shipyards. For these services, we compensated SSM for its direct expenses, which varied between \$200,000 and \$500,000 per vessel. Please see "Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions—Commercial and Technical Management Agreements" for additional information.

Amended Administrative Services Agreement

In 2016, we entered into the Amended Administrative Services Agreement with SSH for the provision of administrative staff, office space and accounting, legal compliance, financial and information technology services for which we reimburse SSH for the reasonable direct and indirect expenses incurred while providing such services. The services provided to us by SSH may be sub-contracted to other entities within Scorpio.

SSH also arranges vessel sales and purchases for us, for which we previously paid SSH a fee, payable in our common shares, for arranging vessel acquisitions, including newbuildings. The amount of common shares payable was determined by dividing \$250,000 by the market value of our common shares based on the volume weighted average price of our common shares over the 30 trading day period immediately preceding the contract date of a definitive agreement to acquire any vessel. As of the date of this annual report, we issued an aggregate of 180,716 common shares to SSH in connection with the deliveries of newbuilding vessels. In November 2014, SSH agreed to waive its fee on vessel acquisitions contracted after November 20, 2014, for so long as the closing price of our common shares remained below a specified threshold. Effective September 29, 2016, pursuant to the terms of the Amended Administrative Services Agreement, we agreed with SSH to eliminate this fee on all future acquisitions.

In addition, SSH has agreed with us not to own any drybulk carriers greater than 30,000 dwt for so long as the Amended Administrative Services Agreement is in full force and effect. This agreement may be terminated by SSH upon 12 months' notice or by us with 24 months' notice.

Recent and Other Developments

Share Repurchase Program

During the fourth quarter of 2018, we repurchased a total of approximately 4.5 million shares of our common stock under the then existing share repurchase programs at an aggregate cost of approximately \$27.0 million, or an average cost of \$6.05 per share, which was funded from available cash resources. As of January 25, 2019, \$24.8 million

remained available under the then existing share repurchase program.

On January 25, 2019, our Board of Directors authorized a new share repurchase program to purchase up to an aggregate of \$50.0 million of our common shares. This new share repurchase program replaced our previous share repurchase program that

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was authorized in October 2018 and that was terminated in conjunction with the authorization of the new share repurchase program. The specific timing and amounts of the repurchases will be in the sole discretion of management and may vary based on market conditions and other factors. We are not obligated under the terms of the program to repurchase any of our common shares. The authorization has no expiration date.

Dividend

In the fourth quarter of 2018, our Board of Directors declared and we paid a quarterly cash dividend of \$0.02 per share totaling approximately \$1.5 million.

On January 25, 2019, our Board of Directors declared a quarterly cash dividend of \$0.02 per share, payable on or about March 15, 2019, to all shareholders of record as of February 15, 2019. As of February 15, 2019, 71,217,258 shares were outstanding.

Investment in Scorpio Tankers Inc.

On October 12, 2018, we invested \$100.0 million in a related party, Scorpio Tankers Inc. (NYSE:STNG), or Scorpio Tankers, for approximately 54.1 million common shares of Scorpio Tankers, representing approximately 10.9% of its then issued and outstanding common shares. The investment was part of a larger \$337.0 million equity raise through a public offering of common shares by Scorpio Tankers.

We measure our investment in Scorpio Tankers based on the quoted market price of Scorpio Tankers' common stock, discounted for a temporary lack of marketability as at December 31, 2018 pursuant to the terms of a lock-up agreement we entered into at the time of the investment. The lock-up agreement expired on January 7, 2019. At December 31, 2018, we recorded a \$7.7 million non-cash loss and \$0.5 million cash dividend related income from our investment in Scorpio Tankers, which were recorded in Income (loss) from equity investment, on our Consolidated Statement of Operations.

On January 18, 2019, Scorpio Tankers effected a one-for-ten reverse stock split and as such we now own approximately 5.4 million common shares of Scorpio Tankers.

IMO 2020

In November 2018, we entered into agreements with third parties to purchase exhaust gas cleanings systems, or scrubbers, for 18 of our vessels in 2019 and for 10 of our vessels in 2020. The total value of these agreements is estimated to be \$41.9 million. The systems that are being fitted are of 'hybrid ready' design, which allows them to be upgraded to a 'closed loop' configuration at a future date. As part of these agreements, we also have an option to purchase exhaust gas cleaning systems for up to 18 additional vessels in 2020.

As of March 15, 2019, our projected scrubber installation schedule and estimated payments for such installation on all the vessels in our owned or finance leased fleet is as follows (dollars in thousands):

	Number of Vessels by Type		Estimated Payments
	UltraKams	sarmax	(1)
Q1 2019	—	—	\$4,904
Q2 2019	—	3	11,547
Q3 2019	9	1	19,365
Q4 2019	1	4	24,578
Q1 2020	11	1	26,783
Q2 2020	9	4	24,666
Q3 2020	4	4	13,823
Q4 2020	3	—	5,580
Q1 2021	—	—	859
Total	37	17	\$132,105

(1) Includes estimated cash payments for scrubbers that are due in advance of the scheduled service and may be scheduled to occur in quarters prior to the actual installation. In addition to these installment payments, these amounts also include estimates

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of the installation costs of such systems. The timing of the payments set forth are estimates only and may vary as the timing of the related installations finalize.

\$21.4 Million Lease Financing - SBI Samba

In February 2019, we entered into a financing transaction with an unaffiliated third party involving the sale and leaseback of the SBI Samba, a 2015 Japanese built Kamsarmax vessel, for consideration of \$21.4 million. As part of the transaction, we have agreed to make payments of \$6,850 per day under a five-year bareboat charter agreement with the buyer.

The transaction also provides us with the option to repurchase the vessel beginning on the third anniversary of the sale until the end of the bareboat charter agreement. This transaction is expected to increase our liquidity by approximately \$6.9 million after repayment of outstanding debt under the credit facility under which the vessels were previously financed.

CMBFL Lease Financing

In March 2019, we agreed to sell and leaseback three Ultramax vessels (SBI Pegasus, SBI Subaru and SBI Ursa) and four Kamsarmax vessels (SBI Lambada, SBI Macarena, SBI Carioca and SBI Capoeira) to CMB Financial Leasing Co., Ltd. Upon completion, which is estimated to take place in the second quarter of 2019, our liquidity is expected to increase by \$57.2 million in aggregate (\$45.4 million upon closing after the repayment of outstanding debt and an additional tranche of up to \$11.8 million for installation of scrubbers on the seven vessels). As part of the agreements, we will bareboat charter-in the vessels for a period of seven years. In addition, the Company has purchase options beginning after the end of the third year of each agreement. There is also a purchase option for each vessel upon the expiration of each agreement.

Vessel Sales

In March 2019, we entered into agreements with unaffiliated third parties to sell the SBI Electra and SBI Flamenco, two 2015 Chinese built Kamsarmax vessels, for approximately \$48.0 million in aggregate. Delivery of the vessels is estimated to take place in the second quarter of 2019. It is estimated that our liquidity will increase by approximately \$18.6 million after the repayment of the vessels' outstanding debt under the credit facility under which the vessels were previously financed.

Our Customers

We believe that developing strong relationships with the end users of our services allows us to better satisfy their needs with appropriate and capable vessels. All of our vessels are employed in Scorpio Pools, which are spot market-oriented commercial pools managed by our commercial manager, SCM. A prospective charterer's financial condition, creditworthiness, reliability and track record are important factors in negotiating our vessels' employment, which SCM evaluates on our behalf. We earned 36% and 64% of our revenue from the Scorpio Kamsarmax Pool and the Scorpio Ultramax Pool, respectively, during the year ended December 31, 2018, 42% and 58% of our revenue from the Scorpio Kamsarmax Pool and the Scorpio Ultramax Pool, respectively, during the year ended December 31, 2017, and 40% and 60% of our revenue (including commissions from SCM) from the Scorpio Kamsarmax Pool and the Scorpio Ultramax Pool, respectively, during the year ended December 31, 2016.

Seasonality

We operate our vessels in markets that have historically exhibited seasonal variations in demand and, as a result, in charter hire rates. This seasonality may result in quarter to quarter volatility in our operating results. The drybulk carrier market is typically stronger in the fall and winter months in anticipation of increased consumption of coal and other raw materials in the northern hemisphere during the winter months. In addition, unpredictable weather patterns

in these months may disrupt vessel scheduling and supplies of certain commodities. As a result, revenues of drybulk carrier operators in general have historically been weaker during the fiscal quarters ended June 30 and September 30, and, conversely, been stronger in fiscal quarters ended December 31 and March 31. This seasonality may materially affect our operating results and cash available for the payment of dividends.

Competition

We operate in markets that are highly competitive and based primarily on supply and demand. We compete for charters on the basis of price, vessel location, size, age and condition of the vessel, as well as on our reputation and that of our commercial manager. We compete primarily with other independent and state-owned drybulk vessel-owners. Our competitors may have more resources than us and may operate vessels that are newer, and therefore more attractive to charterers, than our vessels. Ownership of drybulk vessels is highly fragmented and is divided among publicly listed companies, state-controlled owners and private shipowners.

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Industry and Market Conditions

The Drybulk Shipping Industry

Except as otherwise indicated, the statistical information and industry and market data contained in this section is based on or derived from statistical information and industry and market data collated and prepared by SSY Consultancy & Research Ltd (“SSY”). The data is based on SSY's review of such statistical information and market data available at the time (including internal surveys and sources, independent financial information, independent external industry publications, reports or other publicly available information). Due to the incomplete nature of the statistical information and market data available, SSY has had to make some estimates where necessary when preparing the data. The data is subject to change and may differ from similar assessments obtained from other analysts of shipping markets. While reasonable care has been taken in the preparation of the data, SSY has not undertaken any independent verification of the information and market data obtained from published sources.

Industry Overview

Drybulk shipping mainly comprises the shipment of minerals, such as iron ore and coal, other industrial raw materials and various agricultural products. Of these, the major cargoes are iron ore, coal and grain. The remaining minor bulk cargoes include steel products, bauxite/alumina, nickel ore, cement, petroleum coke, forest products, fertilizers and non-grain agricultural products, such as sugar.

Charterers in the drybulk shipping industry range from cargo owners (such as mining companies and grain houses) to end-users (such as steel producers and power utilities) and also include a number of different trading companies and ship operators.

Total international seaborne drybulk trade is estimated to have reached a new annual record of approximately 4.65 billion tonnes in 2018. This represents an increase of an estimated 2.6% from the 2017 level and an estimated 15.0% from the 2013 level, which was close to the compound annual average growth rate, or CAGR, for the period 2013 to 2018. With the exception of 2009, when the global economy was in recession, seaborne drybulk trade has recorded positive annual growth in every year since 1998. While the 2018 trade estimates set out in the table below will be subject to revision, as final trade statistics become available, our current estimates indicate a third consecutive year in which annual growth in seaborne trade volumes exceeded 100 million tonnes, albeit that this growth was unevenly distributed between the various dry bulk cargo types.

World Seaborne Drybulk Trade

(million tonnes)

Cargo/Year	2013	2014	2015	2016	2017	2018	2013-18 % Growth	CAGR
Major Bulks	2,825	3,000	2,992	3,088	3,192	3,238	15%	3%
Iron Ore	1,256	1,391	1,414	1,484	1,532	1,524	21%	4%
Coal	1,200	1,186	1,128	1,130	1,155	1,201	—%	—%
Grains	369	423	450	474	505	513	39%	7%
Minor Bulks	1,222	1,242	1,264	1,293	1,347	1,417	16%	3%
Total	4,047	4,242	4,256	4,381	4,539	4,655	15%	3%

Totals may not add due to rounding

Cargo Types

Iron ore: The key raw material for steelmaking, and single largest seaborne drybulk cargo, iron ore trade expanded more than three-fold between 2002 and 2017 on the back of unprecedented Chinese import demand. Preliminary estimates for 2018 do however indicate the first annual decrease for 17 years, but only marginally with an estimated decline of 0.5% to 1,524 million tonnes, or Mt. By comparison, the CAGR was approximately 4% for the five years since 2013. Last year's decline in trade was despite positive growth in world steel production in 2018, which rose by an estimated 4.6% to a new all-time high, led by increases in China. In addition to China which, as described elsewhere in this section, has become the dominant importer accounting for over two-thirds of seaborne imports in 2018, the main import markets for iron ore are Japan, Western Europe and South Korea. South and Southeast Asia generated positive import growth in 2018. Exports are dominated by Australia and Brazil, which together accounted for an estimated 83% of the seaborne market in 2018 with a large majority of their cargoes carried by Capesize vessels given the favorable unit economies. This market share has increased from 75% in 2013, mainly due to the introduction

of additional

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Australian export capacity, with both countries recording new annual export records in 2018. Other iron ore exporters include South Africa, Canada, India, Sweden, Ukraine and West Africa.

Coal: At an estimated 1,201 Mt in 2018, global seaborne coal trade increased by an estimated 4.0% from its 2017 level and represented only the second year of positive annual growth since 2013 against a background of improved overall energy demand. By comparison, the CAGR was close to zero percent for the entire five-year period from 2013 to 2018. Coal trade is comprised of two main categories: (1) steam coal (which is chiefly used for electricity generation, but also by industrial users, such as the cement industry) and (2) coking coal (a key input for blast furnace steelmaking). Both categories experienced lower trade volumes between 2013 and 2016, but steam coal trade in 2018 is estimated to have risen above the previous annual all-time high level in 2013 for the first time.

Although the import market for coal was historically dominated by import demand from Japan and Western Europe, the last 10 to 15 years has seen China and India emerge as key importers of both categories of coal. The leading exporter of coking coal is Australia, followed by the United States and Canada. Indonesia is the largest exporter of steam coal, ahead of Australia, the former Soviet Union, Colombia, South Africa and the United States.

Between 2005 and 2013, China transformed from a major steam coal exporting nation to the single largest importer, representing the strength of the country's domestic demand for power generation. However, imports represent a very small share (i.e. less than 10%) of coal consumption in China (which is the world's largest coal producer) and, as a result, imports have been subject to major fluctuations in response to changes in domestic market conditions. For example, in 2014 China recorded a sharp annual decline in steam coal imports, in light of an oversupplied domestic coal market and government intervention to restrict imports. The rate of decline quickened in 2015, reducing the country's steam coal imports to a six-year low, before the downward trend was reversed in 2016 with both coking and steam coal imports increasing, mainly as a result of government-driven cuts in domestic coal production. Further Chinese government interventions aimed at managing the domestic coal market since 2017 contributed to some significant monthly variations in import volumes, but the combined annual total for coking and steam coal imports in 2018 was only 1.2% below the corresponding level in 2017.

India remained the world's single largest coal importer in 2018, with strong gains in both steam and coking coal volumes, which are estimated to have pushed the aggregate annual volume above its previous peak in 2014. Annual growth in Indian imports had been dampened between 2014 and 2017, mainly due to rising domestic coal production. Japan, South Korea and Taiwan, together with Western Europe, remain major import markets, while South East Asia and Latin America have grown in importance as coal import generators. Although investments in new port facilities enabled the participation of Capesize vessels in the Asia-led coal trade growth during the period from 2010 to 2013, more recent changes in coal trade patterns (in particular, the rising share of exports from Indonesia, Russia and the US) has chiefly benefitted demand for Panamax and Handymax vessels.

Grains: Seaborne grain trade is comprised of wheat, coarse grains (corn, barley, oats, rye and sorghum) and soybeans/meal, which together totaled an estimated new record of 513 Mt in 2018, according to preliminary trade data. This was up by an estimated 1.6% from 2017 and compares with a CAGR of approximately 7.0% for the period from 2013 to 2018, which is the highest of the major bulk cargoes. In addition, the grain trades remain an important source of freight market volatility due to both the seasonality of export flows, year-on-year variations in crop surpluses and deficits and, latterly, by import tariffs.

Soy is the largest of the three main categories of grain trade with Brazil, the United States and Argentina the leading export countries. The principal markets are in Europe and Far East Asia with China being the world's single largest soybean importer. Shipments are dominated by Panamax and Handymax vessels. The introduction of import tariffs by China on U.S. soybeans in 2018 boosted soybean volumes from Brazil to China at the expense of the U.S. suppliers, leading U.S. suppliers to seek alternative markets. This contributed to slower, yet still positive, world soybean and meal trade growth of 2.7% in 2018. Wheat and coarse grains are also primarily carried by mid-size vessels with the United States, Canada, Russia, Ukraine, Argentina, Brazil, Australia and the European Union being the main exporting regions. In addition to Far East Asia and Europe, the Middle East, Africa and Latin America are all significant import markets.

Minor Bulks: A diversity of cargo types are covered under this heading with different sets of demand drivers. Nevertheless, together at approximately 1.4 billion tonnes per annum these trades represent a major source of

employment for the smaller Handysize and Handymax vessels.

In recent years the pattern of minor bulk trade has been altered by government restrictions on the export of key industrial ores in South East Asia. This was led by an Indonesian ban on the export of unprocessed mineral ores beginning in January 2014, which reduced the country's combined exports of bauxite and nickel ore from 121 Mt in 2013 to zero in 2015 and 2016. Bauxite trade did benefit from a sharp increase in exports from Malaysia in 2015, but in early 2016 the Malaysian government announced a temporary suspension of domestic bauxite mining, which was subsequently extended into the first quarter of 2019. This turned

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the focus of importers in China (the world's biggest bauxite market) to longer haul supplies, particularly from West Africa (where fronthaul cargoes are now predominantly carried by Capesize vessels). Since the beginning of 2017 the Indonesian government has moved to partially relax its ban on unprocessed mineral ore exports with limited volumes re-entering the international market and in February 2019 it was reported that bauxite mining in Malaysia can resume from April (albeit under strict conditions). However, uncertainties continue to surround the availability of South East Asian mineral ores with, for example, reported mining restrictions imposed by the government of the Philippines potentially constraining nickel ore exports.

Despite these constraints, total minor bulk trade is estimated to have achieved a new annual record in 2018. The estimated CAGR for minor bulk trade volumes for the period from 2013 to 2018 was 3.0%.

Demand for Drybulk Shipping

Drybulk trade is a function of levels of (a) economic activity, (b) the industrialization/urbanization of developing countries, (c) population growth (plus changes in dietary habits) and (d) regional shifts in cargo supply/demand balances, which can occur, for example, due to the development of new export/import capacity or depletion/development of mineral reserves. The distances shipped chiefly reflect regional commodity surpluses and deficits. Generally, the more concentrated the sources of cargo supply, the greater the average distance shipped. Ship demand is determined by the overall volumes of cargo moved and the distance that these are shipped, or tonne-mile demand, as well as changes in vessel efficiency. These changes may be caused by such factors as (1) vessel speed (which will change in response to movements in fuel costs and freight market earnings); (2) port delays (which have been a common occurrence in the last 15 years as inland and port logistics in several key export areas struggled to meet surging global demand) and (3) laden to ballast ratios, or how much time vessels spend sailing empty on re-positioning voyages. Ballasting has also been on the increase over the last 10 to 15 years due to the widening imbalance in cargo flows between the Atlantic and Pacific Basins.

World seaborne drybulk trade followed a steady underlying upward trend during the 1980s and 1990s. CAGR in the major drybulk cargoes over this period was an estimated 2.5%, before accelerating sharply to 6.3% during the period from 2000 to 2009 and being sustained at an estimated 4.9% between 2010 and 2018.

The growth in drybulk trade volumes since 2000 has been primarily due to the rapid industrialization and urbanization of China. From approximately 130 Mt in 2000, Chinese drybulk imports have increased more than thirteen-fold, as illustrated in the chart below. Such an expansion was facilitated by investments in new mining and port facilities in key exporting areas around the world initially in response to Chinese-driven rises in commodity prices from 2004 to 2011 and subsequently reflecting movements in the commodity price cycle.

The table below provides a more detailed comparison of China's drybulk imports from 2013 to 2018, which shows a new annual record last year with preliminary data indicating an increase in aggregate volumes of approximately 29 Mt to approximately 1,763 Mt in 2018. This was despite an annual decline in imports of iron ore, which had made the greatest contribution to China's drybulk import growth over the last five years. The 247 Mt estimated increase in iron ore imports between 2013 and 2018 reflects not only increases in domestic steel production (and, therefore, iron ore consumption) to meet the needs of an industrializing and urbanizing economy as well as exports of steel products, but also the substitution of higher-quality imported iron ore for lower-quality domestic supplies and increases in port stocks. Consequently, iron ore imports grew more rapidly than Chinese steel production between 2013 and 2017. However, the relationship between domestic steel production and iron ore consumption changed in 2018, as the net fall in iron ore imports was accompanied by record levels of Chinese steel production. This was partly due to the government-enforced removal of scrap steel-consuming induction furnace capacity in 2017 (which had hitherto been excluded from official Chinese steel production statistics) for environmental reasons. This move not only inflated steel production growth in 2018 official data, but also constrained iron ore consumption growth due to the abundance of steel scrap previously used in induction furnaces. In addition, winter curtailment measures introduced by the government to combat pollution by heavy industry restricted iron ore sintering to the detriment of imported iron ore fines. There was also some destocking at China's iron ore ports in 2018.

With grains impacted by tariffs, coal and, especially, the minor bulks drove Chinese drybulk import growth in 2018. Bauxite (the main raw material for the aluminium industry) was the single largest category of minor bulk cargo imported by China in 2018, at an estimated 86.6 Mt, which was 26% above the annual total in 2017 and the highest

year on record. This growth was dominated by Guinea, the biggest bauxite supplier to China, followed by Australia. There was continued resumption in imports from Indonesia in 2018, which had been the leading source of Chinese bauxite imports prior to 2014, but volumes remained modest by historical standards. The re-emergence of some Indonesian supplies helped lift China's total annual nickel ore imports from 35.0 Mt in 2017 to an estimated 45.3 Mt in 2018.

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Chinese Drybulk Imports (Million Tonnes)

	2013	2017	2018	CAGR
Iron Ore	820.3	1,075.4	1,064.8	5%
Coal*	327.2	271.1	280.8	(2)%
Bauxite/Alumina	75.4	71.6	88.0	3%
Grains	78.0	121.2	108.6	7%
Other**	204.9	195.4	221.2	1%
Total of above	1,505.8	1,734.7	1,763.4	3%

* Includes lignite, which is excluded from SSY's estimates for seaborne coal trade and categorized as a minor bulk.

** Includes mineral ores (such as nickel), pulp/wood chip/logs and petroleum coke.

Source: Chinese Customs

Growth in China's iron ore trades over the last 15 years has mainly been to the benefit of Capesize vessels, hauling cargoes from West Australia and Brazil. Australia and Indonesia are the primary sources of Chinese coal imports, while in the grain trades increased Chinese demand for soybeans from Latin America and the United States has boosted tonne-mile demand for Panamax and Supramax vessels.

Outside of China, most of the additional growth in drybulk cargo import demand during the past five years has been generated by other Asian economies. For example, and despite setbacks since 2014, Indian coal imports in 2018 were estimated to be 45 Mt higher than their corresponding level in 2013, reflecting the strength of demand from electricity generators and the cement and steel industries. Although India has added several Capesize coal import terminals in recent years, a majority of the coal cargoes arriving in the country are shipped by Supramax, Panamax and Kamsarmax vessels. More established Asian import markets, such as South Korea, have also contributed to the region's import growth with its combined imports of coal and iron ore increasing by an estimated 32 Mt between 2013 and 2018.

In contrast, European mineral imports staged only a partial recovery from their cyclical lows in 2009 and have remained below their 2007 totals, before trending lower in 2014. This is due in part to slow economic growth in the Eurozone, but also in part to policy-driven changes in the region's energy mix away from coal. Consequently, Asia's share of world seaborne major bulk imports is estimated to have climbed to approximately 79% from approximately 60% in the middle of the last decade and 53% to 54% in 2000.

As a result, the fastest drybulk trade growth has been seen within the Pacific Basin, which has been supplemented by increases in front-haul trade from the Atlantic to the Pacific (chiefly iron ore on Capesize vessels and grains on Panamaxes and Supramaxes, but also U.S. coal).

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Drybulk Global Fleet

The cargoes outlined above are predominantly carried by drybulk carriers of more than 10,000 dwt. Drybulk carriers are single-decked ships that transport dry cargoes in “bulk” form, that is loose within cargo holds, rather than in bags, crates or on pallets.

As of the end of December 2018, the total fleet of 10,000+ dwt drybulk carriers numbered approximately 10,920 vessels of 830.6 million deadweight tonnes, or Mdw.

This fleet is divided into four principal size segments: Handysize (10,000-39,999 dwt), Handymax (40,000-64,999 dwt), Panamax (65,000-99,999 dwt) and Capesize (100,000+ dwt). Aside from size, the main distinction between drybulk vessel types is whether they are geared (that is, equipped with cranes for loading/discharge) or gearless. The main characteristics of these four vessel types are summarized below, while the table below summarizes the current structure of the fleet by age and size. It shows that in terms of deadweight capacity, the Capesize sector is the largest with 40.4% of the end-of-December 2018 total, followed by Panamaxes at 24.9%, Handymaxes at 23.6% and Handysizes at 11.1%.

Handysize (10,000-39,999 dwt): These ships carry the widest range of cargoes of any drybulk size segment and are the most dependent on the minor bulks for employment. They are usually equipped with cargo-handling gear (cranes or derricks) and are widely used on routes to and from draft-restricted ports that (a) cannot receive larger ships and (b) often lack their own land-based cargo-handling equipment. Many such loading or discharge facilities are located in the developing nations. Due to the limited economies of scale that these vessels offer, compared to larger tonnage vessels, many of these ships are extensively employed on intra-regional, shorter-haul trades. Special designs of ships are associated with the carriage of such cargoes as steel products and logs, or open-hatch and log-fitted vessels; some variants also exist in terms of cargo-handling equipment, such as grab-fitted tonnage possessing scoops that facilitate unloading of certain cargo types.

Handymax (40,000-64,999 dwt): This segment of the drybulk carrier fleet contains three distinct sub-categories - the traditional Handymax size (40,000-49,999 dwt), the Supramax size (50,000-59,999 dwt) and the Ultramax size (60,000-64,999 dwt). There are some Ultramax newbuilding designs of above 65,000 dwt, but as these are much fewer in number than existing gearless vessels of 65-69.9 kdwt, they currently fall in SSSY's Panamax size range. Despite their increased size, these vessels retain a high degree of trading flexibility as their cargo gear enables them to load and/or discharge at ports with limited facilities. They are more widely deployed on longer-haul routes than are Handysizes (due to the greater scale economies that they offer). Whereas the traditional Handymax types have gained market share from the sub-40,000 dwt fleet of Handysizes over the past 20 years, the new generation of Supramax and Ultramax vessels are also competing for business on Panamax routes.

Panamax (65,000-99,999 dwt): The strict definition of a Panamax bulk carrier is a ship able to transit the Panama Canal fully laden. However, in recent years this definition has become blurred as (1) only a minority of the vessels in this size range pass

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through the Panama Canal in any 12-month period and (2) the opening of an additional trade lane with a new set of locks in mid-2016 expanded the Panama Canal's dimensions to enable the transit of ships of maximum beam, or extreme vessel breadth, of 49 metres, maximum length overall, or LOA, of 366m and maximum draft of 15.2m tropical fresh water, or TFW. This compares with the pre-existing, and still operational, locks which can accommodate ships to a maximum of 32.3m beam, 294.1m LOA and 12m TFW draft. For these reasons our fleet definition stretches from 65,000 to 99,999 dwt, encompassing three main sub-types: traditional Panamax (70,000-79,999 dwt), Kamsarmaxes (82,000-83,000 dwt, which prior to the enlargement were the largest bulk carrier to transit the Panama Canal fully laden) and post-Panamax (85,000-99,999 dwt). The base load demand for these vessel types is provided by coal and grain cargoes, although they also participate in a number of other trades (including iron ore, bauxite and fertilizers). Only a small minority of vessels in this size range are equipped with cargo gear as most of the ports served have well developed cargo loading or discharge terminals.

Capesize (100,000+dwt): These ships are almost exclusively deployed in the iron ore and coal trades, which benefit most from their scale economies. There are three main sub-types: small Capes (100,000-119,999 dwt), standard Capes (160,000-209,999 dwt, which are mainly concentrated between 170,000 dwt and 180,000 dwt, but also include Newcastlemaxes of 200,000-209,999 dwt) and Very Large Ore Carriers (220,000 dwt and above). In recent years the average size of these Very Large Ore Carriers has been increasing, through the serial ordering of 400,000 dwt and 325,000 dwt designs.

Drybulk Carrier Fleet by Size/Age (Million Dwt):

As of December 31, 2018

Built/Dwt	10-39,999	40-64,999	65-99,999	100,000+	Total
Pre-1994	3.9	2.9	2.9	7.2	17.0
1994-98	7.5	11.0	10.1	10.1	38.7
1999-03	7.3	16.0	21.6	18.5	63.3
2004-08	10.5	26.6	34.0	45.5	116.5
2009-13	40.9	84.5	90.3	169.2	384.8
2014-18	22.3	55.2	48.0	85.0	210.4
Total Fleet	92.4	196.2	206.9	335.5	830.7
Average Age	10 Yrs	9 Yrs	9 Yrs	8 Yrs	9 Yrs

Totals may not add due to rounding

Ownership

Unlike other specialist areas of the world shipping fleet, ownership in the drybulk segment is highly fragmented, with SSY's database showing approximately 2,000 different owners. The largest 50 owners account for approximately 34% of the fleet in terms of deadweight carrying capacity, but this includes a large number of Chinese-flagged vessels that will trade on domestic as well as international routes.

While such analysis will tend to understate levels of market concentration, due to the operation of vessel pools and chartered in fleets, the drybulk segment is sufficiently competitive to ensure that vessel spot market earnings are extremely responsive to fluctuations in the supply/demand balance globally and regionally.

Supply of Drybulk Shipping

The supply of drybulk carriers is fundamentally determined by the delivery of new vessels from the world's shipbuilding industry and the removal of older vessels, mainly through demolition.

Newbuilding deliveries not only reflect the demand from ship owners for new tonnage, but also available shipyard capacity. Following a sharp upswing in demand for new vessels in all of the main sectors of the commercial shipping industry during the last decade, and an accompanying rise in shipbuilding prices to record levels in 2007 to 2008, there was a massive China-led expansion in world shipbuilding capacity. In the case of the drybulk sector, annual newbuilding deliveries surged from 24.4 Mdwat in 2008 (and an average of 19.1 Mdwat p.a. between 2000 and 2007, inclusive) to 44.3 Mdwat in 2009, 79.8 Mdwat in 2010 and a peak of 100.6 Mdwat in 2012.

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The resulting impact on freight market balances and vessel earnings, as described elsewhere in this section, led to sharply-reduced levels of drybulk carrier ordering in 2011 and 2012, which led to a slower pace of newbuilding deliveries in 2013 at an estimated 61.7 Mdwat followed by a further slowdown to 47.8 Mdwat in 2014.

There was an increase in drybulk carrier newbuilding investments during 2013, which continued into 2014 and reversed the downward trend in the newbuilding orderbook. These orders were focused on new, more fuel-efficient ship designs, for which shipyard descriptions offer significantly lower fuel consumption compared with existing vessels through a combination of new technology main engines and refinements of hull forms.

The rising costs of bunker fuels between 2004 and 2012 are illustrated in the chart below, which is based on the 58,238 dwt Supramax vessel specifications used by the Baltic Exchange in constructing its daily Supramax Index. Using estimated bunker prices in Singapore, our calculations assume that at a speed of 14.0 knots the vessel consumes 33 tonnes of 380cst fuel oil per day laden and 32 tonnes per day in ballast. However, SSY stresses that (1) there is a wide variance in individual vessel fuel consumptions, even within the same size segments, and (2) as described earlier in this section, many vessels have been operating at slower speeds in order to lower their daily fuel consumption and costs.

Our calculations show an increase at sea, at full speed, from approximately \$5,600 per day in 2004 to approximately \$21,700 per day in 2012. Reflecting the general decline in world oil prices, annual average bunker fuel costs for our Supramax example fell from approximately \$18,200 per day in 2014 to approximately \$7,500 per day in 2016. A partial rebound in global oil prices from the lows of early 2016 lifted estimated Supramax bunkering costs to an average of approximately \$10,600 per day in 2017 and a four-year high of approximately \$14,000/day in 2018. Last year's average did, however, cover a wide range of daily bunkering costs from a high of approximately \$17,100/day to a low of approximately \$10,700/day, reflecting volatility in world oil markets.

Although bunkering costs fell towards the end of 2018, this remains a key area of attention for the shipping industry due to the International Maritime Organization's mandated requirement for a lowering of the global limit for sulphur in marine fuel from the current 3.5% to 0.5% from January 1, 2020. In order to comply, shipowners will have to either switch to alternative bunker fuels or invest in the installation of scrubbers to allow the continued use of existing bunker fuels.

Reflecting the increased ordering of more fuel-efficient vessels, there was a small net rise in drybulk carrier newbuilding deliveries in 2015 to 48.9 Mdwat, but the downward trend resumed in 2016 and continued in 2017 and 2018 with last year's annual newbuilding delivery total of 28.2 Mdwat the lowest since 2008.

After a sharp reduction in new drybulk carrier ordering in 2015 and 2016, in response to the deterioration in freight market conditions, there was some revival in the contracting of new vessels in 2017 and 2018 as vessel earnings firmed. At an estimated 95.3 Mdwat, the total tonnage on order at the end of December 2018 represented approximately 11.5% of the existing fleet, compared with 10.1% at the end of December 2017. To provide some longer-term perspective, the corresponding end-year shares were 56.1% in 2007, 57.3% in 2009 and 67.6% in 2008, as illustrated in the chart below.

The table below summarizes the confirmed drybulk carrier orderbook as of the end of December 2018, by vessel size and scheduled year of delivery. These delivery dates can be subject to delay. For example, 2018 deliveries were an estimated 15% below the scheduled total as of January 1, 2018, which compared with a corresponding average rate of slippage from scheduled delivery dates in the previous five years of approximately 34.6%.

Drybulk Carrier Newbuilding Orderbook by Size Range (Million Dwt): As of December 31, 2018

Delivery	10-39,999	40-64,999	65-99,999	100,000+	Total
2019	3.5	9.6	14.3	21.9	49.3
2020	1.5	5.8	10.2	20.8	38.3
2021	0.3	0.9	0.5	5.5	7.2
2022+	—	—	—	0.7	0.7
Total	5.3	16.3	25	48.9	95.5
% of Fleet	5.7%	8.3%	12.1%	14.5%	11.5%

Totals may not add due to rounding

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Typically, drybulk carriers are scrapped between the ages of 25 and 30 years, but the removal of 20-24 year-old vessels is common during periods of freight market weakness, and there have also been examples of scrapping of 15-19 year-old vessels (especially in the larger-sized vessels). In 2018, against the background of a generally firmer freight market, the average age of Handysize and Handymax vessels scrapped was over 30 years, whereas for Panamax and Capesize vessels it was 24-25 years. However, demolition is not simply a function of the fleet's age profile. Several factors will influence an owner's decision on whether to scrap older vessels, notably (1) actual and anticipated returns from the charter market, (2) the relative running costs and fuel-efficiency of the vessel, (3) prospective expenditure at classification society surveys (which, as well as general costs of repair and maintenance can be impacted by new regulations, such as the International Maritime Organization's convention on Ballast Water Management, where effective implementation for existing vessels is now scheduled to enter into force in September 2019) and (4) the second-hand re-sale value (that is, whether it provides a premium to scrap). For much of the period from 2000 to 2009, returns from the drybulk charter markets supported continued investment in vessel life extension, and scrapping volumes fell to minimal levels. This, however, ensured an accumulation of older tonnage in the fleet and, as a result, demolition proved extremely responsive to a deterioration in freight market conditions. For instance, deletions from the drybulk fleet rose from 3.6 Mdwat in 2008 to 14.7 Mdwat in 2009 and reached a new annual record of 35.4 Mdwat in 2012. Over the last five years, scrapping

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volumes have remained very reactive to changes in vessel earnings with, for example, deletions dropping to a 10-year low of 4.8 Mdwat in 2018 from approximately 30.0 Mdwat p.a. in both 2015 and 2016.

The low levels of demolition in 2018 helped to ensure a net rise in the pool of drybulk tonnage aged over 15 years. At the end of December 2018, there were approximately 17.0 Mdwat of ships aged 25 years or older in the drybulk carrier fleet, with an additional 38.7 Mdwat aged 20 to 24 years and 63.3 Mdwat aged 15 to 19 years. The highest concentration of vessels 20+ years old was in the Handysize sector, accounting for 12.3% of dwt capacity in this size range as of the end of December 2018, compared with 7.1% of Handymaxes, 6.3% of Panamaxs and 5.2% of Capesizes.

As the chart below illustrates, historically high levels of ship demolition contributed to a marked slowdown in the rate of drybulk carrier net fleet growth in 2015 and 2016 with the estimated 2.2% rise in 2016 representing the lowest annual percentage increase since the 1990s. There was some re-acceleration in fleet supply growth in 2017 with an estimated net rise in total drybulk tonnage of 3.0%, before edging lower to an estimated 2.9% between 1 January and 31 December 2018, despite the limited scrapping activity. However, this remained well below the rapid rates of expansion over the five-year period from 2009 to 2013 when the total drybulk fleet grew at an annual average of 11.3% p.a.

All of the four main segments of the drybulk fleet grew at a similar rate in 2018, ranging from an estimated 2.3% for Handysizes to 3.4% for Capesizes. A greater contrast is apparent when reviewing fleet developments over the period between 2013 and 2018, when the 10,000-39,999 dwt Handysize fleet grew at an estimated CAGR of 1.8%, compared with 4.5% for 40,000-64,999 dwt Handymaxes, 2.7% for 65,000-99,999 dwt Panamaxs and 2.7% for 100,000+ dwt Capes. Reflecting its faster than average growth, the Handymax sector's share of total dwt capacity has risen from 22.0% at the end of 2013 to an estimated 23.6% as of the end of December 2018. By comparison, the same five-year period saw a decreased share of the fleet accounted for by Handysizes, falling from 11.8% to 11.1%, Panamaxs, from 25.3% to 24.9% and Capesizes, from 41.0% to 40.4%.

Charter Market & Freight Rates

The chartering of drybulk vessels can take several different forms, the most typical of which are summarized below.

(a) Single voyage ("spot") charter

This involves the hire of a vessel for just one stipulated voyage, carrying a designated quantity of a named commodity. For most such charters, an individual ship is specified that will carry out the voyage to be undertaken. The terms of the agreement between the charterer and vessel owner usually define the port (or ports) of cargo loading and discharge, the dates between which the cargo is to be loaded, and the cargo-handling terms. The vessel owner will receive from the charterer a mutually agreed-upon payment (normally quoted as a US\$ per ton freight rate). In return, the ship owner pays all voyage expenses (such as the costs of fuel consumed on the voyage, plus port expenses), all operating costs (such as insurance and crewing of the vessel), and capital expenses (such as the servicing of any mortgage debt on the ship).

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(b) Contract of affreightment, or COA

Under a COA, the vessel owner and charterer agree to terms for the carriage of a designated volume of a given commodity on a specified route (or routes), with such shipments being carried out on a regular basis. The agreement does not normally identify an individual ship that will be used to fulfill its terms, but includes more general specifications on the vessels to be used (such as maximum age). Under the terms of a COA, freight is normally paid on a mutually agreed-upon US\$ per ton basis, with the vessel owner then meeting all voyage, operating and capital costs incurred in the execution of such a charter.

(c) Time charter

Under a time charter, the charterer takes the ship on hire for either (1) a trip between designated delivery and re-delivery positions or (2) for a designated period (for example, 12 months). The freight rate agreed upon between the ship owner and charterer is in terms of a daily hire rate (in U.S. dollars), rather than as a US\$ per ton figure. For longer term period charters, this may escalate at a rate mutually agreed upon between vessel owner and charterer. Under the terms of such charters, the vessel owner meets the ship's operating and capital costs, with the charterer paying all variable voyage expenses (mainly fuel costs, plus port and canal dues). In addition, and unless otherwise stipulated in the charter agreement, the period charterer is able to trade the vessel to and from whichever loading and discharge ports that it may choose, carrying whichever cargoes they prefer.

(d) Bareboat charter

Under a bareboat charter, the vessel owner effectively relinquishes control of its ship to the charterer (usually for a period of several years). The ship owner receives an agreed-upon level of remuneration (which may again escalate at a mutually agreed-upon rate) for the duration of the charter, and remains responsible for the vessel's capital costs. In return, the charterer assumes total control of the vessel, thereby becoming responsible for operating the ship and meeting all costs of such operation (such as crewing, repairs and maintenance), as well as the direct voyage expenses incurred (such as fuel costs and port expenses) when it is trading.

Freight Rates

Freight rates are determined by the balance of tonnage demand and tonnage supply. Primarily as the result of record newbuilding deliveries, fleet utilization rates have dropped sharply from the peak levels of 2007, as illustrated by movements in key freight market indicators.

Given the diversity of routes and cargoes traded by the drybulk fleet, freight market measures tend to focus on average worldwide spot earnings (expressed in US\$ per day). The most recognized of these measures are published on a daily basis by the Baltic Exchange in London. In addition to global averages for standard designs of Handysize (28,000 dwt), Supramax (58,328 dwt), Panamax (74,000 dwt) and Capesize (180,000 dwt) vessels, together with a number of component routes, the Baltic Exchange also publishes a daily composite Index for the entire drybulk market (the BDI or Baltic Exchange Dry Index).

From its all-time high of almost 12,000 points in May 2008, just prior to the global financial crisis, the BDI fell to below 700 points in December of the same year. After partial recovery in 2009, negative pressure on freight markets returned under the weight of sustained fleet supply growth. At 920 points in 2012, the BDI's annual average was a 26-year low. A combination of sharply reduced fleet supply, generally slower vessel speeds and new peaks for dry bulk trade lifted the 2013 annual average of the BDI to 1,206 points. Yet, despite continued spot market volatility, the corresponding 2014 level slipped to 1,105 points and spot market weakness intensified in 2015, chiefly due to a sharp slowdown in drybulk trade growth, with the BDI's annual average falling to 718 points. This was followed by new daily, monthly and quarterly lows in the first quarter of 2016, when weak global steel production, disruptions to cargo availability and lower bunker prices, together with negative seasonal factors, all contributed to the further weakening in the freight market. Despite a partial rebound over the rest of the year, the BDI's annual average in 2016 of 673 points was the lowest since its inception in 1985.

However, 2017 did see the first rise in the BDI's annual average for four years, to 1,145 points, and this was followed by further gains in 2018, when the annual average of 1,353 points was a 7-year high. Volatility remained a feature of drybulk spot markets in 2018 with the BDI fluctuating between a low of 948 points and a high of 1,774 points. August proved to be the strongest month of the year for the BDI for only the second time since its inception (but the second time in three years) with a monthly average of 1,710 points, before slipping towards the end of 2018. Further falls in

freight rates were recorded in the early weeks of 2019, as dry bulk trade was impacted by a combination of negative seasonal, exceptional and cyclical factors. As a result, the BDI slipped to its lowest levels since 2016 with a monthly average of 629 points in February 2019.

The first of the charts below traces developments in representative 12-month charter rates for the four main vessel sizes from January 2003 to late February 2019, encompassing the all-time highs in vessel earnings and the subsequent slump in rates.

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The second chart looks in more detail at developments since the beginning of 2013. It shows the Capesize-led rebound from mid-2013 to the first quarter of 2014 and subsequent slide to the depressed levels in the first quarter of 2016 before the commencement of a revival during the second half of 2016. This was followed by further increases in 2017 and 2018, which saw period rates rise to their highest levels since 2014 before some softening towards the end of last year and into early 2019. These assessments are based on existing modern (that is, under 10 years of age) vessels. Within these individual size ranges, period rates will vary according to such factors as vessel age, size, fuel consumption and yard of build.

Although both charts show the extent to which vessel earnings in the different size ranges move broadly in tandem, they also highlight that the sharpness of market rises and falls vary in degree. Those size groups that carry the narrowest range of cargoes, or those employed on the least number of routes, tend to experience the greatest variations in charter rates. Hence, in the drybulk shipping sector, earnings of Capesizes have been prone to fluctuate to a far greater degree than those of smaller vessels (with their greater trading versatility, assisted by the cargo gear on these vessel types).

Asset Values

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In addition to the global balance between the demand for new vessels and available shipbuilding capacity, newbuilding prices are also influenced by changes in vessel construction costs, due to such factors as movements in steel plate prices or exchange rates against the U.S. dollar in key shipbuilding nations (principally China, Japan and South Korea).

Panamax bulk carrier newbuilding prices in Japan peaked at \$56 million in the third quarter of 2008 and subsequently fell to \$29 million in the final quarter of 2012. By the end of 2013 Japanese prices had climbed to a 38-month high of \$35 million, chiefly as the result of recovering newbuilding demand, and remained at similar levels through much of 2014. However, prices entered a downward trend in 2015 which continued into 2016 and, by the final quarter of that year, Japanese Panamax newbuilding prices reached their lowest level since 2003 at an estimated \$23.5 million. From these lows there was a sharp rebound in Japanese prices to an estimated \$33.0 million during the second half of 2018, which was the highest level in four years and has been sustained into the first quarter of 2019.

Second-hand values are primarily shaped by actual and anticipated earnings, newbuilding replacement costs (which are relevant for modern vessels) and residual scrap value (more relevant for older units). To an extent, prices are also influenced by the availability and cost of ship financing, as this will help to determine whether investors are able to realize their demand for new or second-hand vessels.

The charts below compare the development of representative newbuilding, five-year old and ten-year old second-hand prices for Handysize, Handymax, Panamax and Capesize vessels since 2003. Individual vessel prices vary according to such factors as specific size, age, cargo gear, yard of build and fuel consumption. Following the pattern of the charter markets, prices peaked between mid-2007 and mid-2008. Such was the shortage of shipbuilding capacity during that period, with a lengthening lead time between contracting and delivery, that demand for existing vessels with prompt delivery briefly created the unusual situation where second-hand vessels were priced at a premium to newbuildings.

Consequently, the percentage decline in second-hand prices between 2008 and 2012 was more severe than for newbuildings. Prices showed a firmer trend from the beginning of 2013 to March 2014, when five-year old values rose by an average of approximately 50%, led by a 60-70% increase in Capesize prices. The onset of generally weaker spot and period charter rates began to erode second-hand values during the latter months of 2014, and downward pressure intensified during 2015 and into 2016, sharply reducing prices. By the end of February 2016, Panamax five-year old prices of approximately \$11.0 million were at their lowest since the 1980s. However, from these lows, second-hand prices have shown a significant improvement, with Panamax five-year old values reaching approximately \$20.5 million at the end of 2017 and approximately \$22.5 million in June 2018, before ending the year at approximately \$21.0 million. There were similar percentage movements in Supramax and Handysize five-year old prices over the same period, while Capesize values are estimated to have shown smaller, but still substantial, percentage increases from the lows of 2016.

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Environmental and Other Regulations in the Shipping Industry

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

A variety of government and private entities subject our vessels to both scheduled and unscheduled inspections. These entities include the local port authorities (applicable national authorities such as the United States Coast Guard (“USCG”), harbor master or equivalent), classification societies, flag state administrations (countries of registry) and charterers, particularly terminal operators. Certain of these entities require us to obtain permits, licenses, certificates and other authorizations for the operation of our vessels. Failure to maintain necessary permits or approvals could require us to incur substantial costs or result in the temporary suspension of the operation of one or more of our vessels.

Increasing environmental concerns have created a demand for vessels that conform to the stricter environmental standards. We are required to maintain operating standards for all of our vessels that emphasize operational safety, quality maintenance, continuous training of our officers and crews and compliance with United States and international regulations. We believe that the operation of our vessels is in substantial compliance with applicable environmental laws and regulations and that our vessels have all material permits, licenses, certificates or other authorizations necessary for the conduct of our operations. However, because such laws and regulations frequently change and may impose increasingly stricter requirements, we cannot predict the ultimate cost of complying with these requirements, or the impact of these requirements on the resale value or useful lives of our vessels. In addition, a future serious marine incident that causes significant adverse environmental impact could result in additional legislation or regulation that could negatively affect our profitability.

International Maritime Organization

The International Maritime Organization, the United Nations agency for maritime safety and the prevention of pollution by vessels (the “IMO”), has adopted the International Convention for the Prevention of Pollution from Ships, 1973, as modified by the Protocol of 1978 relating thereto, collectively referred to as MARPOL 73/78 and herein as “MARPOL,” adopted the International Convention for the Safety of Life at Sea of 1974 (“SOLAS Convention”), and the International Convention on Load Lines of 1966 (the “LL Convention”). MARPOL establishes environmental standards relating to oil leakage or spilling, garbage management, sewage, air emissions, handling and disposal of noxious liquids and the handling of harmful substances in packaged forms. MARPOL is applicable to drybulk, tanker and LNG carriers, among other vessels, and is broken into six Annexes, each

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of which regulates a different source of pollution. Annex I relates to oil leakage or spilling; Annexes II and III relate to harmful substances carried in bulk in liquid or in packaged form, respectively; Annexes IV and V relate to sewage and garbage management, respectively; and Annex VI, lastly, relates to air emissions. Annex VI was separately adopted by the IMO in September of 1997.

In 2013, the IMO's Marine Environmental Protection Committee, or the "MEPC," adopted a resolution amending MARPOL Annex I Condition Assessment Scheme, or "CAS." These amendments became effective on October 1, 2014, and require compliance with the 2011 International Code on the Enhanced Programme of Inspections during Surveys of Bulk Carriers and Oil Tankers, or "ESP Code," which provides for enhanced inspection programs. We may need to make certain financial expenditures to comply with these amendments.

In June 2015 the IMO formally adopted the International Code of Safety for Ships using Gases or Low flashpoint Fuels, or the IGF Code, which is designed to minimize the risks involved with ships using low flashpoint fuels-including LNG. The IGF Code will be mandatory under SOLAS through the adopted amendments. The IGF Code and the amendments to SOLAS became effective January 1, 2017.

Air Emissions

In September of 1997, the IMO adopted Annex VI to MARPOL to address air pollution from vessels. Effective May 2005, Annex VI sets limits on sulfur oxide and nitrogen oxide emissions from all commercial vessel exhausts and prohibits "deliberate emissions" of ozone depleting substances (such as halons and chlorofluorocarbons), emissions of volatile compounds from cargo tanks, and the shipboard incineration of specific substances. Annex VI also includes a global cap on the sulfur content of fuel oil and allows for special areas to be established with more stringent controls on sulfur emissions, as explained below. Emissions of "volatile organic compounds" from certain vessels, and the shipboard incineration (from incinerators installed after January 1, 2000) of certain substances (such as polychlorinated biphenyls, or PCBs) are also prohibited. We believe that all our vessels are currently compliant in all material respects with these regulations.

The MEPC, adopted amendments to Annex VI regarding emissions of sulfur oxide, nitrogen oxide, particulate matter and ozone depleting substances, which entered into force on July 1, 2010. The amended Annex VI seeks to further reduce air pollution by, among other things, implementing a progressive reduction of the amount of sulfur contained in any fuel oil used on board ships. On October 27, 2016, at its 70th session, the MEPC agreed to implement a global 0.5% m/m sulfur oxide emissions limit (reduced from 3.50%) starting from January 1, 2020. This limitation can be met by using low-sulfur compliant fuel oil, alternative fuels, or certain exhaust gas cleaning systems. Once the cap becomes effective, ships will be required to obtain bunker delivery notes and International Air Pollution Prevention ("IAPP") Certificates from their flag states that specify sulfur content. Additionally, at MEPC 73, amendments to Annex VI to prohibit the carriage of bunkers above 0.5% Sulphur on ships were adopted and will take effect March 1, 2020. These regulations subject ocean-going vessels to stringent emissions controls, and may cause us to incur substantial costs.

Sulfur content standards are even stricter within certain "Emission Control Areas," or ("ECAs"). As of January 1, 2015, ships operating within an ECA were not permitted to use fuel with sulfur content in excess of 0.1%. Amended Annex VI establishes procedures for designating new ECAs. Currently, the IMO has designated four ECAs, including specified portions of the Baltic Sea area, North Sea area, North American area and United States Caribbean area. Ocean-going vessels in these areas will be subject to stringent emission controls and may cause us to incur additional costs. If other ECAs are approved by the IMO, or other new or more stringent requirements relating to emissions from marine diesel engines or port operations by vessels are adopted by the U.S. Environmental Protection Agency ("EPA") or the states where we operate, compliance with these regulations could entail significant capital expenditures or otherwise increase the costs of our operations.

Amended Annex VI also establishes new tiers of stringent nitrogen oxide emissions standards for marine diesel engines, depending on their date of installation. At the MEPC meeting held from March to April 2014, amendments to Annex VI were adopted which address the date on which Tier III Nitrogen Oxide (NOx) standards in ECAs will go into effect. Under the amendments, Tier III NOx standards apply to ships that operate in the North American and U.S. Caribbean Sea ECAs designed for the control of NOx with a marine diesel engine installed and constructed on or after January 1, 2016. Tier III requirements could apply to areas that will be designated for Tier III NOx in the future. At

MEPC 70 and MEPC 71, the MEPC approved the North Sea and Baltic Sea as ECAs for nitrogen oxide for ships built after January 1, 2021. The EPA promulgated equivalent (and in some senses stricter) emissions standards in late 2009. As a result of these designations or similar future designations, we may be required to incur additional operating or other costs.

As determined at the MEPC 70, the new Regulation 22A of MARPOL Annex VI is effective as of March 1, 2018 and requires ships above 5,000 gross tonnage to collect and report annual data on fuel oil consumption to an IMO database, with the first year of data collection commencing on January 1, 2019. The IMO intends to use such data as the first step in its roadmap (through 2023) for developing its strategy to reduce greenhouse gas emissions from ships, as discussed further below.

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As of January 1, 2013, MARPOL made mandatory certain measures relating to energy efficiency for ships. All ships are now required to develop and implement Ship Energy Efficiency Management Plans (“SEEMPS”), and new ships must be designed in compliance with minimum energy efficiency levels per capacity mile as defined by the Energy Efficiency Design Index (“EEDI”). Under these measures, by 2025, all new ships built will be 30% more energy efficient than those built in 2014.

We may incur costs to comply with these revised standards. Additional or new conventions, laws and regulations may be adopted that could require the installation of expensive emission control systems and could adversely affect our business, results of operations, cash flows and financial condition.

Safety Management System Requirements

The SOLAS Convention was amended to address the safe manning of vessels and emergency training drills. The Convention of Limitation of Liability for Maritime Claims (the “LLMC”) sets limitations of liability for a loss of life or personal injury claim or a property claim against ship owners. We believe that our vessels are in substantial compliance with SOLAS and LL Convention standards.

Under Chapter IX of the SOLAS Convention, or the International Safety Management Code for the Safe Operation of Ships and for Pollution Prevention (the “ISM Code”), our operations are also subject to environmental standards and requirements. 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 rely upon the safety management system that we and our technical management team have developed for compliance with the ISM Code. The failure of a vessel owner or bareboat charterer to comply with the ISM Code may subject such party to increased liability, may decrease available insurance coverage for the affected vessels and may result in a denial of access to, or detention in, certain ports.

The ISM Code requires that vessel operators obtain a safety management certificate for each vessel they operate. This certificate evidences compliance by a vessel’s management with the ISM Code requirements for a safety management system. No vessel can obtain a safety management certificate unless its manager has been awarded a document of compliance, issued by each flag state, under the ISM Code. We have obtained applicable documents of compliance for our offices and safety management certificates for all of our vessels for which the certificates are required by the IMO. The document of compliance and safety management certificate are renewed as required.

Regulation II-1/3-10 of the SOLAS Convention governs ship construction and stipulates that ships over 150 meters in length must have adequate strength, integrity and stability to minimize risk of loss or pollution. Goal-based standards amendments in SOLAS regulation II-1/3-10 entered into force in 2012, with July 1, 2016 set for application to new oil tankers and bulk carriers. The SOLAS Convention regulation II-1/3-10 on goal-based ship construction standards for bulk carriers and oil tankers, which entered into force on January 1, 2012, requires that all oil tankers and bulk carriers of 150 meters in length and above, for which the building contract is placed on or after July 1, 2016, satisfy applicable structural requirements conforming to the functional requirements of the International Goal-based Ship Construction Standards for Bulk Carriers and Oil Tankers (GBS Standards).

Amendments to the SOLAS Convention Chapter VII apply to vessels transporting dangerous goods and require those vessels be in compliance with the International Maritime Dangerous Goods Code (“IMDG Code”). Effective January 1, 2018, the IMDG Code includes (1) updates to the provisions for radioactive material, reflecting the latest provisions from the International Atomic Energy Agency, (2) new marking, packing and classification requirements for dangerous goods, and (3) new mandatory training requirements.

The IMO has also adopted the International Convention on Standards of Training, Certification and Watchkeeping for Seafarers (“STCW”). As of February 2017, all seafarers are required to meet the STCW standards and be in possession of a valid STCW certificate. Flag states that have ratified SOLAS and STCW generally employ the classification societies, which have incorporated SOLAS and STCW requirements into their class rules, to undertake surveys to confirm compliance.

The IMO's Maritime Safety Committee and MEPC, respectively, each adopted relevant parts of the International Code for Ships Operating in Polar Water (the “Polar Code”). The Polar Code, which entered into force on January 1, 2017, covers design, construction, equipment, operational, training, search and rescue as well as environmental protection

matters relevant to ships operating in the waters surrounding the two poles. It also includes mandatory measures regarding safety and pollution prevention as well as recommendatory provisions. The Polar Code applies to new ships constructed after January 1, 2017, and after January 1, 2018, ships constructed before January 1, 2017 are required to meet the relevant requirements by the earlier of their first intermediate or renewal survey.

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Furthermore, recent action by the IMO's Maritime Safety Committee and United States agencies indicate that cybersecurity regulations for the maritime industry are likely to be further developed in the near future in an attempt to combat cybersecurity threats. For example, cyber-risk management systems must be incorporated by ship-owners and managers by 2021. This might cause companies to create additional procedures for monitoring cybersecurity, which could require additional expenses and/or capital expenditures. The impact of such regulations is hard to predict at this time.

Pollution Control and Liability Requirements

The IMO has negotiated international conventions that impose liability for pollution in international waters and the territorial waters of the signatories to such conventions. For example, the IMO adopted an International Convention for the Control and Management of Ships' Ballast Water and Sediments (the "BWM Convention") in 2004. The BWM Convention entered into force on September 9, 2017. The BWM Convention requires ships to manage their ballast water to remove, render harmless, or avoid the uptake or discharge of new or invasive aquatic organisms and pathogens within ballast water and sediments. 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, and require all ships to carry a ballast water record book and an international ballast Water management certificate.

On December 4, 2013, the IMO Assembly passed a resolution revising the application dates of BWM Convention so that the dates are triggered by the entry into force date and not the dates originally in the BWM Convention. This, in effect, makes all vessels delivered before the entry into force date "existing vessels" and allows for the installation of ballast water management systems on such vessels at the first International Oil Pollution Prevention (IOPP) renewal survey following entry into force of the convention. The MEPC adopted updated guidelines for approval of ballast water management systems (G8) at MEPC 70. At MEPC 71, the schedule regarding the BWM Convention's implementation dates was also discussed and amendments were introduced to extend the date existing vessels are subject to certain ballast water standards. Ships over 400 gross tons generally must comply with a "D-1 standard," requiring the exchange of ballast water only in open seas and away from coastal waters. The "D-2 standard" specifies the maximum amount of viable organisms allowed to be discharged, and compliance dates vary depending on the IOPP renewal dates. Depending on the date of the IOPP renewal survey, existing vessels must comply with the D-2 standard on or after September 8, 2019. For most ships, compliance with the D-2 standard will involve installing on-board systems to treat ballast water and eliminate unwanted organisms. Ballast Water Management systems, which include systems that make use of chemical, biocides, organisms or biological mechanisms, or which alter the chemical or physical characteristics of the Ballast Water, must be approved in accordance with IMO Guidelines (Regulation D-3). Costs of compliance with these regulations may be substantial.

Once mid-ocean ballast exchange ballast water treatment requirements become mandatory under the BWM Convention, the cost of compliance could increase for ocean carriers and may have a material effect on our operations. However, many countries already regulate the discharge of ballast water carried by vessels from country to country to prevent the introduction of invasive and harmful species via such discharges. The U.S., for example, requires vessels entering its waters from another country to conduct mid-ocean ballast exchange, or undertake some alternate measure, and to comply with certain reporting requirements.

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

Ships are required to maintain a certificate attesting that they maintain adequate insurance to cover an incident. In jurisdictions, such as the United States where the Bunker Convention has not been adopted, various legislative schemes or common law govern, and liability is imposed either on the basis of fault or on a strict-liability basis.

Anti Fouling Requirements

In 2001, the IMO adopted the International Convention on the Control of Harmful Anti fouling Systems on Ships, or the "Anti fouling Convention." The Anti fouling Convention, which entered into force on September 17, 2008, prohibits the use of organotin compound coatings to prevent the attachment of mollusks and other sea life to the hulls of vessels. Vessels of over 400 gross tons engaged in international voyages will also be required to undergo an initial survey before the vessel is put into service or before an International Anti fouling System Certificate is issued for the first time; and subsequent surveys when the anti fouling systems are altered or replaced. We have obtained Anti fouling System Certificates for all of our vessels that are subject to the Anti fouling Convention.

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Compliance Enforcement

Noncompliance with the ISM Code or other IMO regulations may subject the ship owner 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. The USCG and European Union authorities have indicated that vessels not in compliance with the ISM Code by applicable deadlines will be prohibited from trading in U.S. and European Union ports, respectively. As of the date of this report, each of our vessels is ISM Code certified. However, there can be no assurance that such certificates will be maintained in the future. The IMO continues to review and introduce new regulations. It is impossible to predict what additional regulations, if any, may be passed by the IMO and what effect, if any, such regulations might have on our operations.

United States Regulations

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

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

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

OPA contains statutory caps on liability and damages; such caps do not apply to direct cleanup costs. Effective December 21, 2015, the USCG adjusted the limits of OPA liability for non-tank vessels, edible oil tank vessels, and any oil spill response vessels, to the greater of \$1,100 per gross ton or \$939,800 (subject to periodic adjustment for inflation). These limits of liability do not apply if an incident was proximately caused by the violation of an applicable U.S. federal safety, construction or operating regulation by a responsible party (or its agent, employee or a person acting pursuant to a contractual relationship), or a responsible party's gross negligence or willful misconduct. The limitation on liability similarly does not apply if the responsible party fails or refuses to (i) report the incident where the 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.

CERCLA contains a similar liability regime whereby owners and operators of vessels are liable for cleanup, removal and remedial costs, as well as damages for injury to, or destruction or loss of, natural resources, including the reasonable costs associated with assessing same, and health assessments or health effects studies. There is no liability if the discharge of a hazardous substance results solely from the act or omission of a third party, an act of God or an act of war. Liability under CERCLA is limited to the greater of \$300 per gross ton or \$5.0 million for vessels carrying a hazardous substance as cargo and the greater of \$300 per gross ton or \$500,000 for any other vessel. These limits do not apply (rendering the responsible person liable for the total cost of response and damages) if the release or threat of

release of a hazardous substance resulted from willful misconduct or negligence, or the primary cause of the release was a violation of applicable safety, construction or operating standards or regulations. The limitation

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on liability also does not apply if the responsible person fails or refused to provide all reasonable cooperation and assistance as requested in connection with response activities where the vessel is subject to OPA.

OPA and CERCLA each preserve the right to recover damages under existing law, including maritime tort law. OPA and CERCLA both require owners and operators of vessels to establish and maintain with the USCG 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. We comply with the USCG's financial responsibility regulations by providing applicable certificates of financial responsibility.

The 2010 Deepwater Horizon oil spill in the Gulf of Mexico resulted in additional regulatory initiatives or statutes, including higher liability caps under OPA, new regulations regarding offshore oil and gas drilling, and a pilot inspection program for offshore facilities. However, several of these initiatives and regulations have been or may be revised. For example, the U.S. Bureau of Safety and Environmental Enforcement's ("BSEE") revised Production Safety Systems Rule ("PSSR"), effective December 27, 2018, modified and relaxed certain environmental and safety protections under the 2016 PSSR. Additionally, the BSEE released proposed changes to the Well Control Rule, which could roll back certain reforms regarding the safety of drilling operations, and the U.S. President proposed leasing new sections of U.S. waters to oil and gas companies for offshore drilling, expanding the U.S. waters that are available for such activity over the next five years. The effects of these proposals are currently unknown. Compliance with any new requirements of OPA and future legislation or regulations applicable to the operation of our vessels could impact the cost of our operations and adversely affect our business.

OPA specifically permits individual states to impose their own liability regimes with regard to oil pollution incidents occurring within their boundaries, provided they accept, at a minimum, the levels of liability established under OPA and some states have enacted legislation providing for unlimited liability for oil spills. 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. Moreover, some states have enacted legislation providing for unlimited liability for discharge of pollutants within their waters, although in some cases, states which have enacted this type of legislation have not yet issued implementing regulations defining vessel owners' responsibilities under these laws. We intend to comply with all applicable state regulations in the ports where the our vessels call.

We currently maintain pollution liability coverage insurance in the amount of \$1.0 billion per incident for each of our vessels. If the damages from a catastrophic spill were to exceed our insurance coverage, it could have an adverse effect on our business and results of operation.

Other United States Environmental Initiatives

The U.S. Clean Air Act of 1970 (including its amendments of 1977 and 1990) ("CAA") requires the EPA to promulgate standards applicable to emissions of volatile organic compounds and other air contaminants. The CAA requires states to adopt State Implementation Plans, or SIPs, some of which regulate emissions resulting from vessel loading and unloading operations which may affect our vessels.

The U.S. Clean Water Act ("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. In 2015, the EPA expanded the definition of "waters of the United States" ("WOTUS"), thereby expanding federal authority under the CWA. Following litigation on the revised WOTUS rule, in December 2018, the EPA and Department of the Army proposed a revised, limited definition of "waters of the United States." The effect of this proposal on U.S. environmental regulations is still unknown.

The EPA and the USCG have also enacted rules relating to ballast water discharge, compliance with which requires the installation of equipment on our vessels to treat ballast water before it is discharged or the implementation of other port facility disposal arrangements or procedures at potentially substantial costs, and/or otherwise restrict our vessels from entering U.S. Waters. The EPA will regulate these ballast water discharges and other discharges incidental to the normal operation of certain vessels within United States waters pursuant to the Vessel Incidental Discharge Act

(“VIDA”), which was signed into law on December 4, 2018 and will replace the 2013 Vessel General Permit (“VGP”) program (which authorizes discharges incidental to operations of commercial vessels and contains numeric ballast water discharge limits for most vessels to reduce the risk of invasive species in U.S. waters, stringent requirements for scrubbers, and requirements for the use of environmentally acceptable lubricants) and current Coast Guard ballast water management regulations adopted under the U.S. National Invasive Species Act (“NISA”), such as mid-ocean ballast exchange programs and installation of approved USCG technology. VIDA establishes a new framework for the regulation of vessel incidental discharges under Clean Water Act (CWA), requires the EPA to develop performance standards

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for those discharges within two years of enactment, and requires the U.S. Coast Guard to develop implementation, compliance, and enforcement regulations within two years of EPA's promulgation of standards. Under VIDA, all provisions of the 2013 VPG and USCG regulations regarding ballast water treatment remain in force and effect until the EPA and U.S. Coast Guard regulations are finalized. Non-military, non-recreational vessels greater than 79 feet in length must continue to comply with the requirements of the VGP, including submission of a Notice of Intent ("NOI") or retention of a PARI form and submission of annual reports. We have submitted NOIs for our vessels where required. Compliance with the EPA, U.S. Coast Guard and state regulations could require the installation of ballast water treatment equipment on our vessels or the implementation of other port facility disposal procedures at potentially substantial cost, or may otherwise restrict our vessels from entering U.S. waters.

European Union Regulations

In October 2009, the European Union amended a directive to impose criminal sanctions for illicit ship-source discharges of polluting substances, including minor discharges, if committed with intent, recklessly or with serious negligence and the discharges individually or in the aggregate result in deterioration of the quality of water. Aiding and abetting the discharge of a polluting substance may also lead to criminal penalties. The directive applies to all types of vessels, irrespective of their flag, but certain exceptions apply to warships or where human safety or that of the ship is in danger. Criminal liability for pollution may result in substantial penalties or fines and increased civil liability claims. Regulation (EU) 2015/757 of the European Parliament and of the Council of 29 April 2015 (amending EU Directive 2009/16/EC) governs the monitoring, reporting and verification of carbon dioxide emissions from maritime transport, and, subject to some exclusions, requires companies with ships over 5,000 gross tonnage to monitor and report carbon dioxide emissions annually starting on January 1, 2018, which may cause us to incur additional expenses.

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 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. Furthermore, the EU has implemented regulations requiring vessels to use reduced sulfur content fuel for their main and auxiliary engines. The EU Directive 2005/33/EC (amending Directive 1999/32/EC) introduced requirements parallel to those in Annex VI relating to the sulfur content of marine fuels. In addition, the EU imposed a 0.1% maximum sulfur requirement for fuel used by ships at berth in EU ports.

Greenhouse Gas Regulation

Currently, the emissions of greenhouse gases from international shipping are not subject to the Kyoto Protocol to the United Nations Framework Convention on Climate Change, which entered into force in 2005 and pursuant to which adopting countries have been required to implement national programs to reduce greenhouse gas emissions with targets extended through 2020. International negotiations are continuing with respect to a successor to the Kyoto Protocol, and restrictions on shipping emissions may be included in any new treaty. In December 2009, more than 27 nations, including the U.S. and China, signed the Copenhagen Accord, which includes a non-binding commitment to reduce greenhouse gas emissions. The 2015 United Nations Climate Change Conference in Paris resulted in the Paris Agreement, which entered into force on November 4, 2016 and does not directly limit greenhouse gas emissions from ships. On June 1, 2017, the U.S. President announced that the United States intends to withdraw from the Paris Agreement. The timing and effect of such action has yet to be determined, but the Paris Agreement provides for a four-year exit process.

At MEPC 70 and MEPC 71, a draft outline of the structure of the initial strategy for developing a comprehensive IMO strategy on reduction of greenhouse gas emissions from ships was approved. In accordance with this roadmap, in April 2018, nations at the MEPC 72 adopted an initial strategy to reduce greenhouse gas emissions from ships. The initial strategy identifies "levels of ambition" to reducing greenhouse gas emissions, including (1) decreasing the carbon intensity from ships through implementation of further phases of the EEDI for new ships; (2) reducing carbon dioxide emissions per transport work, as an average across international shipping, by at least 40% by 2030, pursuing efforts

towards 70% by 2050, compared to 2008; and (3) reducing the total annual greenhouse emissions by at least 50% by 2050 compared to 2008 while pursuing efforts towards phasing them out entirely. The initial strategy notes that technological innovation, alternative fuels and/or energy sources for international shipping will be integral to achieve the overall ambition. These regulations could cause us to incur additional substantial expenses.

The EU made a unilateral commitment to reduce overall greenhouse gas emissions from its member states from 20% of 1990 levels by 2020. The EU also committed to reduce its emissions by 20% under the Kyoto Protocol's second period from 2013 to 2020. Starting in January 2018, large ships calling at EU ports are required to collect and publish data on carbon dioxide emissions and other information.

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In the United States, the EPA issued a finding that greenhouse gases endanger the public health and safety, adopted regulations to limit greenhouse gas emissions from certain mobile sources, and proposed regulations to limit greenhouse gas emissions from large stationary sources. However, in March 2017, the U.S. President signed an executive order to review and possibly eliminate the EPA's plan to cut greenhouse gas emissions. The EPA or individual U.S. states could enact environmental regulations that would affect our operations.

Any passage of climate control legislation or other regulatory initiatives by the IMO, the EU, the U.S. or other countries where we operate, or any treaty adopted at the international level to succeed the Kyoto Protocol or Paris Agreement, that restricts emissions of greenhouse gases could require us to make significant financial expenditures which we cannot predict with certainty at this time. Even in the absence of climate control legislation, our business may be indirectly affected to the extent that climate change may result in sea level changes or certain weather events.

International Labour Organization

The International Labor Organization (the "ILO") is a specialized agency of the UN that has adopted the Maritime Labor Convention 2006 ("MLC 2006"). A Maritime Labor Certificate and a Declaration of Maritime Labor Compliance is required to ensure compliance with the MLC 2006 for all ships above 500 gross tons in international trade. We believe that all our vessels are in substantial compliance with and are certified to meet MLC 2006.

Vessel Security Regulations

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

Similarly, Chapter XI-2 of the SOLAS Convention imposes detailed security obligations on vessels and port authorities and mandates compliance with the International Ship and Port Facilities Security Code ("the ISPS Code"). The ISPS Code is designed to enhance the security of ports and ships against terrorism. To trade internationally, a vessel must attain an International Ship Security Certificate ("ISSC") from a recognized security organization approved by the vessel's flag state. Ships operating without a valid certificate may be detained, expelled from, or refused entry at port until they obtain an ISSC. The various requirements, some of which are found in the SOLAS Convention, include, for example, 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.

The USCG regulations, intended to align with international maritime security standards, exempt non-U.S. vessels from MTSA vessel security measures, provided such vessels have on board a valid ISSC that attests to the vessel's compliance with the SOLAS Convention security requirements and the ISPS Code. Future security measures could have a significant financial impact on us. We intend to comply with the various security measures addressed by MTSA, the SOLAS Convention and the ISPS Code.

Inspection by Classification Societies

The hull and machinery of every commercial vessel must be classed 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 SOLAS. Most insurance underwriters make it a condition for insurance coverage and lending that a vessel be certified "in class" by a classification society which is a member of the International Association of Classification Societies, the IACS. The IACS has adopted harmonized Common Structural Rules, or the Rules, which apply to oil tankers and bulk carriers constructed on or after July 1, 2015. The Rules attempt to create a level of consistency between IACS Societies. All our vessels will be

certified as being “in class” by the American Bureau of Shipping, or ABS, and Det Norske Veritas, or DNV, major classification societies. All new and secondhand vessels that we acquire must be certified prior to their delivery under our standard purchase contracts and memorandum of agreement. If the vessel is not certified on the date of closing, we have no obligation to take delivery of the vessel.

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A vessel must undergo annual surveys, intermediate surveys, drydockings and special surveys. In lieu of a special survey, a vessel's machinery may be on a continuous survey cycle, under which the machinery would be surveyed periodically over a five-year period. Every vessel is also required to be drydocked every 30 to 36 months for inspection of the underwater parts of the vessel. If any vessel does not maintain its class and/or fails any annual survey, intermediate survey, drydocking or special survey, the vessel will be unable to carry cargo between ports and will be unemployable and uninsurable which could cause us to be in violation of certain covenants in our loan agreements. Any such inability to carry cargo or be employed, or any such violation of covenants, could have a material adverse impact on our financial condition and results of operations.

Risk of Loss and Liability Insurance

General

The operation of any cargo vessel includes risks such as mechanical failure, physical damage, collision, property loss, cargo loss or damage and business interruption due to political circumstances in foreign countries, piracy incidents, hostilities and labor strikes. In addition, there is always an inherent possibility of marine disaster, including oil spills and other environmental mishaps, and the liabilities arising from owning and operating vessels in international trade. OPA, which imposes near unlimited liability upon shipowners, operators and bareboat charterers of any vessel trading in the exclusive economic zone of the United States for certain oil pollution accidents in the United States, has made liability insurance more expensive for shipowners and operators trading in the United States market. We carry insurance coverage as customary in the shipping industry. However, not all risks can be insured, specific claims may be rejected, and we might not be always able to obtain adequate insurance coverage at reasonable rates.

Hull and Machinery Insurance

We maintain marine hull and machinery and war risks insurance, which will include the risk of partial, actual or constructive total loss, for all of our vessels. Each of our vessels is covered up to at least fair market value with deductibles of \$100,000-\$150,000 per vessel per incident. We also maintain increased value coverage for most of our vessels. Under this increased value coverage, in the event of total loss of a vessel, we will be able to recover the sum insured under the increased value policy in addition to the sum insured under the hull and machinery policy. Increased value insurance also covers excess liabilities which are not recoverable under our hull and machinery policy by reason of under insurance. Under our war risks coverage a total loss would also be paid in the event a vessel were confiscated or detained by unauthorized persons. We generally do not maintain insurance against loss of hire (except for certain charters for which we consider it appropriate), which covers business interruptions that result in the loss of use of a vessel.

Protection and Indemnity Insurance

Protection and indemnity insurance is provided by mutual protection and indemnity associations, or P&I Associations, and covers our third-party liabilities in connection with our shipping activities. This includes third-party liability and other related expenses of injury or death of crew, passengers and other third parties, loss or damage to cargo, claims arising from collisions with other vessels, damage to other third-party property, pollution arising from oil or other substances, and salvage, towing and other related costs, including wreck removal. Protection and indemnity insurance is a form of mutual indemnity insurance, extended by protection and indemnity mutual associations, or "clubs." Our coverage is limited to approximately \$8.0 billion, except for pollution which is limited to \$1.0 billion. If pollution liability costs are greater than \$1.0 billion, the International Oil Pollution Funds would be expected to be utilized. Our current protection and indemnity insurance coverage for pollution is \$1 billion per vessel per incident. The 13 P&I Associations that comprise the International Group insure approximately 90% of the world's commercial tonnage and have entered into a pooling agreement to reinsure each association's liabilities. The International Group's website states that the Pool provides a mechanism for sharing all claims in excess of \$10 million up to, currently, approximately US\$ 8.2 billion. As a member of a P&I Association, which is a member of the International Group, we are subject to calls payable to the associations based on our claim records as well as the claim records of all other members of the individual associations and members of the shipping pool of P&I Associations comprising the International Group.

Permits and Authorizations

We are required by various governmental and quasi-governmental agencies to obtain certain permits, licenses and certificates with respect to our vessels. The kinds of permits, licenses and certificates required depend upon several factors, including the commodity transported, the waters in which the vessel operates, the nationality of the vessel's crew and the age of a vessel. We believe that we have obtained all permits, licenses and certificates currently required to permit our vessels to operate. Additional

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laws and regulations, environmental or otherwise, may be adopted which could limit our ability to do business or increase the cost of us doing business.

C. Organizational Structure

Scorpio Bulkiers Inc. is a company incorporated under the laws of the Marshall Islands. We own our vessels through separate wholly-owned subsidiaries that are incorporated in the Marshall Islands. Please see Exhibit 8.1 to this annual report for a list of our current subsidiaries.

D. Property, Plants and Equipment

Our only material physical assets consist of our vessels which are owned through our separate wholly owned subsidiaries.

For a description of our fleet, see “Item 4. Information on the Company—B. Business Overview—Our Fleet.”

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. Operating Results

The following presentation of management’s discussion and analysis of results of operations and financial condition should be read in conjunction with our consolidated financial statements, including the notes thereto.

Overview

We are an international shipping company that owns and operates the latest generation of newbuilding drybulk carriers with fuel-efficient specifications and carrying capacities of greater than 30,000 dwt. All of our owned vessels have carrying capacities of greater than 60,000 dwt. Our vessels transport a broad range of major and minor bulk commodities, including ores, coal, grains, and fertilizers, along worldwide shipping routes, and are employed primarily in the spot market or in spot market-oriented pools of similarly sized vessels.

We are organized by vessel type into two operating segments:

• **Ultramax Operations:** includes vessels ranging from approximately 60,200 dwt to 64,000 dwt.

• **Kamsarmax Operations:** includes vessels ranging from approximately 82,000 dwt to 84,000 dwt.

Certain of the corporate general and administrative and financial expenses incurred by us are not attributable to any specific segment. Accordingly, these costs are not allocated to any of our segments and are included in the results below as “Corporate.”

We generate revenues by charging customers for the transportation of their drybulk cargoes using our vessels.

Historically, these services generally have been provided under the following basic types of contractual relationships: Commercial Pools, whereby we participate with other shipowners to operate a large number of vessels as an integrated transportation system, which offers customers greater flexibility and a higher level of service while achieving scheduling efficiencies. Pools negotiate charters primarily in the spot market but may also arrange time charter agreements. The size and scope of these pools enable them to enhance utilization rates for pool vessels by securing backhaul voyages and COAs (described below), thus generating higher effective TCE revenues than otherwise might be obtainable in the spot market.

• **Voyage charters,** which are charters for short intervals that are priced on current, or “spot,” market rates.

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Time charters, which are chartered to customers for a fixed period of time at rates that are generally fixed, but may contain a variable component based on inflation, interest rates, or current market rates.

For all of our vessels in contractual relationships, we are responsible for crewing and other vessel operating costs for our owned or finance leased vessels and the charterhire expense for vessels that we time charter-in.

The table below illustrates the primary distinctions among these different employment arrangements:

	Voyage Charter	Time Charter	Commercial Pool
Typical contract length	Single voyage	One year or more	Varies
Hire rate basis	Varies	Daily	Varies
Voyage expenses	We pay	Customer pays	Pool pays
Vessel operating costs for owned vessels	We pay	We pay	We pay
Charterhire expense for vessels chartered-in	We pay	We pay	We pay
Off-hire	Customer does not pay	Customer does not pay	Pool does not pay

During 2018, and as of the date of this annual report, all of our owned, finance leased and time chartered-in vessels are operating in the Scorpio Pools.

Important Financial and Operational Terms and Concepts

We use a variety of financial and operational terms and concepts. These include the following:

Hire rate. The basic payment from the charterer for the use of the vessel.

Vessel revenues. Vessel revenues primarily include revenues from time charters, pool revenues and voyage charters.

Vessel revenues are affected by hire rates and the number of days a vessel operates. Vessel revenues are also affected by the mix of business between vessels on time charter, vessels in pools and vessels operating on voyage charter.

Revenues from vessels in pools and on voyage charter are more volatile, as they are typically tied to prevailing market rates.

Voyage charters. Voyage charters or spot voyages are charters under which the customer pays a transportation charge for the movement of a specific cargo between two or more specified ports. We pay all of the voyage expenses.

Voyage expenses. Voyage expenses primarily include bunkers, port charges, canal tolls, cargo handling operations and brokerage commissions paid by us under voyage charters, as well as brokerage commissions and miscellaneous voyage expenses that we are unable to collect under time charter and pool arrangements. These expenses are subtracted from voyage charter revenues to calculate TCE revenues.

Vessel operating costs. For our owned vessels, we are responsible for vessel operating costs, which include crewing, repairs and maintenance, insurance, stores, lube oils, communication expenses, and technical management fees.

Technical management fees are paid to SSM, which is controlled by the Lolli-Ghetti family. Pursuant to our Revised Master Agreement, SSM provides us with technical services, and we provide it with the ability to subcontract technical management of our vessels.

Charterhire. Charterhire is the amount we pay the owner for time chartered-in vessels. The amount is usually for a fixed period of time at rates that are generally fixed, but may contain a variable component based on inflation, interest rates, or current market rates. The vessel's owner is responsible for crewing and other vessel operating costs.

Drydocking. We periodically drydock each of our owned vessels for inspection, repairs and maintenance and any modifications to comply with industry certification or governmental requirements. Generally, each vessel is drydocked every 30 months to 60 months. We capitalize a substantial portion of the costs incurred during drydocking and amortize those costs on a straight-line basis from the completion of a drydocking to the estimated completion of the next drydocking. We immediately expense costs for routine repairs and maintenance performed during drydocking that do not improve or extend the useful lives of

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the assets. The number of drydockings undertaken in a given period and the nature of the work performed determine the level of drydocking expenditures.

Depreciation. Depreciation expense typically consists of:

- charges related to the depreciation of the historical cost of our owned vessels (less an estimated residual value) over the estimated useful lives of the vessels;
- charges related to the amortization of drydocking expenditures over the estimated number of years to the next scheduled drydocking; and
- amortization of assets under finance lease.

Time charter equivalent (TCE) revenue or rates. We report TCE revenues, a non-GAAP financial measure, because (i) we believe it provides additional meaningful information in conjunction with voyage revenues and voyage expenses, the most directly comparable U.S.-GAAP measure, (ii) it assists our management in making decisions regarding the deployment and use of our vessels and in evaluating their financial performance, (iii) it is a standard shipping industry performance measure used primarily to compare period-to-period changes in a shipping company's performance irrespective of changes in the mix of charter types (i.e., spot charters, time charters and bareboat charters) under which the vessels may be employed between the periods, and (iv) we believe that it presents useful information to investors. TCE revenue is vessel revenue less voyage expenses, including bunkers and port charges. The TCE rate achieved on a given voyage is expressed in U.S. dollars/day and is generally calculated by taking TCE revenue and dividing that figure by the number of revenue days in the period. For a reconciliation of TCE revenue, deduct voyage expenses from revenue on our Statement of Operations. Please also see "Non-GAAP Financial Measures."

Revenue days. Revenue days are the total number of calendar days our vessels were in our possession during a period, less the total number of off-hire days during the period associated with repairs or drydockings. Consequently, revenue days represent the total number of days available for the vessel to earn revenue. Idle days, which are days when a vessel is available to earn revenue, yet is not employed, are included in revenue days. We use revenue days to show changes in net vessel revenues between periods.

Contract of affreightment. A contract of affreightment, or COA, relates to the carriage of specific quantities of cargo with multiple voyages over the same route and over a specific period of time which usually spans a number of years. A COA does not designate the specific vessels or voyage schedules that will transport the cargo, thereby providing both the charterer and shipowner greater operating flexibility than with voyage charters alone. The charterer has the flexibility to determine the individual voyage scheduling at a future date while the shipowner may use different vessels to perform these individual voyages. As a result, COAs are mostly entered into by large fleet operators, such as pools or shipowners with large fleets of the same vessel type. We pay the voyage expenses while the freight rate normally is agreed on a per cargo ton basis.

Commercial pools. To increase vessel utilization and revenues, we participate in commercial pools with other shipowners and operators of similar modern, well-maintained vessels. By operating a large number of vessels as an integrated transportation system, commercial pools offer customers greater flexibility and a higher level of service while achieving scheduling efficiencies. Pools employ experienced commercial charterers and operators who have close working relationships with customers and brokers, while technical management is performed by each shipowner. Pools negotiate charters with customers primarily in the spot market. The size and scope of these pools enable them to enhance utilization rates for pool vessels by securing backhaul voyages and COAs, thus generating higher effective TCE revenues than otherwise might be obtainable in the spot market while providing a higher level of service offerings to customers.

Operating days. Operating days are the total number of available days in a period with respect to the owned vessels, before deducting available days due to off-hire days and days in drydock. Operating days is a measurement that is only applicable to our owned vessels, not our chartered-in vessels.

Off-hire. Time a vessel is not available for service due primarily to scheduled and unscheduled repairs or drydockings. For time chartered-in vessels, we do not pay the charterhire expense when the vessel is off-hire.

Non-GAAP Financial Measures

To supplement our financial information presented in accordance with accounting principles generally accepted in the United States, or GAAP, management uses certain “non-GAAP financial measures” as such term is defined in Regulation G promulgated by the SEC. Generally, a non-GAAP financial measure is a numerical measure of a company’s operating performance, financial position or cash flows that excludes or includes amounts that are included in, or excluded from, the most directly

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comparable measure calculated and presented in accordance with GAAP. Management believes the presentation of these measures provides investors with greater transparency and supplemental data relating to our financial condition and results of operations, and therefore a more complete understanding of factors affecting our business than GAAP measures alone. In addition, management believes the presentation of these matters is useful to investors for period-to-period comparison of results as the items may reflect certain unique and/or non-operating items such as asset sales, write-offs, contract termination costs or items outside of management's control.

Earnings before interest, taxes, depreciation and amortization, or EBITDA, adjusted net loss and related per share amounts, as well as adjusted EBITDA and TCE revenue are non-GAAP financial measures that we believe provide investors with a means of evaluating and understanding how our management evaluates our operating performance. These non-GAAP financial measures should not be considered in isolation from, as substitutes for, nor superior to financial measures prepared in accordance with GAAP.

Reconciliations of EBITDA, and TCE revenue as determined in accordance with U.S. GAAP for the years ended December 31, 2018, 2017 and 2016, as well as reconciliations of adjusted net loss and related per share amounts and adjusted EBITDA in accordance with U.S. GAAP for the years ended December 31, 2017 and 2016 are provided below.

EBITDA

In thousands	For the Year Ended December 31,		
	2018	2017	2016
Net loss	\$(12,698)	\$(59,726)	\$(124,835)
Add Back:			
Net interest expense	39,180	27,307	16,326
Depreciation and amortization ⁽¹⁾	74,070	67,710	62,835
EBITDA	\$100,552	\$35,291	\$(45,674)

⁽¹⁾ Includes depreciation, amortization of deferred financing costs and restricted stock amortization.

Adjusted net loss

In thousands, except per share amounts	For the Year Ended December 31,			
	2017		2016	
	Amount	Per share	Amount	Per share
Net loss	\$(59,726)	\$(0.83)	\$(124,835)	\$(2.22)
Adjustments:				
Loss / write down on assets held for sale	17,701	0.25	12,433	0.22
Write down of deferred financing cost	470	0.01	2,456	0.05
Charterhire contract termination	—	—	10,000	0.18
Total adjustments	18,171	0.26	24,889	0.45
Adjusted net loss	\$(41,555)	\$(0.57)	\$(99,946)	\$(1.77)

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Adjusted EBITDA

	For the Year Ended	
	December 31,	
In thousands	2017	2016
Net loss	\$(59,726)	\$(124,835)
Impact of Adjustments ⁽¹⁾	18,171	24,889
Adjusted net loss	(41,555)	(99,946)
Add Back:		
Net interest expense	27,307	16,326
Depreciation and amortization ⁽²⁾	67,710	62,835
Adjusted EBITDA	\$53,462	\$(20,785)

⁽¹⁾ Includes loss/write down on assets held for sale of \$17.7 million and a write off of deferred financing costs of \$0.5 million for 2017 and loss/write down on assets held for sale of \$12.4 million, a write off of deferred financing costs of \$2.5 million and charterhire contract termination charges of \$10.0 million for 2016.

⁽²⁾ Includes depreciation, amortization of deferred financing costs and restricted stock amortization.

TCE Revenue

Time Charter Equivalent, or TCE, revenue is defined as voyage revenues less voyage expenses. Such TCE revenue, divided by the number of our available days during the period, or revenue days, is TCE per revenue day, which we believe is consistent with industry standards. TCE per revenue day is a common shipping industry performance measure used primarily to compare daily earnings generated by vessels on time charters with daily earnings generated by vessels on voyage charters, because charter hire rates for vessels on voyage charters are generally not expressed in per-day amounts while charter hire rates for vessels on time charters generally are expressed in such amounts.

	For the Year Ended	
	December 31,	
In thousands	2018	2017
Vessel Revenues	\$242,502	\$162,205
Less:		
Voyage expenses (549)	(429)	
TCE revenue	\$241,953	\$161,776

Executive Summary for the Year Ended December 31, 2018

For the year ended December 31, 2018, our GAAP net loss was \$12.7 million or \$0.18 loss per diluted share compared to a GAAP net loss of \$59.7 million, or \$0.83 loss per diluted share in the same period in 2017. Results for the year ended December 31, 2018 include a non-cash loss of \$7.7 million and a cash dividend of \$0.5 million, or \$0.10 loss per diluted share from our equity investment in Scorpio Tankers and a write-off of deferred financing costs of \$3.8 million, or \$0.05 loss per diluted share, related to the refinancing of existing debt. EBITDA for the years ended December 31, 2018 and 2017 were \$100.6 million and \$35.3 million, respectively (see Non-GAAP Financial Measures). Excluding the loss/write-off of vessels and assets held for sale of \$17.7 million and the write-off of deferred financing costs on the credit facility related to those specific vessels of \$0.5 million, our adjusted net loss for the year ended December 31, 2017 was \$41.6 million, or \$0.57 adjusted loss per diluted share, and adjusted EBITDA was \$53.5 million (see Non-GAAP Financial Measures below). There were no such non-GAAP adjustments to our net income for the year ended December 31, 2018.

Total vessel revenues for the year ended December 31, 2018 were \$242.5 million, an increase of 50% from \$162.2 million for the same period in 2017. Our TCE revenue (see Non-GAAP Financial Measures) for the year ended December 31, 2018 was \$242.0 million compared to \$161.8 million for the same period in 2017. The rates earned in 2018 by both our Ultramax and Kamsarmax Operations were driven by a decrease in the supply of tonnage and the United States and China trade war which resulted in longer voyages as Chinese imports from the United States were replaced with imports from South America.

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Total operating expenses for the year ended December 31, 2018 were \$199.2 million compared to \$187.8 million for the same period in 2017. The year over year increase relates to increases in vessel operating costs and depreciation resulting from the increase in the size of our fleet, offset in part by the loss/write-off of vessels and assets held for sale of \$17.7 million recorded in 2017.

During 2018, we repurchased 7.1 million shares under the Board of Directors authorized stock repurchase program at a cost of approximately \$45.7 million, or at an average cost of \$6.44 per share. We also maintained our \$0.02 quarterly dividend, paying out approximately \$6.0 million in cash in aggregate.

During 2018, we also invested \$100.0 million in Scorpio Tankers for approximately 54.1 million, or 10.9% (as of October 12, 2018), of Scorpio Tankers' issued and outstanding common shares. The investment was part of a larger \$337.0 million equity raise through a public offering of common shares by Scorpio Tankers. On January 18, 2019, Scorpio Tankers effected a one-for-ten reverse stock split and as such we now own approximately 5.4 million common shares of Scorpio Tankers.

Results for the Year Ended December 31, 2018 Compared to the Year Ended December 31, 2017

Ultramax Operations

	For the Year Ended December 31,			
	2018	2017	Change	% Change
TCE Revenue:				
Vessel revenue	\$155,197	\$94,380	\$60,817	64
Voyage expenses	330	129	201	156
TCE Revenue	\$154,867	\$94,251	\$60,616	64
Operating expenses:				
Vessel operating costs	71,220	51,445	19,775	38
Charterhire expense	3,754	975	2,779	285
Vessel depreciation	37,287	29,797	7,490	25
General and administrative expense	4,344	3,389	955	28
Total operating expenses	\$116,605	\$85,606	\$30,999	36
Operating income	\$38,262	\$8,645	\$29,617	343

Vessel revenue for our Ultramax Operations increased to \$155.2 million in 2018 from \$94.4 million in 2017. Despite tariffs and sanctions disrupting 2018, rates earned by our Ultramax Operations increased by 23% compared to 2017 due to lower levels of tonnage supply, grain exports from the South American and Black Sea markets and petcoke and coal cargoes out of the United States Gulf.

TCE revenue (see Non-GAAP Financial Measures) for our Ultramax Operations was \$154.9 million for 2018 and was associated with a day-weighted average of 37 vessels owned and one vessel time chartered-in, compared to \$94.3 million for the prior year, which was associated with a day-weighted average of 29 vessels owned. TCE revenue per day was \$11,226 and \$9,159 for 2018 and 2017, respectively.

	For the Year Ended December 31,			
Ultramax Operations:	2018	2017	Change	% Change
TCE Revenue	\$154,867	\$94,251	\$60,616	64
TCE Revenue / Day	\$11,226	\$9,159	\$2,067	23
Revenue Days	13,795	10,291	3,504	34

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Our Ultramax Operations vessel operating costs were \$71.2 million in 2018, relating to 37 vessels owned on average during the period and included approximately \$4.2 million of takeover and contingency costs. Vessel operating costs for the prior year were \$51.4 million and related to 29 vessels owned on average during the period. Daily operating costs excluding takeover costs, contingency expenses and other non-operating expenses for the years ended December 31, 2018 and 2017 were \$4,962 and \$4,842, respectively. The increase is due to an increase of purchases of spares and stores, as well as freight and forwarding expense.

Charterhire expense for our Ultramax Operations was approximately \$3.8 million for the year ended December 31, 2018, and relates to the vessel we have time chartered-in at \$10,125 per day since the end of the third quarter of 2017. Ultramax Operations depreciation increased to \$37.3 million for the year ended December 31, 2018 from \$29.8 million in the prior year reflecting the increase in our weighted average vessels owned to 37 from 29.

General and administrative expense for our Ultramax Operations was \$4.3 million for 2018 and \$3.4 million in the prior year period. General and administrative expenses consist primarily of administrative service fees, which are incurred on a per vessel per day basis, and bank charges, which are incurred based on the number of transactions. The increase versus the prior year reflects the growth of the fleet.

Kamsarmax Operations

	For the Year Ended December 31,			
	2018	2017	Change	% Change
TCE Revenue:				
Vessel revenue	\$87,305	\$67,825	\$19,480	29
Voyage expenses	219	300	(81)	(27)
TCE Revenue	\$87,086	\$67,525	\$19,561	29
Operating expenses:				
Vessel operating costs	34,255	35,336	(1,081)	(3)
Charterhire expense	422	4,417	(3,995)	(90)
Vessel depreciation	19,320	18,713	607	3
General and administrative expense	2,069	1,916	153	8
Loss / write down on assets held for sale	—	17,701	(17,701)	(100)
Total operating expenses	\$56,066	\$78,083	\$(22,017)	(28)
Operating loss	\$31,020	\$(10,558)	\$41,578	394

Vessel revenue for our Kamsarmax Operations increased to \$87.3 million for the year ended December 31, 2018 from \$67.8 million in the prior year. Rates earned by our Kamsarmax Operations during the year ended December 31, 2018 increased 31% compared to 2017, as supply was down due to a lack of new deliveries, as well as increased ton per mile utilization due to an increase in voyages from the east coast of South America to China resulting from the United States and China trade wars.

TCE revenue (see Non-GAAP Financial Measures) for our Kamsarmax Operations was \$87.1 million for the year ended December 31, 2018 associated with a day-weighted average of 19 vessels owned, compared to \$67.5 million for the prior year, associated with a day-weighted average of 18 vessels owned and one vessel time chartered-in. TCE revenue per day was \$13,127 and \$10,051 for the years ended December 31, 2018 and 2017, respectively.

	For the Year Ended December 31,			
Kamsarmax Operations:	2018	2017	Change	% Change
TCE Revenue	\$87,086	\$67,525	\$19,561	29
TCE Revenue / Day	\$13,127	\$10,051	\$3,076	31
Revenue Days	6,634	6,718	(84)	(1)

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Kamsarmax Operations vessel operating costs were \$34.3 million for the year ended December 31, 2018, which related to the 19 vessels owned on average during the period and included approximately \$1.1 million of takeover costs and contingency expenses. Vessel operating costs for the prior year were \$35.3 million and related to the 18 vessels owned on average during the period. Daily operating costs excluding takeover costs, contingency expenses and other non-operating expenses for the years ended December 31, 2018 and 2017 were \$4,940 and \$5,028, respectively.

While we do not time charter-in any Kamsarmax vessels, we have a profit and loss sharing agreement relating to one Kamsarmax vessel with a third party and during the year ended December 31, 2018, our share of the loss on that vessel was \$0.4 million compared to \$0.8 million in the prior year period. During the prior year period, a Kamsarmax vessel was time chartered-in through August 2017 at a cost of \$3.6 million.

Kamsarmax Operations depreciation increased to \$19.3 million for the year ended December 31, 2018 from \$18.7 million in the prior year period. Our weighted average vessels owned was 19 and 18 for the years ended December 31, 2018 and 2017, respectively.

General and administrative expense for the Kamsarmax Operations was \$2.1 million and \$1.9 million for the years ended December 31, 2018 and 2017, respectively. The expense consists primarily of administrative services fees, which are incurred on a per vessel per day basis, and bank charges, which are incurred based on the number of transactions.

During the year ended December 31, 2017, we recorded a write-down on assets held for sale of \$17.7 million related to the sale of two Kamsarmax vessels to an unaffiliated third party.

Corporate

Certain general and administrative expenses we incur as well as all of our financial expenses and income or losses from an equity investment are not attributable to a specific segment. Accordingly, these costs are not allocated to our segments. These general and administrative expenses, including compensation, audit, legal and other professional fees, as well as the costs of being a public company, such as director fees, increased slightly year over year totaling \$25.9 million and \$23.8 million for the years ended December 31, 2018 and 2017, respectively.

We recorded a non cash loss of \$7.7 million for the fourth quarter of 2018 and a cash dividend of \$0.5 million on our equity investment in Scorpio Tankers.

Financial expenses, net increased to \$49.9 million in the year ended December 31, 2018 from \$35.0 million in the prior year period due to an increase in the LIBOR rate and higher levels of debt related to the increase in overall fleet size and debt refinancing, as well as the write-off of \$3.8 million of deferred financing costs related to such refinancing.

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Results for the Year Ended December 31, 2017 Compared to the Year Ended December 31, 2016

Ultramax Operations

	For the Year Ended			
	December 31,		Change	% Change
	2017	2016		
TCE Revenue:				
Vessel revenue	\$94,380	\$46,718	47,662	102
Voyage expenses	129	36	93	258
TCE Revenue	\$94,251	\$46,682	\$47,569	102
Operating expenses:				
Vessel operating costs	51,445	41,749	9,696	23
Charterhire expense	975	5,033	(4,058)	(81)
Charterhire termination	—	7,500	(7,500)	(100)
Vessel depreciation	29,797	22,040	7,757	35
General and administrative expense	3,389	2,725	664	24
Loss / write down on assets held for sale	—	(130)	130	100
Total operating expenses	\$85,606	\$78,917	\$6,689	8
Operating loss	\$8,645	\$(32,235)	\$40,880	127

Vessel revenue for our Ultramax Operations increased to \$94.4 million in 2017 from \$46.7 million in 2016 due to significant increases in both rates and revenue days, the latter of which is associated with the growth of our fleet.

TCE revenue (see Non-GAAP Financial Measures) for our Ultramax Operations was \$94.3 million for 2017 and was associated with a day-weighted average of 28 vessels owned, compared to \$46.7 million for 2016, which was associated with a day-weighted average of 22 vessels owned and one vessel time chartered-in. TCE revenue per day was \$9,159 and \$5,896 for 2017 and 2016, respectively. Increased worldwide demand across all bulk sectors, regions and commodities, as well as a reduction in supply drove the increase in rates for both of our vessel types.

For the Year
Ended December
31,

Ultramax Operations:	2017	2016	Change	% Change
TCE Revenue	\$94,251	\$46,682	\$47,569	102
TCE Revenue / Day	\$9,159	\$5,896	\$3,263	55
Revenue Days	10,291	7,917	2,374	30

Our Ultramax Operations vessel operating costs were \$51.4 million in 2017, including approximately \$1.2 million of takeover costs associated with new deliveries and \$0.6 million of other non-operating expenses and related to 28 vessels owned, on average during the period. Vessel operating costs for 2016 were \$41.7 million and related to 22 vessels owned, on average during the period. Daily operating costs excluding takeover and other non-operating expenses for 2017 were \$4,842.

Charterhire expense for our Ultramax Operations decreased to \$1.0 million in 2017 from \$5.0 million in 2016. We did not time charter-in any Ultramax vessels until the end of the third quarter of 2017, when we chartered-in one Ultramax vessel at \$10,125 per day. During 2016, we recorded a \$7.5 million charge to terminate three time charter-in contracts. Ultramax Operations vessel depreciation increased to \$29.8 million in 2017 from \$22.0 million in 2016, reflecting the increase in our weighted average vessels owned to 28 from 22.

General and administrative expense for our Ultramax Operations was \$3.4 million for 2017 and \$2.7 million for 2016. The increase was due to an increase in administrative services fees, reflecting the growth of our fleet.

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During 2016, we recorded a reversal of loss/write off of vessels and assets held for sale related to Ultramax vessels held for sale at December 31, 2015, due to accrual adjustments and other cost true ups.

Kamsarmax Operations

	For the Year Ended			
	December 31,			
	2017	2016	Change	% Change
TCE Revenue:				
Vessel revenue	\$67,825	\$31,684	\$36,141	114
Voyage expenses	300	(81)	381	470
TCE Revenue	\$67,525	\$31,765	\$35,760	113
Operating expenses:				
Vessel operating costs	35,336	27,083	8,253	30
Charterhire expense	4,417	12,323	(7,906)	(64)
Charterhire termination	—	2,500	(2,500)	(100)
Vessel depreciation	18,713	14,522	4,191	29
General and administrative expense	1,916	1,718	198	12
Loss / write down on assets held for sale	17,701	11,557	6,144	53
Total operating expenses	\$78,083	\$69,703	\$8,380	12
Operating loss	\$(10,558)	\$(37,938)	\$27,380	72

Vessel revenue for our Kamsarmax Operations increased to \$67.8 million in 2017 from \$31.7 million in 2016 due to significant increases in both rates and revenue days, the latter of which is associated with the growth of our fleet. TCE revenue (see Non-GAAP Financial Measures) for our Kamsarmax Operations was \$67.5 million for 2017 and was associated with a day-weighted average of 18 vessels owned and one vessel time chartered-in, compared to \$31.8 million for 2016, which was associated with a day-weighted average of 14 vessels owned and two vessels time chartered-in. TCE revenue per day was \$10,051 and \$5,639 for 2017 and 2016, respectively. Increased worldwide demand across all bulk sectors, regions and commodities, as well as a reduction in supply drove the increase in rates for both of our vessel types.

For the Year
Ended December
31,

Kamsarmax Operations:	2017	2016	Change	% Change
TCE Revenue	\$67,525	\$31,765	\$35,760	113
TCE Revenue / Day	\$10,051	\$5,639	\$4,412	78
Revenue Days	6,718	5,633	1,085	19

Kamsarmax Operations vessel operating costs were \$35.3 million in 2017, including approximately \$1.4 million of takeover costs associated with new deliveries and \$1.0 million of other non-operating expenses and related to 18 vessels owned, on average during the period. Vessel operating costs for 2016 were \$27.1 million and related to 14 vessels owned, on average during the period. Daily operating costs excluding takeover and other non-operating expenses for 2017 were \$5,028.

Charterhire expense for our Kamsarmax Operations decreased to \$4.4 million in 2017 from \$12.3 million in 2016 reflecting the reduction in the number of vessels time chartered-in from four at the start of 2016 to none at the end of 2017. During 2016, we recorded a \$2.5 million charge to terminate one time charter-in contract.

Kamsarmax Operations vessel depreciation increased to \$18.7 million in 2017 from \$14.5 million in 2016 reflecting the increase in our weighted average vessels owned to 18 from 14.

General and administrative expense for our Kamsarmax Operations was \$1.9 million and \$1.7 million for 2017 and 2016, respectively. The increase was due to an increase in administrative services fees, reflecting the growth of our fleet.

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During 2017, we recorded a write down on assets held for sale related to the sale of two Kamsarmax vessels to an unaffiliated third party and in 2016, we recorded a write down of vessels and assets held for sale related to the cancellation of a shipbuilding contract for a Kamsarmax vessel.

Corporate

Corporate general and administrative and financial expenses increased from \$53.3 million in 2016 to \$57.9 million in 2017, as increases in financial expenses due to increasing LIBOR rates, higher levels of debt and reduced capitalization of interest outweighed decreases in restricted stock amortization as prior year grants, with higher fair values than current grants, vested and were fully expensed.

During 2017 and 2016, we wrote off \$0.5 million and \$2.5 million, respectively, of deferred financing costs accumulated on credit facilities for which the related vessels were sold or the commitments were otherwise reduced.

Recent accounting pronouncements

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, “Leases”, which was intended to improve financial reporting of leasing transactions. The ASU requires organizations that lease assets, or lessees, to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases with terms of more than twelve months. The accounting for lease arrangements by the lessors will remain largely unchanged from current U.S. GAAP. The ASU also requires additional quantitative and qualitative disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. The ASU is effective for fiscal years and interim periods beginning after December 15, 2018 although early adoption is permitted. The ASU requires reporting organizations to take a modified retrospective transition approach.

In our review of our contracts to assess the overall impact of the guidance, we determined that the existing pool arrangements meet the definition of leases under ASU 2016-02. As lessor, we lease our vessels to pools, which manage the vessels in order to enter into transportation contracts with their customers and enjoy the economic benefits derived from such arrangements. Furthermore, the pools can direct the use of a vessel (subject to certain limitations in the pool or charter agreement) throughout the period of use. In July 2018, the FASB issued ASU 2018-11, “Leases (Topic 842): Targeted Improvements”, which amended FASB Accounting Standards Codification (ASC) Topic 842, “Leases”, to (i) provide a practical expedient for lessors regarding the separation of the lease and non-lease components of a contract and (ii) add an optional transition method that would permit entities to apply the new requirements by recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the year of the adoption. In our assessment, we concluded that the criteria for not separating the lease and non-lease components of our arrangements are met since: (a) the timing and pattern of transfer are the same for both the lease and non-lease components, (b) the lease component of the contracts, if accounted for separately, would be classified as an operating lease, and (c) the lease component is the predominant component in the arrangement. Therefore, we will account for the combined component as an operating lease in accordance with ASC 842. As a result, an entity’s reporting for the comparative periods presented in the financial statements in which it adopts the new lease standard will continue to be in accordance with current GAAP. We adopted this new standard on January 1, 2019, applying the optional transition option, with no restatement of comparative figures for prior periods. We do not expect this standard to impact the accounting for our vessels operating within the pools or under time chartered-out arrangements.

The standard will result in the recognition of right-of-use assets and corresponding liabilities, on the basis of the discounted remaining future minimum lease payments, for chartered-in vessel commitments of over 12 months only, which have historically been reported as operating leases and recognized solely in the income statement on a straight-line basis. The impact of this standard as it pertains to time or bareboat chartered-in vessels will not have an impact upon first time adoption, as the Company’s operating fleet includes only one chartered-in vessel at December 31, 2018, which has a lease term of less than 12 months and does not require recognition on the Consolidated Balance Sheet.

Critical Accounting Estimates

Our consolidated financial statements and accompanying notes are prepared in accordance with U.S. GAAP. In many instances, the application of such principles requires management to make estimates or to apply subjective principles to particular facts and circumstances. A change in the estimates or a variance in the application, or interpretation of U.S. GAAP could yield a materially different accounting result. A summary of our critical accounting estimates where we believe that the estimations, judgments or interpretations that we made, if different, would have yielded the most significant differences in our consolidated financial statements, can be found in the notes to the consolidated financial statements. In addition, for a summary of all of our significant accounting policies see Note 1, Organization and Basis of Presentation, in the notes to the consolidated financial statements.

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Vessels and depreciation

We record the value of our vessels at their cost (which includes acquisition costs directly attributable to the vessel including capitalized interest and expenditures made to prepare the vessel for its initial voyage) less accumulated depreciation. We depreciate our vessels on a straight-line basis to their residual value over their estimated useful lives of 25 years from the date the vessel is ready for its first voyage. The estimated useful life of 25 years is management's best estimate and is also consistent with industry practice for similar vessels. The residual value is estimated as the lightweight tonnage of each vessel multiplied by an estimated scrap value per ton. The scrap value per ton is estimated taking into consideration the historical four years average scrap market rates at the balance sheet date.

An increase in the useful life of a vessel or in its residual value would have the effect of decreasing the annual depreciation charge and extending it into later periods. A decrease in the useful life of a vessel or in its residual value would have the effect of increasing the annual depreciation charge.

When regulations place limitations over the ability of a vessel to trade on a worldwide basis, or when the cost of complying with such regulations is not expected to be recovered, we will adjust the vessel's useful life to end at the date such regulations preclude such vessel's further commercial use.

The carrying value of our vessels does not represent the fair market value of such vessels or the amount we could obtain if we were to sell any of our vessels, which could be more or less. Under U.S. GAAP, we would not record a loss if the fair market value of a vessel (excluding its charter) is below its carrying value unless and until we determine to sell that vessel or the vessel is impaired as discussed below under "Impairment of long-lived assets held for use."

Pursuant to our bank credit facilities, prior to drawdown of loans under the credit facilities we submit to the lenders valuations of the vessels collateralizing the relevant facility. Thereafter, we will regularly submit to the lenders valuations of our vessels on an individual charter free basis in order to evidence our compliance with the collateral maintenance covenants under our bank credit facilities. Such a valuation is not necessarily the same as the amount any vessel may bring upon sale, which may be more or less, and should not be relied upon as such. We have received valuations on each vessel in our fleet as of December 31, 2018. If we were to apply those valuations to the carrying value of our vessels as of December 31, 2018, the aggregate carrying value would exceed the aggregate fair value of our vessels by approximately \$135.7 million. The fair values of our vessels can fluctuate depending on the shipyards and the dates of delivery. These assumptions have not been taken into account in the amounts disclosed above.

Impairment of long-lived assets held for use

In accordance with ASC subtopic 360-10, Property, Plant and Equipment, long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset or asset group and its eventual disposition.

For purposes of recognition and measurement of an impairment loss, long-lived assets are grouped with other assets at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets, which is generally at the vessel pool level for vessels operating within pools. In performing our impairment review, we perform a recoverability test comparing an estimate of undiscounted cash flows to carrying value to determine if the asset group is impaired. In developing our estimates of undiscounted cash flows, we make significant assumptions and estimates about future performance, with the most significant assumptions relating to (i) charter rates on expiry of existing charters, which are based on the current fixing applicable to five-year time charter rates and thereafter, the ten-year historical average for each category of vessel (ii) off-hire days, which are based on actual off-hire statistics for our fleet (iii) operating costs, based on current levels escalated over time based on long term trends (iv) drydocking frequency, duration and cost, (v) estimated useful life which is assessed as a total of 25 years and (vi) estimated scrap values.

An impairment loss is recognized when the carrying amount of the asset group is greater than both the undiscounted cash flows and its fair value. In instances where the carrying value of an asset group is not recoverable, measurement of the impairment loss is based upon the amount by which the collective fair values of the vessels in the asset group exceed their collective carrying values. The fair values are determined based upon available market data as well as third party valuations performed on each individual vessel.

During our fourth quarter 2018 assessment, we determined that the undiscounted future income streams expected to be generated by each asset group, over their remaining operating lives exceeded and therefore would be sufficient to recover their

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respective carrying values and, accordingly, we confirmed that our vessels were not impaired under U.S. GAAP. As of December 31, 2018 we owned 56 vessels with an average remaining useful life of 22 years.

During the year ended December 31, 2017, there were no changes in circumstances or events that indicated that the carrying amount of our vessel pools or vessels under construction may not be recoverable and therefore, an assessment of impairment was not performed.

During our fourth quarter 2016 assessment, we determined that the undiscounted future income streams expected to be generated by each asset group, over their remaining operating lives exceeded and therefore would be sufficient to recover their respective carrying values and, accordingly, we confirmed that our vessels were not impaired under U.S. GAAP. As of December 31, 2016 we owned 42 vessels with an average remaining useful life of 24 years.

In our impairment testing, we also examine the sensitivity of the future income streams expected to be earned by reviewing other scenarios relative to the initial assumptions we used to see if the resulting impact would have resulted in a different conclusion. Accordingly, we perform sensitivity analyses based on more conservative charter rates and expected useful lives for our vessels. In the first sensitivity analysis, we lowered charter rate assumptions to 96% of the long-term averages of Kamsarmax and Ultramax vessels, respectively (holding all other critical assumptions constant), while in our second sensitivity analysis; we decreased our vessels' estimated useful lives by approximately 9% for each vessel class (holding all other critical assumptions constant). We then evaluated the outcomes of the sensitivity analyses performed to assess their impact on our conclusions. In both analyses, we found that there was no impairment of any of our assets or asset groups.

Although we believe that the assumptions used to evaluate potential impairment are reasonable and appropriate, such assumptions are highly subjective. There can be no assurance as to how long charter rates and vessel values will remain at their currently low levels or whether they will improve by any significant degree. Charter rates may decrease, which could adversely affect our revenue and profitability, and any future assessments of vessel impairment.

Management will continue to monitor developments in charter rates in the markets in which it participates with respect to the expectation of future rates over an extended period of time that are utilized in the analyses.

Valuation of equity investment

On October 12, 2018, we invested \$100.0 million in a related party, Scorpio Tankers, through participation in a public offering on a basis equivalent to other investors. We use the fair value option in accounting for our investment in Scorpio Tankers based upon the quoted market price of Scorpio Tankers common stock discounted for a lack of marketability due to our inability to sell the common stock until January 7, 2019. In calculating the lack of marketability discount, we relied on the Finnerty Model, an alternative option-based approach that estimates a discount as an average strike put option, effectively assuming that if the stock were freely tradable, the holder could sell evenly over the restriction period. Inputs to this model included expected option life, risk-free interest rate and expected volatility.

B. Liquidity and Capital Resources

Our primary source of funds for our short-term and long-term liquidity needs will be the cash flows generated from our vessels, which primarily operate in the Scorpio Pools, in the spot market or on time charter. We believe that the Scorpio Pools reduce volatility because (i) they aggregate the revenues and expenses of all pool participants and distribute net earnings to the participants based on an agreed upon formula and (ii) some of the vessels in the pool are on time charter. Furthermore, spot charters provide flexibility and allow us to fix vessels at prevailing rates. At December 31, 2018, cash and cash equivalents totaled \$67.5 million. We believe that our current cash and cash equivalents balance and operating cash flows, our ability to sell or refinance certain vessels or to sell our investment in Scorpio Tankers, as well as our access to credit markets will be sufficient to meet our short-term and long-term liquidity needs for the next 12 months from the date of this annual report, which are primarily comprised of debt

repayment obligations and contractual payments for exhaust gas cleaning systems (see Liquidity Risk section of Note 1, Organization and Basis of Presentation, to the consolidated financial statements).

Equity Issuances

On May 30, 2018, our shareholders approved an amendment to our Amended and Restated Articles of Incorporation to increase our total number of authorized shares to 262.5 million, consisting of 212.5 million common shares and 50.0 million preferred shares at the annual general meeting of shareholders.

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In November 2017, in connection with the purchase of three Ultramax vessels, we issued warrants to purchase approximately 1.6 million common shares at an exercise price of \$8.10 per share to an unaffiliated third party as part of the total consideration paid. The warrants were exercised and we issued the shares in January 2018.

In connection with the purchase of one Ultramax vessel, we issued approximately 0.9 million common shares to the parent of the seller of the vessel on December 29, 2017, upon delivery of such vessel.

During the years ended December 31, 2017 and 2016, we issued 12,946 common shares and 51,679 common shares, respectively, both with a fair value of \$0.1 million, to SSH pursuant to the Amended Administrative Services Agreement, relating to our Newbuilding Program.

On June 20, 2016, we issued 23.0 million common shares, par value \$0.01 per share, at \$3.05 per share in an underwritten public offering. SSH purchased an aggregate of approximately 5.3 million common shares at the public offering price. We received approximately \$67.5 million of net proceeds from the issuance.

On June 1, 2016, our shareholders approved an amendment to our Amended and Restated Articles of Incorporation to increase our total number of authorized shares to 162.5 million, consisting of 112.5 million common shares and 50.0 million preferred shares at the annual general meeting of shareholders.

On March 22, 2016, we issued 21.0 million common shares, par value \$0.01 per share, at \$3.00 per share in an underwritten public offering. SSH and certain of our directors purchased an aggregate of 5,030,000 common shares at the public offering price. We received approximately \$60.6 million of net proceeds from the issuance.

For a description of issuances of common shares pursuant to our Equity Incentive Plan, please see "Item 6. Directors, Senior Management and Employees - B. Compensation - Equity Incentive Plan."

Cash Flow**Operating Activities**

The table below summarizes the effect of the major components of operating cash flow.

(in thousands)	For the Year Ended December 31,		
	2018	2017	2016
Net loss	\$(12,698)	\$(59,726)	\$(124,835)
Adjustment to reconcile net loss to net cash provided by (used in) operating activities:			
Related party balances	81,247	84,181	73,644
Effect of changes in other working capital and operating assets and liabilities	(195)	(7,568)	5,656
Net cash used in operating activities	2,092	2,695	(6,661)
	\$70,446	\$19,582	\$(52,196)

The cash flow provided by operating activities for 2018 reflects the increase in time charter rates earned during the period. Our non-cash items include vessel depreciation, amortization of restricted stock and deferred financing costs, and a non-cash loss on our investment in Scorpio Tankers.

Investing Activities

Net cash used in investing activities of \$122.5 million during the year ended December 31, 2018 reflects the equity investment we made in Scorpio Tankers, and installments paid to the shipyard, as well as new equipment purchases and building supervision costs for the newly constructed SBI Lynx. We also made our first payment pursuant to the contract for the purchase and installation of exhaust gas cleaning systems.

Financing Activities

Net cash provided by financing activities of \$51.0 million during the year ended December 31, 2018 reflects the net proceeds of \$110.4 million from increased debt financing, partially offset by \$45.7 million of share repurchases (7.1 million shares at an average price of \$6.44 per share) and the payment of quarterly cash dividends totaling \$0.08 per share, or an aggregate of \$6.0 million in 2018.

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Credit Facilities, Finance Lease and Unsecured Notes

\$330.0 Million Credit Facility

On July 29, 2014, we entered into a \$330.0 million senior secured credit facility, or the \$330.0 Million Credit Facility, with Credit Agricole Corporate and Investment Bank and Deutsche Bank AG London to finance a portion of the purchase price of 22 of the vessels then in our Newbuilding Program, which was subsequently reduced by \$15.0 million due to the sale of one of the vessels that was to collateralize this facility. This facility bears interest at LIBOR plus a margin of 2.925% and has a term of seven years. This facility is secured by, among other things, a first preferred cross-collateralized mortgage on each of 13 of the vessels financed by this loan (consisting of nine Ultramax vessels and four Kamsarmax vessels) and guaranteed by each of the vessel owning subsidiaries.

During 2018, we repaid approximately \$84.8 million of our \$330.0 Million Credit Facility as two of the Kamsarmax vessels and six of the Ultramax vessels previously financed by this loan are now financed under the \$34.0 Million Credit Facility and the \$90.0 Million Credit Facility, respectively.

As of December 31, 2018, approximately \$140.7 million was outstanding.

\$67.5 Million Credit Facility

On July 30, 2014, we entered into a \$67.5 million credit facility, or the \$67.5 Million Credit Facility, with a leading European financial institution. The proceeds of this facility were used to fund a portion of the purchase price of four of the vessels then in our Newbuilding Program that secure this facility. This facility had a seven year term from the date of delivery of each such vessel securing the loan, with customary financial and restrictive covenants. This facility bore interest at LIBOR plus a margin of 2.95%. The \$67.5 Million Credit Facility was secured by, among other things, a first priority mortgage on four of the vessels then in our Newbuilding Program (two Ultramax and two Kamsarmax vessels), and a parent company guarantee.

As of December 31, 2018, this facility has been fully repaid and terminated.

\$409.0 Million Credit Facility

On December 30, 2014, we entered into a \$409.0 million senior secured credit facility, or the \$409.0 Million Credit Facility, with Nordea Bank Finland PLC, New York Branch, and Skandinaviska Enskilda Banken AB (publ) to partially finance a portion of the acquisition of 20 of the vessels then in our Newbuilding Program (six Ultramax, nine Kamsarmax, and five Capesize vessels). This credit facility was subsequently (i) reduced by \$136.0 million due to the sale of five Capesize vessels and the addition of one Ultramax vessel to the security package under the facility, (ii) further reduced by \$14.6 million due to the cancellation of a shipbuilding contract for a Kamsarmax vessel that would serve as partial security under the facility, and (iii) further reduced by approximately \$22.5 million due to the drop in vessel values. As amended, this credit facility was used to finance a portion of the purchase price of 15 vessels (seven Ultramax and eight Kamsarmax vessels). This facility bore interest at LIBOR plus a margin of 3.00% and had a term of six years. This facility was secured by, among other things, a first preferred mortgage on each of the 15 vessels.

As of December 31, 2018, this facility has been fully repaid and terminated.

\$42.0 Million Credit Facility

On January 30, 2015, we entered into a senior secured credit facility for up to \$42.0 million, or the \$42.0 Million Credit Facility, with a leading European financial institution to finance a portion of the purchase price of two Kamsarmax vessels which were delivered to us, and subsequently upsized by \$10.8 million to finance a portion of the purchase price of one Ultramax vessel. Each tranche for the Kamsarmax vessels has a final maturity of six years from the drawdown date of the respective vessel, and the tranche for the Ultramax vessel matures on September 21, 2021. This facility bears interest at LIBOR plus a margin of 2.97%. This facility is secured by, among other things, a first preferred mortgage on the three vessels and guaranteed by each of the vessel owning subsidiaries.

During 2018, we repaid approximately \$8.2 million of the \$42.0 Million Credit Facility upon the completion of the \$19.0 Million Lease Financing - SBI Tango transaction. As of December 31, 2018, the outstanding balance on this facility was approximately \$14.1 million.

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\$12.5 Million Credit Facility

On December 22, 2015, we entered into a senior secured credit facility for up to \$12.5 million, or the \$12.5 Million Credit Facility, which was used to finance a portion of the purchase price of one Ultramax vessel which was delivered to us. The facility has a maturity date of December 22, 2020. This facility bears interest at LIBOR plus a margin of 3.00%. This facility is secured by, among other things, a first preferred mortgage on the Ultramax vessel and guaranteed by the vessel owning subsidiary.

As of December 31, 2018, the outstanding balance on this facility was approximately \$9.4 million.

\$27.3 Million Credit Facility

On December 22, 2015, we entered into a senior secured credit facility for up to \$27.3 million, or the \$27.3 Million Credit Facility, which was used to finance a portion of the purchase price of two Ultramax vessels then in our Newbuilding Program. During 2018, we repaid approximately \$8.8 million of the \$27.3 Million Credit Facility upon the completion of the \$20.5 Million Lease Financing - SBI Hermes transaction and refinanced the SBI Hermes. This facility has a maturity of five years from the drawdown date and bears interest at LIBOR plus a margin of 2.95%. This facility is secured by, among other things, a first preferred mortgage on the Ultramax vessel and guaranteed by the vessel owning subsidiary.

As of December 31, 2018, the outstanding balance on this facility was approximately \$9.0 million.

\$85.5 Million Credit Facility

On December 5, 2017, we entered into a senior secured credit facility for up to \$85.5 million, or the \$85.5 Million Credit Facility, which was used to finance a portion of the purchase price of six Ultramax vessels we acquired in the fourth quarter of 2017. The facility has a maturity date of February 15, 2023 and bears interest at LIBOR plus a margin of 2.85%. This facility is secured by, among other things, a first preferred mortgage on the six Ultramax vessels and guaranteed by each vessel owning subsidiary.

As of December 31, 2018, the outstanding balance on this facility was approximately \$79.0 million.

\$38.7 Million Credit Facility

On December 13, 2017, we entered into a senior secured credit facility for up to \$38.7 million, or the \$38.7 Million Credit Facility, which was used to finance a portion of the purchase price of three Ultramax vessels we acquired in the fourth quarter of 2017. The facility has a maturity date of December 13, 2022 and bears interest at LIBOR plus a margin of 2.85%. This facility is secured by, among other things, a first preferred mortgage on the three Ultramax vessels and guaranteed by each vessel owning subsidiary.

As of December 31, 2018, the outstanding balance on this facility was approximately \$35.1 million.

\$12.8 Million Credit Facility

On June 21, 2018, we entered into a senior secured credit facility for up to \$12.8 million, or the \$12.8 Million Credit Facility. The loan facility was used to finance up to 50% of the fair market value of the SBI Lynx. The facility has a final maturity date of June 15, 2023 and bears interest at LIBOR plus a margin of 2.40% per annum. This facility is secured by, among other things, a first preferred mortgage on the vessel and guaranteed by the vessel owning subsidiary.

As of December 31, 2018, the outstanding balance on this facility was approximately \$12.3 million.

\$60.0 Million Credit Facility

On September 11, 2018, we entered into a senior secured credit facility for up to \$60.0 million, or the \$60.0 Million Credit Facility. The loan facility was used to finance up to 60% of the fair market value of two Ultramax vessels (SBI Perseus and SBI Phoebe) and two Kamsarmax vessels (SBI Electra and SBI Flamenco). The facility has a final maturity date of five years from drawdown date and bears interest at LIBOR plus a margin of 2.25% per annum. This facility is secured by, among other things, a first preferred mortgage on the four vessels and guaranteed by each of the vessel owning subsidiaries.

As of December 31, 2018, the outstanding balance on this facility was approximately \$58.8 million.

\$30.0 Million Credit Facility

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On September 13, 2018, we entered into a senior secured credit facility for up to \$30.0 million, or the \$30.0 Million Credit Facility, with ING Bank N.V. to refinance two Kamsarmax vessels (SBI Zumba and SBI Parapara). The facility has a final maturity date of five years from drawdown date and bears interest at LIBOR plus a margin of 2.20% per annum. This facility is secured by, among other things, a first preferred mortgage on the two Kamsarmax vessels and guaranteed by each of the vessel owning subsidiaries.

As of December 31, 2018, the outstanding balance on this facility was approximately \$29.4 million.

\$184.0 Million Credit Facility

On September 21, 2018, we entered into a senior secured credit facility for up to \$184.0 million, or the \$184.0 Million Credit Facility, with Nordea Bank AB (publ), acting through its New York branch, and Skandinaviska Enskilda Banken AB (publ) to refinance up to 60% of the fair market value of six Ultramax vessels (SBI Athena, SBI Thalia, SBI Zeus, SBI Hera, SBI Poseidon and SBI Apollo) and six Kamsarmax vessels (SBI Conga, SBI Bolero, SBI Sousta, SBI Rock, SBI Reggae and SBI Mazurka). The facility, which is comprised of a term loan of up to \$104.0 million and a revolver of up to \$80.0 million, has a final maturity date of five years from signing date and bears interest at LIBOR plus a margin of 2.40% per annum. This facility is secured by, among other things, a first preferred mortgage on the 12 vessels and guaranteed by each of the vessel owning subsidiaries.

As of December 31, 2018, the outstanding balance on this facility was approximately \$180.2 million.

\$34.0 Million Credit Facility

On October 3, 2018, we entered into a senior secured credit facility for up to \$34.0 million, or the \$34.0 Million Credit Facility, with Credit Agricole Corporate and Investment Bank to refinance up to 62.5% of the fair market value of two Kamsarmax vessels (SBI Jive and SBI Swing). The loan facility, which is comprised of a term loan up to \$17.0 million and a revolver up to \$17.0 million, has a final maturity date of seven years from signing date and bears interest at LIBOR plus a margin of 2.35% per annum. This facility is secured by, among other things, a first preferred mortgage on the two vessels and guaranteed by each of the vessel owning subsidiaries.

As of December 31, 2018, the outstanding balance on this facility was approximately \$34.0 million.

\$90.0 Million Credit Facility

On November 8, 2018, we entered into a senior secured credit facility for up to \$90.0 million, or the \$90.0 Million Credit Facility, with Nordea Bank Abp, acting through its New York branch, and DVB Bank SE. The loan facility, which has a final maturity date of five years from signing date and bears interest at LIBOR plus a margin of 2.35% per annum, was used to finance up to 60% of the fair market value of six Ultramax vessels (SBI Orion, SBI Hyperion, SBI Tethys, SBI Hercules, SBI Samson and SBI Phoenix). This facility is secured by, among other things, a first preferred mortgage on the six vessels and is guaranteed by each of the vessel owning subsidiaries.

As of December 31, 2018, the outstanding balance on this facility was approximately \$90.0 million.

\$19.6 Million Lease Financing - SBI Rumba

In October 2017, we entered into a financing transaction with unaffiliated third parties involving the sale and leaseback of the SBI Rumba, a 2015 Japanese built Kamsarmax vessel, for consideration of approximately \$19.6 million. As part of the transaction, we have agreed to make monthly payments of \$164,250 under a nine and a half year bareboat charter agreement with the buyers, which we have the option to extend for a further six months. The cost of the financing is equivalent to an implied fixed interest rate of 4.23% for 10 years. If converted to floating interest rates, based on the expected weighted average life of the transaction, the equivalent margin at the then prevailing swap rates would be LIBOR plus 2.07%. The agreement also provides us with the option to repurchase the vessel beginning on the fifth anniversary of the sale and until the end of the agreement.

\$19.0 Million Lease Financing - SBI Echo

On July 18, 2018, we closed a financing transaction with an unaffiliated third party involving the sale and leaseback of the SBI Echo, a 2015 Japanese built Ultramax vessel, for consideration of \$19.0 million. As part of the transaction, we agreed with the buyer to bareboat charter the vessel for a period of five years at \$5,400 per day. If converted to floating interest rates, based on the expected weighted average life of the transaction, the equivalent cost of financing at the then prevailing swap rates would have been LIBOR plus 1.97% per annum. The transaction also provides us with the option to repurchase the vessel beginning on the third anniversary of the sale until the end of the bareboat charter agreement.

Table of Contents**\$19.0 Million Lease Financing - SBI Tango**

On July 18, 2018, we closed a financing transaction with an unaffiliated third party involving the sale and leaseback of the SBI Tango, a 2015 Japanese built Ultramax vessel, for consideration of \$19.0 million. As part of the transaction, we agreed to make payments of \$5,400 per day under a five-year bareboat charter agreement with the buyer. If converted to floating interest rates, based on the expected weighted average life of the transaction, the equivalent cost of financing at the then prevailing swap rates would have been LIBOR plus 1.65% per annum. The transaction also provides us with the option to repurchase the vessel beginning on the third anniversary of the sale until the end of the bareboat charter agreement.

\$20.5 Million Lease Financing - SBI Hermes

On November 16, 2018, we closed a financing transaction with an unaffiliated third party involving the sale and leaseback of the SBI Hermes, a 2016 Japanese built Ultramax vessel, for consideration of \$20.5 million. As part of the transaction, we agreed with the buyer to bareboat charter the vessel for a period of five years at \$5,850 per day. The transaction also provides us with an option to repurchase the vessel beginning on the third anniversary of the sale until the end of the bareboat charter agreement. If converted to floating interest rates, based on the expected weighted average life of the transaction, the equivalent cost of financing at the then prevailing swap rates would have been LIBOR plus a margin of 1.43% per annum.

As of December 31, 2018, we had \$767.4 million of outstanding borrowings under the credit agreements and lease financings described above as shown in the following table (dollars in thousands):

	December 31, 2018 Amount outstanding	March 20, 2019 Amount outstanding
\$330 Million Credit Facility	140,677	140,677
\$42 Million Credit Facility	14,105	14,105
\$12.5 Million Credit Facility	9,400	9,400
\$27.3 Million Credit Facility	9,008	9,008
\$85.5 Million Credit Facility	78,972	78,972
\$38.7 Million Credit Facility	35,100	35,100
\$19.6 Million Lease Financing - SBI Rumba	18,101	17,898
\$12.8 Million Credit Facility	12,325	12,325
\$19.0 Million Lease Financing - SBI Tango	18,451	18,259
\$19.0 Million Lease Financing - SBI Echo	18,481	18,300
\$30.0 Million Credit Facility	29,420	29,420
\$34.0 Million Credit Facility	34,000	34,000
\$60.0 Million Credit Facility	58,797	57,594
\$184.0 Million Credit Facility	180,229	180,229
\$20.5 Million Lease Financing - SBI Hermes	20,299	20,092
\$90.0 Million Credit Facility	90,000	88,025
Total	\$ 767,365	\$ 763,404

Our secured credit facilities are secured by, among other things: a first priority mortgage over the relevant collateralized vessels; a first priority assignment of earnings, and insurances from the mortgaged vessels for the specific facility; a pledge of the earnings account of the mortgaged vessels for the specific facility; and a pledge of the equity interests of each vessel owning subsidiary under the specific facility.

\$21.4 Million Lease Financing - SBI Samba

In February 2019, we entered into a financing transaction with an unaffiliated third party involving the sale and leaseback of the SBI Samba, a 2015 Japanese built Kamsarmax vessel, for a consideration of \$21.4 million. As part of the transaction, we agreed to make payments of \$6,850 per day under a five-year bareboat charter agreement with the buyer. The transaction also provides us with the option to repurchase the vessel beginning on the third anniversary of

the sale until the end of the bareboat charter agreement. This transaction, which is expected to close in the second quarter of 2019, is expected to

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increase our liquidity by approximately \$6.9 million after repayment of outstanding debt under the \$42 Million Credit Facility, under which the SBI Samba was previously financed.

CMBFL Lease Financing

In March 2019, we agreed to sell and leaseback three Ultramax vessels (SBI Pegasus, SBI Subaru and SBI Ursa) and four Kamsarmax vessels (SBI Lambada, SBI Macarena, SBI Carioca and SBI Capoeira) to CMB Financial Leasing Co., Ltd. Upon completion, which is estimated to take place in the second quarter of 2019, our liquidity is expected to increase by \$57.2 million in aggregate (\$45.4 million upon closing after the repayment of outstanding debt and an additional tranche of up to \$11.8 million for installation of scrubbers on the seven vessels). As part of the agreements, we will bareboat charter-in the vessels for a period of seven years. In addition, we have purchase options beginning after the end of the third year of each agreement. There is also a purchase option for each vessel upon the expiration of each agreement.

Vessel Sales

In March 2019, we entered into agreements with unaffiliated third parties to sell the SBI Electra and SBI Flamenco, two 2015 Chinese built Kamsarmax vessels, for approximately \$48.0 million in aggregate. Delivery of the vessels is estimated to take place in the second quarter of 2019. It is estimated that our liquidity will increase by approximately \$18.6 million after the repayment of outstanding debt under the \$38.7 Million Credit Facility under which the vessels were previously financed.

Loan Covenants

Certain of our credit facilities discussed above, have, among other things, the following financial covenants, as amended or waived, the most stringent of which require us to maintain:

• The ratio of net debt to total capitalization no greater than 0.60 to 1.00.

• Consolidated tangible net worth (adjusted for a minimum amount of \$100.0 million in historical non-operating costs and to exclude certain future non-operating items, including impairments), no less than \$500.0 million plus (i) 25% of cumulative positive net income (on a consolidated basis) for each fiscal quarter commencing on or after December 31, 2013 and (ii) 50% of the value of any new equity issues occurring on or after December 31, 2013.

• The ratio of EBITDA to net interest expense calculated on a year-to-date basis of greater than 1.00 to 1.00 for the quarters ending March 31, 2019 and June 30, 2019, 2.50 to 1.00 for the quarter ending September 30, 2019, calculated on a year-to-date basis and 2.50 to 1.00 for each quarter thereafter, calculated on a trailing four quarter basis.

• Minimum liquidity of not less than the greater of \$25.0 million or \$0.7 million per owned vessel.

• Maintain a minimum fair value of the collateral for each credit facility, such that the aggregate fair value of the vessels collateralizing the credit facility is between 140% and 150% of the aggregate principal amount outstanding under such credit facility, or, if we do not meet these thresholds to prepay a portion of the loan or provide additional security to eliminate the shortfall.

Our credit facilities discussed above have, among other things, the following restrictive covenants which would restrict our ability to:

• incur additional indebtedness;

• sell the collateral vessel, if applicable;

• make additional investments or acquisitions;

• pay dividends; and

• effect a change of control of us.

A violation of any of the financial covenants contained in our credit facilities described above may constitute an event of default under all of our credit facilities, which, unless cured within the grace period set forth under the credit facility, if applicable, or waived or modified by our lenders, provides our lenders with the right to, among other things, require us to post additional collateral, enhance our equity and liquidity, increase our interest payments, pay down our

indebtedness to a level where we are in compliance with our loan covenants, sell vessels in our fleet, reclassify our indebtedness as current liabilities and accelerate our

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indebtedness and foreclose their liens on our vessels and the other assets securing the credit facilities, which would impair our ability to continue to conduct our business.

Furthermore, our credit facilities contain a cross-default provision that may be triggered by a default under one of our other credit facilities. A cross-default provision means that a default on one loan would result in a default on certain of our other loans. Because of the presence of cross-default provisions in certain of our credit facilities, the refusal of any one lender under our credit facilities to grant or extend a waiver could result in certain of our indebtedness being accelerated, even if our other lenders under our credit facilities have waived covenant defaults under the respective credit facilities. If our secured indebtedness is accelerated in full or in part, it would be very difficult in the current financing environment for us to refinance our debt or obtain additional financing and we could lose our vessels and other assets securing our credit facilities if our lenders foreclose their liens, which would adversely affect our ability to conduct our business.

Moreover, in connection with any waivers of or amendments to our credit facilities that we have obtained, or may obtain in the future, our lenders may impose additional operating and financial restrictions on us or modify the terms of our existing credit facilities. These restrictions may further restrict our ability to, among other things, pay dividends, make capital expenditures or incur additional indebtedness, including through the issuance of guarantees. In addition, our lenders may require the payment of additional fees, require prepayment of a portion of our indebtedness to them, accelerate the amortization schedule for our indebtedness and increase the interest rates they charge us on our outstanding indebtedness.

As of December 31, 2018, we were in compliance with all of the financial covenants contained in the credit facilities that we had entered into as of that date.

Please see Note 11, Debt, to our consolidated financial statements for additional information about our credit facilities. Senior Notes due 2019

On September 22, 2014, we issued \$65.0 million aggregate principal amount of our 7.50% senior unsecured notes due 2019, or our Senior Notes, in a registered public offering. The Senior Notes will mature on September 15, 2019, and may be redeemed in whole or in part at any time, or from time to time, after September 15, 2016. Interest on the Senior Notes is payable quarterly on each of March 15, June 15, September 15 and December 15, commencing on December 15, 2014. We used the net proceeds we received to fund installment payments due under our Newbuilding Program. On October 16, 2014, we issued an additional \$8.625 million aggregate principal amount of our Senior Notes, pursuant to the underwriters' option to purchase additional Senior Notes. Our Senior Notes due 2019 commenced trading on the NYSE on September 29, 2014 under the symbol "SLTB."

The indenture governing our Senior Notes contains certain restrictive covenants, including:

- (a) **Limitation on Borrowings.** We are prohibited from letting net borrowings equal or exceed 70% of our total assets, which are calculated as all of our assets of the types presented on our consolidated balance sheet.
- (b) **Limitation on Minimum Tangible Net Worth.** We shall ensure that our net worth always exceeds \$500 million.
- (c) **Reports.** Following any cross default, we shall promptly notify the holders of our Senior Notes of the occurrence of such cross default.

- (d) **Limitation on Asset Sales.** We shall not, and shall not permit any subsidiary to, in the ordinary course of business or otherwise, sell, lease, convey, transfer or otherwise dispose of any of our or any such subsidiary's assets (including capital stock and warrants, options or other rights to acquire capital stock) other than pursuant to a Permitted Asset Sale or a Limited Permitted Asset Sale (as such terms are defined in the indenture governing our Senior Notes and described below), unless (A) we receive, or the relevant subsidiary receives, consideration at the time of such asset sale at least equal to the fair market value (including as to the value of all non-cash consideration), as determined in good faith by our Board of Directors, of the assets subject to such asset sale, and (B) within 365 days after the receipt of any net proceeds from an asset sale, we or the relevant subsidiary, as the case may be, shall apply all such net proceeds to certain permitted purposes, including the repayment of secured indebtedness, capital expenditures, repayment of unsecured indebtedness, acquire all or substantially all of the assets or, or the capital stock of, a person primarily engaged in a permitted business; provided, that in the case of the acquisition of capital stock of any person, such person is or becomes a subsidiary of the Company.

For purposes of this covenant: a Permitted Asset Sale includes certain specified asset sales, certain vessel losses not to exceed 10% of the consolidated aggregate market value of our assets and any transaction or series of transactions involving assets disposed of for fair market value and having an aggregate market value in any one fiscal year of up to 25% of the consolidated aggregate market value of our assets; and a Limited Permitted Asset Sale includes any

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transaction or series of transactions during a single fiscal year, the net proceeds of which are not otherwise applied pursuant to the requirements set forth in this clause (d), that results in net proceeds in excess of 25% of the consolidated aggregate market value of our assets.

As of December 31, 2018, we were in compliance with the financial covenants of our Senior Notes.

If a Limited Permitted Asset Sale occurs, we must make an offer to purchase our Senior Notes having a principal amount equal to the excess proceeds of such Limited Permitted Asset Sale at a purchase price of 101% of the principal amount of our Senior Notes to be purchased, plus accrued and unpaid interest.

In addition, if a Change of Control (as defined in the indenture for the Senior Notes) occurs, holders of our Senior Notes have the right, at their option, to require us to purchase any or all of such holders' Senior Notes at a purchase price of 101% of the principal amount of our Senior Notes to be purchased, plus accrued and unpaid interest.

In addition, if an event of default or an event or circumstance which, with the giving of any notice or the lapse of time, would constitute an event of default under our Senior Notes has occurred and is continuing, or we are not in compliance with the covenant described under Limitation on Borrowings or Limitation on Minimum Tangible Net Worth described above, then none of the Company or any subsidiary will be permitted to declare or pay any dividends or return any capital to its equity holders (other than the Company or a wholly-owned subsidiary of the Company) or authorize or make any other distribution, payment or delivery of property or cash to its equity holders (other than the Company or a wholly-owned subsidiary of the Company), or redeem, retire, purchase or otherwise acquire, directly or indirectly, for value, any interest of any class or series of its equity interests (or acquire any rights, options or warrants relating thereto but not including convertible debt) now or hereafter outstanding and held by persons other than the Company or any wholly-owned subsidiary, or repay any subordinated loans to equity holders (other than the Company or a wholly-owned subsidiary of the Company) or set aside any funds for any of the foregoing purposes.

In December 2016, our Board of Directors authorized the repurchase of up to \$20.0 million of the outstanding Senior Notes in open market or privately negotiated transactions. The specific timing and amounts of the repurchases, which will be funded by available cash, will be in the sole discretion of management and vary based on market conditions and other factors. This authorization has no expiration date. As of December 31, 2018, the full \$20.0 million remained available for repurchase under this authorization.

C.Research and Development, Patents and Licenses, Etc.

Not applicable

D.Trend Information

See "Item 4. Information on the Company - B. Business Overview - Industry and Market Conditions."

E.Off-Balance Sheet Arrangements

As of December 31, 2018, we did not have any off-balance sheet arrangements, however, we were committed to make charter-hire payments to a third party for a chartered-in vessel. That arrangement is accounted for as an operating lease. Please see "Tabular Disclosure of Contractual Obligations" for our other contractual obligations and commitments.

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F. Tabular Disclosure of Contractual Obligations

The following table sets forth our total contractual obligations at December 31, 2018:

(in millions of U.S. dollars)	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	Total
Exhaust cleaning systems ⁽¹⁾	\$32.9	\$7.8	\$—	\$—	\$40.7
Time charter-in commitments ⁽²⁾	2.8	—	—	—	2.8
Senior Notes ⁽³⁾	73.6	—	—	—	73.6
Bank loans ⁽⁴⁾	61.5	241.3	367.4	21.9	692.1
Interest payments ⁽⁵⁾	40.6	58.6	29.8	1.7	130.7
Financing obligation ⁽⁶⁾	8.0	16.1	53.5	12.8	90.4
Commercial management fee ⁽⁷⁾	1.5	—	—	—	1.5
Technical management fee ⁽⁸⁾	2.2	—	—	—	2.2
Total	\$223.1	\$323.8	\$450.7	\$36.4	\$1,034.0

(1) Represents the unpaid installments as of December 31, 2018 relating to the purchase of exhaust gas cleaning systems.

(2) Represents the amounts expected to be paid by us on the vessel that we have time chartered-in as of December 31, 2018, assuming we redeliver the vessel to its owner on the earliest redelivery date.

(3) Represents the repayment of our Senior Notes which mature in September 2019.

(4) Represents the repayment of installments under the bank loans outstanding as of December 31, 2018.

(5) Represents the interest payments on outstanding balances of our Senior Notes at 7.50% per annum and bank loans at the interest rates in effect at December 31, 2018.

(6) Represents the monthly payments under bareboat charter agreements.

(7) Represents the fixed component of the termination fees we would have to pay our commercial manager, SCM, of \$300 per day for a notice period of three months' and a payment equal to three months of management fees for each vessel that we own as of December 31, 2018. Due to the variable nature of the commissions, they have been excluded from the above table.

(8) Represents the termination fees we would have to pay our technical manager, SSM, of \$0.2 million per vessel per year for a notice period of three months' and a payment equal to three months of management fees for each vessel that we own as of December 31, 2018.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

Set forth below are the names, ages and positions of our directors and executive officers. Our Board of Directors is elected annually on a staggered basis, and each director elected holds office for a three-year term or until their successor shall have been duly elected and qualified, except in the event of their death, resignation, removal or the earlier termination of their term of office. Our Class C directors will serve for a term expiring at the 2019 annual meeting of shareholders, our Class A directors will serve for a term expiring at the 2020 annual meeting, and our Class B directors will serve for a term expiring at the 2021 annual meeting. Officers are elected from time to time by vote of our Board of Directors and hold office until a successor is elected. The business address of each of our directors and executive officers listed below is Scorpio Bulkiers Inc., 9, Boulevard Charles III, MC 98000 Monaco.

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Name	Age	Position
Emanuele A. Lauro	40	Chairman, Class A Director and Chief Executive Officer
Robert Bugbee	58	Class B Director and President
Cameron Mackey	50	Chief Operating Officer
Filippo Lauro	42	Vice President
Hugh Baker	51	Chief Financial Officer
Fan Yang	30	Secretary
Einar Michael Steimler	70	Class B Director
Roberto Giorgi	68	Class A Director
Christian M. Gut	39	Class C Director
Thomas Ostrander	68	Class A Director
James B. Nish	60	Class C Director
Berit Ledel Henriksen	65	Class B Director

On December 4, 2018, Ms. Anoushka Kachelo resigned as Secretary of the Company and Ms. Fan Yang was appointed as Secretary of the Company.

On February 27, 2019, the Company increased the size of its Board of Directors from seven to eight members, and appointed Berit Ledel Henriksen to serve as a Class B Director, effective as of the same date. The Board of Directors has determined that Ms. Henriksen is an “independent director” as such term is defined under the Securities Exchange Act of 1934, as amended, and the New York Exchange Listing Manual.

Biographical information concerning the directors and executive officers listed above is set forth below.

Emanuele A. Lauro, Chairman and Chief Executive Officer

Emanuele A. Lauro, the Company’s co-founder, has served as our Chairman and Class A Director since April 2013 and as our Chief Executive Officer since July 1, 2013. Mr. Lauro has also served as Chairman and Chief Executive Officer of Scorpio Tankers (NYSE: STNG) since its initial public offering in April 2010, and as Chairman and Chief Executive Officer of Nordic American Offshore Ltd. (NYSE: NAO) since December 2018. He also served as Director of the Standard Club from May 2013 to January 2019. Mr. Lauro joined Scorpio in 2003 and has continued to serve there in a senior management position since 2004. Under his leadership, Scorpio has grown from an owner of three vessels in 2003 to become a leading operator and manager of more than 230 vessels in 2018. Over the course of the last several years, Mr. Lauro has founded and developed all of the Scorpio Pools in addition to several other ventures such as Scorpio Logistics, which owns and operates specialized assets engaged in the transshipment of dry cargo commodities and invests in coastal transportation and port infrastructure developments in Asia and Africa since 2007. Mr. Lauro has a degree in international business from the European Business School, London. Mr. Lauro is the brother of our Vice President, Mr. Filippo Lauro.

Robert Bugbee, President and Director

Robert Bugbee, the Company’s co-founder, has served as our Class B Director since April 2013 and as our President since July 1, 2013. Mr. Bugbee has more than 34 years of experience in the shipping industry. Mr. Bugbee has also served as President and Director of Scorpio Tankers since its initial public offering in April 2010 and as President and a Director of Nordic American Offshore Ltd. since December 2018. He joined Scorpio in March 2009 and has continued to serve there in a senior management position. Prior to joining Scorpio, Mr. Bugbee was a partner at Ospraie Management LLP between 2007 and 2008, a company which advises and invests in commodities and basic industry. From 1995 to 2007, Mr. Bugbee was employed at OMI Corporation, or OMI, a NYSE-listed tanker company sold in 2007. While at OMI, Mr. Bugbee served as President from January 2002 until the sale of the company, and before that served as Executive Vice President since January 2001, Chief Operating Officer since March 2000 and Senior Vice President from August 1995 to June 1998. Mr. Bugbee joined OMI in February 1995. Prior to this, he was employed by Gotaas-Larsen Shipping Corporation since 1984. During this time he took a two year sabbatical from 1987 for the M.I.B. Program at the Norwegian School for Economics and Business Administration in Bergen. He has a B.A. (Honors) from London University.

Cameron Mackey, Chief Operating Officer

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Cameron Mackey has served as our Chief Operating Officer since July 2013. Mr. Mackey has also served as Chief Operating Officer of Scorpio Tankers since its initial public offering in April 2010 and as a Director since May 2013, and as Chief Operating Officer of Nordic American Offshore Ltd. since December 2018. He joined Scorpio in March 2009, where he continues to serve in a senior management position. Prior to joining Scorpio, he was an equity and commodity analyst at Ospraie Management LLC from 2007 to 2008. Prior to that, he was Senior Vice President of OMI Marine Services LLC from 2004 to 2007, where he was also in Business Development from 2002 to 2004. He has been employed in the shipping industry since 1994 and, earlier in his career, was employed in unlicensed and licensed positions in the merchant navy, primarily on tankers in the international fleet of Mobil Oil Corporation, where he held the qualification of Master Mariner. He has an M.B.A. from the Sloan School of Management at the Massachusetts Institute of Technology, a B.S. from the Massachusetts Maritime Academy and a B.A. from Princeton University.

Filippo Lauro, Vice President

Filippo Lauro has served as an executive officer of the Company with the title of Vice President since June 2016. Mr. Filippo Lauro has also served as Vice President of Scorpio Tankers since May 2015, and as Vice President of Nordic American Offshore Ltd. since December 2018. He joined Scorpio in 2010 and has continued to serve there in a senior management position. Prior to joining Scorpio, Mr. Filippo Lauro was the founder of and held senior executive roles in several private companies, primarily active in real estate, golf courses and resorts development. Mr. Filippo Lauro is the brother of our Chairman and Chief Executive Officer, Mr. Emanuele Lauro.

Hugh Baker, Chief Financial Officer

Hugh Baker has served as our Chief Financial Officer since July 2013. Since 2012, Mr. Baker has also been employed by Scorpio Tankers focusing on business development and finance. For three years before joining Scorpio, Mr. Baker was a Managing Director in the investment banking team at Evercore Partners in New York, concentrating on the shipping industry. Prior to Evercore, he was the Head of Shipping at HSH Nordbank in New York and was previously a Managing Director in the ship finance team at ING Bank in London. Prior to banking, Mr. Baker worked in commercial roles for Greek-owned shipping companies in London. Mr. Baker has a BA from the London School of Economics and a MSc in Shipping, Trade & Finance from Cass Business School. Mr. Baker is a Fellow of the Institute of Chartered Shipbrokers.

Fan Yang, Secretary

Fan Yang has served as our Secretary since December 2018. Ms. Yang joined Scorpio in February 2018 and also serves as Secretary of Scorpio Tankers. Ms. Yang is admitted as a solicitor of the Supreme Court of England and Wales. Prior to joining Scorpio, Ms. Yang was in private practice in London at Travers Smith LLP and Freshfields Bruckhaus Deringer LLP, and led a law reform project at the Law Commission, an independent body that makes recommendations for the reform of the law of England and Wales to Parliament. She has a BA in Law from the University of Cambridge.

Roberto Giorgi, Director

Roberto Giorgi has served as our Class A Director since the closing of our initial public offering in December 2013. Mr. Giorgi has also served as Chairman of Fraser Yachts since September 2014 and as a committee member of Skuld P&I Club since June 2013. From 2014 to 2015, he served as Honorary President and member of the Group Executive of V.Ships, the world's largest ship management company. From 1988 to 2014, Mr. Giorgi has held various roles within V.Ships, including President of V.Ships Ship Management, Managing Director of V.Ships New York, head of V.Ships Leisure in the cruise sector, and head of V.Ship's ship management operation from its Monaco office. From 2008 to 2010, Mr. Giorgi also served as President of InterManager, the international trade association for third-party and in-house ship managers, whose members between them are responsible for approximately 3,700 ships and more than 200,000 crew members. Prior to joining the V.Ships Group, he attended the San Giorgio Nautical College in Genoa (1964 - 1969) and sailed from Deck Cadet to First Officer with Navigazione Alta Italia, Italian line and Sitmar Cruises. Before joining the merchant marine, he spent one year (1970/71) in the Naval Academy of Leghorn and sailed with the Italian Navy as Lieutenant.

Einar Michael Steimler, Director

Einar Michael Steimler has served as our Class B Director since the closing of our initial public offering in December 2013 and is our lead independent director. Mr. Steimler has also served as a director of DHT Holdings Inc. (NYSE:DHT), where he is also a member of the Nominating and Corporate Governance Committees, and the Chairman of the Compensation Committee. Mr. Steimler has over 46 years of experience in the shipping industry. In 2000, he was instrumental in the formation of Tanker (UK) Agencies, the commercial agent to Tankers International. He served as its Chief Executive Officer until the end of 2007,

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and subsequently as its Chairman until 2011. From 1998 to 2010, Mr. Steimler served as a Director of Euronav NV (EURN:EN Brussels). He has been involved in both sale and purchase and chartering brokerage in the tanker, gas and chemical sectors and was a founder of Stemoco, a Norwegian ship brokerage firm. He graduated from the Norwegian School of Business Management in 1973 with a degree in Economics.

Christian M. Gut, Director

Christian M. Gut has served as our Class C Director since the closing of our initial public offering in December 2013. Mr. Gut is the founder and manager of P2P Lending Fund, a Luxembourg based fund (SICAV-RAIF) launched in 2018 focused on marketplace consumer lending. He has over 15 years of experience in the consulting industry in the Asia Pacific region. Mr. Gut started his professional career at ThyssenKrupp Technologies AG (as it then was) in Essen, Germany in 2002. He later joined Singapore based EABC Pte Ltd., or EABC, in 2003 where he served as Director from 2006 to 2018. EABC's services comprise market intelligence and strategy, sales promotion and support to project management in selected Asia Pacific countries, principally Australia. Furthermore, Mr. Gut co-founded and was a past manager of the Stellar Energy Fund, launched in Singapore in 2006, which invested in energy focused private companies to finance projects and expansion plans in Asia, Middle East and Europe in the following industries: oil trading and bunkering, gas E&P, solar, geothermal and power generating heat plants. Mr. Gut has a Bachelor's degree in international business from the European Business School in London.

Thomas Ostrander, Director

Thomas Ostrander has served as our Class A director since January 2016. From 2013 to 2015, Mr. Ostrander served as Chief Financial Officer of U.S. Alliance Paper Inc., a privately held business involved in consumer tissue converting and marketing in the eastern half of the United States. From 2011 to 2013, he served as a Managing Director at GCA Savvian, a global investment bank. From 2006 to 2008, Mr. Ostrander served as a Managing Director and Sector Head in the Industrial Group at Banc of America Securities. From 1989 to 2006, he held various roles within Citigroup (legacy Salomon Brothers), where he was most recently Chairman of the Global Industrial Group for North America. Prior to that, he was Head of the Global Industrial Group for North America and Co-Head of the Global group. From 1976 to 1989, he served in various roles, including as a Managing Director, and he was a member of the Board of Directors of New York based Kidder Peabody & Co., where he also was Co-Founder and Co-Head of Equity Capital Markets. Furthermore, Mr. Ostrander was a Director of Westmoreland Coal Company for over 12 years, where he served as Chairman of the Corporate Governance Committee and was a member of the Audit, Compensation and Benefits, Finance and Nominating Committees. Mr. Ostrander has an MBA from Harvard Business School and an AB from the University of Michigan in Economics and Accounting.

James B. Nish, Director

James B. Nish has served as our Class C director since January 2016. Mr. Nish has over 30 years of experience in investment banking, serving clients across a variety of international industrial markets. Since 2015, he has served as a Board member and Chairman of the Audit Committee of Gibraltar Industries, Inc. (NASDAQ: ROCK), a manufacturer and distributor of products for building markets, and was also appointed as Chairman of its Capital Structure and Asset Management Committee in 2018. Mr. Nish has also served as a Board member of the CSG Group since 2014, a private company that provides security alarm monitoring and related home automation services to subscribers in the United States. From 2008 to 2012, he was Group Head of Middle Corporate Investment Banking at J.P. Morgan. From 1986 to 2008, Mr. Nish served as Co-Chairman of the Investment Banking Commitment Committee and Group Head of the General Industries Group of Bear Stearns & Co. Inc., where he organized and managed investment banking coverage of a diversified group of industrial companies. Mr. Nish is a Certified Public Accountant and Adjunct Professor in both the Undergraduate Business School and MBA Programs at Baruch College, Zicklin School of Business in New York and at Pace University, Lubin School of Business in New York, where he teaches a number of courses in both the Accounting and Finance departments. Mr. Nish has an MBA from the Wharton School at the University of Pennsylvania and a BS from the State University of New York at Buffalo in Accounting and Business.

Berit Ledel Henriksen, Director

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Berit Ledel Henriksen has served as our Class B Director since February 2019. Ms. Henriksen has extensive experience from the banking and finance industries. She serves as a director of Ferd Holding AS, a Norwegian investment company that manages a broad portfolio of privately owned and Nordic listed companies. Furthermore, Ms. Henriksen serves on the board of directors of three privately held companies in Norway and Canada, and on the Nomination Committees of Equinor ASA and Norsk Hydro ASA, two Norwegian listed companies. She is also a member of Norsk Hydro ASA's Corporate Assembly. From 1985 to 2017, Ms. Henriksen held a range of management positions at DNB, Norway's largest financial services group, where she focused on shipping, energy and other international industries. Ms. Henriksen most recently served as DNB's Executive Vice President and Global Head of Energy, and was Head of DNB Americas in New York between 1998 and 2004. She also previously held various other bank related board positions. Ms. Henriksen has an MBA from the Ivey Business School at the University of Western Ontario, and a BSc from the Dalhousie University in Halifax, Canada.

B. Compensation

Each of our non-employee directors receive cash compensation in the aggregate amount of \$60,000 annually, plus either (i) an additional fee of \$10,000 per year for each committee on which a director serves or (ii) an additional fee of \$20,000 per year for each committee for which a director serves as Chairman. In addition, our lead independent director receives an additional fee of \$20,000 per year. All actual expenses incurred while acting in their capacity as a director are reimbursed. For each board or committee meeting the non-employee director attends, the director receives \$2,000. There are no material post-employment benefits for our executive officers or directors. By law, our employees in Monaco are entitled to a one-time payment of up to two months salary upon retirement if they meet certain minimum service requirements. For the year ended December 31, 2018, we paid an aggregate compensation to our directors and senior management of approximately \$6.3 million.

Executive Officers

We have employment agreements with the majority of our executive officers. These employment agreements remain in effect until terminated in accordance with their terms upon no less than 24 months' prior written notice. Pursuant to the terms of their respective employment agreements, our executive officers are prohibited from disclosing or unlawfully using any of our material confidential information.

Upon a change in control of us, the annual bonus provided under the employment agreement becomes a fixed bonus of between 150% and 250% of the executive's base salary, depending on the terms of the employment agreement applicable to each executive.

Any such executive may be entitled to receive upon termination an assurance bonus equal to such fixed bonus and an immediate lump-sum payment in an amount equal to up to three times the sum of the executive's then current base salary and the assurance bonus. If an executive's employment is terminated for cause or voluntarily by the employee, he shall not be entitled to any salary, benefits or reimbursements beyond those accrued through the date of his termination, unless he voluntarily terminated his employment in connection with certain conditions. Those conditions include a change in control combined with a significant geographic relocation of his office, a material diminution of his duties and responsibilities, and other conditions identified in the employment agreement.

We believe that it is important to align the interests of our directors and management with that of our shareholders. In this regard, we have determined that it will generally be beneficial to us and to our shareholders for our directors and management to have a stake in our long-term performance. We expect to have a meaningful component of our compensation package for our directors and management consist of equity interests in us in order to provide them on an on-going basis with a meaningful percentage of ownership in us.

Equity Incentive Plan

Our Board of Directors has adopted an equity incentive plan, which we refer to as the Equity Incentive Plan, under which directors, officers and employees of us and our subsidiaries, as well as employees of affiliated companies are eligible to receive incentive stock options and non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units and unrestricted common shares. As of December 31, 2018, we had reserved a total of 5,931,962 common shares, for issuance under the Equity Incentive Plan, subject to adjustment for changes in capitalization as provided in the Equity Incentive Plan. Our Equity Incentive Plan is administered by our Compensation Committee.

Under the terms of the Equity Incentive Plan, stock options and stock appreciation rights granted under the Equity Incentive Plan will have an exercise price equal to the fair market value of a common share on the date of grant, unless otherwise determined by the plan administrator, but in no event will the exercise price be less than the fair market value of a common share on the date

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of grant. Options and stock appreciation rights will be exercisable at times and under conditions as determined by the plan administrator, but in no event will they be exercisable later than ten years from the date of grant.

The plan administrator may grant shares of restricted stock and awards of restricted stock units subject to vesting, forfeiture and other terms and conditions as determined by the plan administrator.

Adjustments may be made to outstanding awards in the event of a corporate transaction or change in capitalization or other extraordinary event. In the event of a “change in control” (as defined in the Equity Incentive Plan), unless otherwise provided by the plan administrator in an award agreement, awards then outstanding will become fully vested and exercisable in full.

Our Board of Directors may amend or terminate the Equity Incentive Plan and may amend outstanding awards, provided that no such amendment or termination may be made that would materially impair any rights, or materially increase any obligations, of a grantee under an outstanding award. Shareholder approval of Equity Incentive Plan amendments will be required under certain circumstances. Unless terminated earlier by our Board of Directors, the Equity Incentive Plan will expire ten years from the date the Equity Incentive Plan is adopted.

On September 28, 2018, we granted 1,189,350 restricted shares with an aggregate fair value of \$8.6 million to our officers, employees and members of our Board of Directors pursuant to the Equity Incentive Plan. Of these restricted shares, 150,000 restricted shares vest in three equal annual installments beginning June 10, 2019 and 1,039,350 restricted shares vest in three equal annual installments beginning on June 10, 2020.

On February 2, 2018, we granted 646,182 restricted shares with an aggregate fair value of \$4.8 million to our officers, employees, members of our Board of Directors and SSH employees pursuant to the Equity Incentive Plan. These awards will vest in three equal annual installments beginning on December 9, 2019.

On June 1, 2017, we granted 150,000 restricted shares with an aggregate fair value of \$0.9 million to our independent directors pursuant to the Equity Incentive Plan. These awards will vest in three equal annual installments beginning on the first anniversary of the date of grant.

On July 28, 2016, we granted 2,582,000 restricted shares to our officers, employees, members of our Board of Directors and SSH employees pursuant to the Equity Incentive Plan. Of these restricted shares, 150,000 restricted shares vest in three equal annual installments beginning June 5, 2017 and 2,432,000 restricted shares vest in three equal annual installments beginning on June 5, 2018. The aggregate fair value of these awards is \$8.4 million.

Compensation cost is recognized on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in-substance, multiple awards. Please see Note 10, Equity Incentive Plan, to our Consolidated Financial Statements included herein for additional information.

C. Board Practices

Our Board of Directors currently consists of eight directors, six of whom have been determined by our Board of Directors to be independent under the rules of the NYSE and the rules and regulations of the SEC. Mr. Steimler is our lead independent director. Our Board of Directors has an Audit Committee, a Nominating and Corporate Governance Committee and a Compensation Committee. Our Audit Committee is comprised of Messrs. Ostrander, Nish and Giorgi. Our Nominating and Corporate Governance Committee and our Compensation Committee are comprised of Messrs. Steimler, Giorgi and Gut. The Audit Committee, which operates under a charter, among other things, reviews our external financial reporting, engages our external auditors and oversees our internal audit activities, procedures and the adequacy of our internal controls. In addition, provided that no member of the Audit Committee has a material interest in such transaction, the Audit Committee is responsible for reviewing transactions that we may enter into in the future with other members of Scorpio that our Board of Directors believes may present potential conflicts of interests between us and Scorpio. The Nominating and Corporate Governance Committee is responsible for recommending to the Board of Directors nominees for director and directors for appointment to board committees and advising the board with regard to corporate governance practices. Our shareholders may also nominate directors in accordance with procedures set forth in our bylaws. The Compensation Committee oversees our equity incentive plan and recommends director and senior employee compensation.

D. Employees

For the years ended December 31, 2018, 2017, and 2016 we had six, six, and three full time equivalents (excluding our executive officers), respectively.

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Our executive officers are employed by us and our support staff is provided by SSH pursuant to the Amended Administrative Services Agreement. Our technical manager, SSM, is responsible for identifying, screening and recruiting, directly or through a crewing agent, the officers and all other crew members for our vessels that are employed by our vessel-owning subsidiaries.

E. Share ownership

The common shares beneficially owned by our directors and our executive officers are disclosed in “Item 7. Major Shareholders and Related Party Transactions—A. Major Shareholders.”

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY
TRANSACTIONS.

A. Major shareholders.

The following table sets forth information regarding beneficial ownership of our common shares for (i) owners of more than five percent of our common shares and (ii) our directors and executive officers, of which we are aware as of March 15, 2019. All of our shareholders, including the shareholders listed in the table below, are entitled to one vote for each share of our common stock held.

Name	No. of Shares	% Owned (1)
Scorpio Holdings Limited	13,977,513(2)	19.6 %
GRM Investments Ltd.	12,839,328(3)	18.0 %
Evermore Global Advisors, LLC *	6,248,277 (4)	8.8 %
Raging Capital Management LLC	3,538,399 (5)	5.0 %
Directors and executive officers as a group	4,122,353	5.8 %

(1) Calculated based on 71,217,258 common shares outstanding as of March 15, 2019.

This information is derived from a Schedule 13D/A filed with the SEC on February 22, 2019 by Scorpio Holdings Limited, Scorpio Services Holding Limited, Scorpio Assets Holding Limited, Scorpio Assets SALT Limited, and Ms. Annalisa Lolli-Ghetti. Ms. Annalisa Lolli-Ghetti may be deemed to be the ultimate beneficial owner of these shares by virtue of being the majority shareholder of Scorpio Holdings Limited. Emanuele Lauro, our Director and Chief Executive Officer, Robert Bugbee, our Director and President, and Cameron Mackey, our Chief Operating Officer, own 10%, 10% and 7% of Scorpio Holdings Limited, respectively.

(2) This information is derived from Schedule 13G/A filed with the SEC on July 25, 2017.

(3) This information is derived from Schedule 13G/A filed with the SEC on February 11, 2019.

(4) This information is derived from Schedule 13G/A filed with the SEC on February 14, 2018.

* Includes common shares held by funds managed thereby.

As of March 15, 2019, we had 64 shareholders of record, 15 of which were located in the United States and held an aggregate of 67,619,958 shares of our common stock, representing 94.9% of our outstanding common shares.

However, one of the U.S. shareholders of record is Cede & Co., a nominee of The Depository Trust Company, which held 65,545,567 shares of our common stock, as of that date. Accordingly, we believe that the shares held by Cede & Co. include common shares beneficially owned by both holders in the United States and non-U.S. beneficial owners.

We are not aware of any arrangements the operation of which may at a subsequent date result in our change of control.

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B. Related Party Transactions

Management of Our Fleet

Commercial and Technical Management Agreements - Revised Master Agreement

Our vessels are commercially managed by SCM and technically managed by SSM pursuant to the Revised Master Agreement, which may be terminated by either party upon 24 months' notice, unless terminated earlier in accordance with the provisions of the Revised Master Agreement. In the event of the sale of one or more vessels, a notice period of three months' and a payment equal to three months of management fees will apply, provided that the termination does not amount to a change of control, including a sale of substantially all vessels, in which case a payment equal to 24 months of management fees will apply. SCM and SSM are companies affiliated with us. The vessel we charter-in is also commercially managed by SCM. We expect that additional vessels that we may charter-in or acquire in the future will also be managed under the Revised Master Agreement or on substantially similar terms.

SCM's services include securing employment for our vessels in the spot market and on time charters. SCM also manages the Scorpio Pools in which our vessels are employed. For commercial management of any of our vessels that does not operate in one of these pools, we pay SCM a daily fee of \$300 per vessel, plus a 1.75% commission on the gross revenues per charter fixture. The Scorpio Pool participants, including us and third-party owners of similar vessels, are each expected to pay SCM a pool management fee of \$300 per vessel per day, plus a 1.75% commission on the gross revenues per charter fixture.

SSM's services include providing technical support, such as arranging the hiring of qualified officers and crew, supervising the maintenance and performance of vessels, purchasing supplies, spare parts and new equipment, arranging and supervising drydocking and repairs, and monitoring regulatory and classification society compliance and customer standards. We pay SSM an annual fee of \$160,000 plus charges for certain itemized services per vessel to provide technical management services for each of our owned vessels. In addition, representatives of SSM, including certain subcontractors, previously provided us with construction supervisory services while our vessels were being constructed in shipyards. For these services, we compensated SSM for its direct expenses, which varied between \$200,000 and \$500,000 per vessel.

Amended Administrative Services Agreement

In 2016, we entered into the Amended Administrative Services Agreement with SSH for the provision of administrative staff, office space and accounting, legal compliance, financial and information technology services. SSH is a company affiliated with us. The services provided to us by SSH may be sub-contracted to other entities within Scorpio. Pursuant to the Amended Administrative Services Agreement, we reimburse SSH for the reasonable direct or indirect expenses it incurs in providing us with the administrative services described above.

SSH also arranges vessel sales and purchases for us. We previously paid SSH a fee, payable in our common shares, for arranging vessel acquisitions, including newbuildings. The amount of common shares payable was determined by dividing \$250,000 by the market value of our common shares based on the volume weighted average price of our common shares over the 30 trading day period immediately preceding the contract date of a definitive agreement to acquire any vessel. As of the date of this annual report, we issued an aggregate of 180,716 common shares to SSH in connection with the deliveries of newbuilding vessels. Effective September 29, 2016, pursuant to the terms of the Amended Administrative Services Agreement, we agreed with SSH to eliminate this fee on all future acquisitions. SSH has agreed with us not to own any drybulk carriers greater than 30,000 dwt for so long as the Amended Administrative Services Agreement is in full force and effect. This agreement may be terminated by SSH upon 12 months' prior written notice or by us with 24 months' notice.

The fees and rates charged as vessel operating costs by the related party port agent are based on the prevailing market rates for such services in each respective region.

Other Related Party Transactions

In 2016, an Executive Officer of the Company acquired a minority interest, which in 2018 increased to a majority interest, in an insurance broker which arranges hull and machinery and war risk insurance for certain of our owned and finance leased vessels. This broker has arranged such policies for the Company since 2013 and the extent of the coverage and the manner in which the policies are priced did not change as a result of this transaction. In September 2018 the Executive Officer disposed of their interest in the insurance broker in its entirety to a third party not affiliated

with the Company. The amounts recorded reflect the amortization of the policy premiums, which are paid directly to the broker, who then remits the premiums to the underwriters. Such payments, which are made in advance, are classified as prepaid expenses and other current assets on the Consolidated Balance

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Sheet until they are expensed at which point they are recorded as vessel operating expenses in the Consolidated Statement of Operations.

On October 12, 2018, we invested \$100.0 million in Scorpio Tankers, a related party of ours, for approximately 54.1 million shares of Scorpio Tankers, representing approximately 10.9% of Scorpio Tankers' then issued and outstanding common shares. The investment was part of a larger \$337.0 million equity raise through a public offering of common shares by Scorpio Tankers. Scorpio Tankers owns and operates a fleet of tankers transporting petroleum products. Certain of our directors and executive officers serve in similar positions in Scorpio Tankers and in other entities within Scorpio. On January 18, 2019, Scorpio Tankers effected a one-for-ten reverse stock split and as such we now own approximately 5.4 million common shares of Scorpio Tankers.

Please see Note 15, Related Party Transactions, to our consolidated financial statements for additional information about our related party transactions.

Related Party Balances

For the years ended December 31, 2018, 2017 and 2016, we had the following balances with entities controlled by the Lolli-Ghetti family and with Scorpio Tankers (herein referred to as "related parties"), which have been included in the consolidated statement of operations (amounts in thousands):

	For the year ended December		
	31,		
	2018	2017	2016
Vessel revenue			
Scorpio Kamsarmax Pool	\$87,305	\$67,825	\$31,319
Scorpio Ultramax Pool	155,197	94,380	46,227
SCM	—	—	856
Total vessel revenue	\$242,502	\$162,205	\$78,402
Voyage expense			
SCM	\$—	\$172	\$319
Vessel operating cost			
SSM	\$13,361	\$9,379	\$7,191
Port agent	117	13	—
Insurance brokerage	1,721	—	—
Total vessel operating cost	\$15,199	\$9,392	\$7,191
General and administrative expense:			
SCM	\$45	\$108	\$43
SSM	99	—	—
SSH	6,707	5,643	3,949
Scorpio UK Limited	1,665	971	862
Total general and administrative expense	\$8,516	\$6,722	\$4,854
Income (loss) from equity investment			
Scorpio Tankers Inc.	\$(7,178)	\$—	\$—
Write down on assets held for sale			
SCM	\$—	\$147	\$500
SSM	—	200	500
Total write down on assets held for sale	\$—	\$347	\$1,000

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At December 31, 2018 and 2017, we had the following balances with related parties, which have been included in the consolidated balance sheets (amounts in thousands):

	As of	
	December 31,	
	2018	2017
Assets		
Due from related parties-current:		
Scorpio Kamsarmax Pool	\$4,017	\$3,977
Scorpio Ultramax Pool	3,321	2,578
Total due from related parties-current	\$7,338	\$6,555
Due from related parties non-current:		
Scorpio Kamsarmax Pool	\$4,806	