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FORM 20-F

DIANA SHIPPING INC. - DSX

Filed: March 31, 2011 (period: December 31, 2010)

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

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

FORM 20-F

(Mark One)

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

OR

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2010

OR

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

OR

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

Commission file number 001-32458

DIANA SHIPPING INC.

(Exact name of Registrant as specified in its charter)

Diana Shipping Inc.

(Translation of Registrant's name into English)

Republic of The Marshall Islands

(Jurisdiction of incorporation or organization)

Pendelis 16, 175 64 Palaio Faliro, Athens, Greece

(Address of principal executive offices)

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

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

Title of each class

Common stock, \$0.01 par value

Preferred stock purchase rights

Name of each exchange on which registered

New York Stock Exchange

New York Stock Exchange

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

None

(Title of Class)

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

None

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

As of December 31, 2010, there were 81,955,813 shares of the registrant's common stock outstanding

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

☒ Yes ☐ No

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

☐ Yes ☒ No

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

☐ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

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

U.S. GAAP ☒

International Financial Reporting Standards as issued
by the International Accounting Standards Board ☐

Other ☐

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

☐ Item 17 ☐ Item 18

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

☐ Yes ☒ No

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

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

☐ Yes ☐ No

TABLE OF CONTENTS

FORWARD-LOOKING STATEMENTS		4
PART I		
Item 1.	Identity of Directors, Senior Management and Advisers	5
Item 2.	Offer Statistics and Expected Timetable	5
Item 3.	Key Information	5
Item 4.	Information on the Company	27
Item 4A.	Unresolved Staff Comments	46
Item 5.	Operating and Financial Review and Prospects	46
Item 6.	Directors, Senior Management and Employees	65
Item 7.	Major Shareholders and Related Party Transactions	70
Item 8.	Financial Information	73
Item 9.	The Offer and Listing	74
Item 10.	Additional Information	74
Item 11.	Quantitative and Qualitative Disclosures about Market Risk	83
Item 12.	Description of Securities Other than Equity Securities	84
PART II		
Item 13.	Defaults, Dividend Arrearages and Delinquencies	85
Item 14.	Material Modifications to the Rights of Security Holders and Use of Proceeds	85
Item 15.	Controls and Procedures	85
Item 16A.	Audit Committee Financial Expert	86
Item 16B.	Code of Ethics	86
Item 16C.	Principal Accountant Fees and Services	86
Item 16D.	Exemptions from the Listing Standards for Audit Committees	87
Item 16E.	Purchases of Equity Securities by the Issuer and Affiliated Purchasers	87
Item 16F.	Change in Registrant's Certifying Accountant	87
Item 16G.	Corporate Governance	87
PART III		
Item 17.	Financial Statements	89
Item 18.	Financial Statements	89
Item 19.	Exhibits	89

FORWARD-LOOKING STATEMENTS

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

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

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

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

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not Applicable.

Item 2. Offer Statistics and Expected Timetable

Not Applicable.

Item 3. Key Information

A. Selected Financial Data

The following table sets forth our selected consolidated financial data and other operating data. The selected consolidated financial data in the table as of December 31, 2010, 2009, 2008, 2007 and 2006 are derived from our audited consolidated financial statements and notes thereto which have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). The following data should be read in conjunction with Item 5. "Operating and Financial Review and Prospects", the consolidated financial statements, related notes and other financial information included elsewhere in this annual report.

	As of and for the Year Ended December 31,				
	2010	2009	2008	2007	2006
	(in thousands of U.S. dollars, except for share and per share data and average daily results)				
Income Statement Data:					
Time charter revenues	\$ 275,448	\$ 239,342	\$ 337,391	\$ 190,480	\$ 116,101
Voyage expenses	12,392	11,965	15,003	8,697	6,059
Vessel operating expenses	52,585	41,369	39,899	29,332	22,489
Depreciation and amortization of deferred charges	53,083	44,686	43,259	24,443	16,709
Management fees	-	-	-	-	573
Executive management services and rent	-	-	-	-	76
General and administrative expenses	25,347	17,464	13,831	11,718	6,331
Gain on vessel sale	-	-	-	(21,504)	-
Foreign currency gains	(1,598)	(478)	(438)	(144)	(52)
Operating income	133,639	124,336	225,837	137,938	63,916
Interest and finance costs	(5,213)	(3,284)	(5,851)	(6,394)	(3,886)
Interest income	920	951	768	2,676	1,033

	As of and for the Year Ended December 31,				
	2010	2009	2008	2007	2006
	(in thousands of U.S. dollars, except for share and per share data and average daily results)				
Loss from derivative instruments	(1,477)	(505)	-	-	-
Insurance settlements for vessel un-repaired damages	-	-	945	-	-
Net income	\$ 127,869	\$ 121,498	\$ 221,699	\$ 134,220	\$ 61,063
Less: Preferential deemed dividend	\$ -	\$ -	\$ -	\$ -	\$ (20,267)
Loss assumed by non controlling interests	\$ 910	\$ -	\$ -	\$ -	\$ -
Net income attributed to Diana Shipping Inc.	\$ 128,779	\$ 121,498	\$ 221,699	\$ 134,220	\$ 40,796
Earnings per common share, basic	\$ 1.60	\$ 1.55	\$ 2.97	\$ 2.11	\$ 0.82
Earnings per common share, diluted	\$ 1.59	\$ 1.55	\$ 2.97	\$ 2.11	\$ 0.82
Weighted average number of common shares, basic	80,682,770	78,282,775	74,375,686	63,748,973	49,528,904
Weighted average number of common shares, diluted	80,808,232	78,385,464	74,558,254	63,748,973	49,528,904
Cash dividends declared and paid per share	\$ -	\$ -	\$ 3.31	\$ 2.05	\$ 1.50

Balance Sheet Data:

Cash and cash equivalents	\$ 345,414	\$ 282,438	\$ 62,033	\$ 16,726	\$ 14,511
Total current assets	354,649	297,156	68,554	21,514	19,062
Vessels' net book value	1,160,850	979,343	960,431	867,632	464,439
Property and equipment, net	21,842	200	136	956	897
Total assets	1,585,389	1,320,425	1,057,206	944,342	510,675
Total current liabilities	32,510	32,386	20,012	20,964	7,636
Deferred revenue, non-current portion	4,227	11,244	22,502	23,965	146
Long-term debt (including current portion)	383,623	281,481	238,094	98,819	138,239
Total stockholders' equity	1,169,930	999,325	775,476	799,474	363,103

Cash Flow Data:

Net cash provided by operating activities	\$ 178,292	\$ 151,903	\$ 261,151	\$ 148,959	\$ 82,370
Net cash used in investing activities	(252,313)	(73,081)	(108,662)	(409,085)	(193,096)
Net cash provided by / (used in) financing activities	136,997	141,583	(107,182)	262,341	104,007

	As of and for the Year Ended December 31,				
	2010	2009	2008	2007	2006
	(in thousands of U.S. dollars, except for share and per share data and average daily results)				
Fleet Data:					
Average number of vessels (1)	22.9	19.2	18.9	15.9	13.4
Number of vessels at end of period	25.0	20.0	19.0	18.0	15.0
Weighted average age of drybulk vessels at year-end (in years)	5.4	4.9	4.3	3.4	3.7
Weighted average age of containerships at year-end (in years)	0.6	-	-	-	-
Ownership days (2)	8,348	7,000	6,913	5,813	4,897
Available days (3)	8,208	6,930	6,892	5,813	4,856
Operating days (4)	8,180	6,857	6,862	5,771	4,849
Fleet utilization (5)	99.7%	98.9%	99.6%	99.3%	99.9%
Average Daily Results:					
Time charter equivalent (TCE) rate (6)	\$ 32,049	\$ 32,811	\$ 46,777	\$ 31,272	\$ 22,661
Daily vessel operating expenses (7)	6,299	5,910	5,772	5,046	4,592

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

	Year Ended December 31,				
	2010	2009	2008	2007	2006
	(in thousands of U.S. dollars, except for TCE rates, which are expressed in U.S. dollars, and available days)				
Time charter revenues	\$ 275,448	239,342	\$ 337,391	\$ 190,480	\$ 116,101
Less: voyage expenses	(12,392)	(11,965)	(15,003)	(8,697)	(6,059)
Time charter equivalent revenues	\$ 263,056	\$ 227,377	\$ 322,388	\$ 181,783	\$ 110,042
Available days	8,208	6,930	6,892	5,813	4,856
Time charter equivalent (TCE) rate	\$ 32,049	\$ 32,811	\$ 46,777	\$ 31,272	\$ 22,661

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

B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

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

Industry Specific Risk Factors

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

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

Factors that influence demand for vessel capacity include:

- ☒ supply and demand for energy resources, commodities, semi-finished and finished consumer and industrial products;

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

Factors that influence the supply of vessel capacity include:

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

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

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

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

The abrupt and dramatic downturn in the dry bulk charter market, from which we derive substantially all of our revenues, has severely affected the dry bulk shipping industry and has adversely affected our business. The BDI declined from a high of 11,793 in May 2008 to a low of 663 in December 2008, which represents a decline of 94%. The BDI fell over 70% during the month of October 2008 alone. Over the comparable period of May through December 2008, the high and low of the Baltic Panamax Index, or BPI, and the Baltic Capesize Index represented a decline of 96% and 99%, respectively. During 2009, the BDI increased from a low of 772 and reached a high of 4,661 in November of 2009. During 2010, the BDI ranged from a low of approximately 1,700 in July 2010 to a high of approximately 4,209 in May 2010. As of March 28, 2011, the BDI was 1,585. The decline and volatility in charter rates is due to various factors, including the lack of trade financing for purchases of commodities carried by sea, which has resulted in a significant decline in cargo shipments, and the excess supply of iron ore in China, which has resulted in falling iron ore prices and increased stockpiles in Chinese ports. The decline and volatility in charter rates in the dry bulk market also affects the value of our dry bulk vessels, which follows the trends of dry bulk charter rates, and earnings on our charters, and similarly, affects our cash flows, liquidity and compliance with the covenants contained in our loan agreements.

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

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

Negative changes in economic conditions in any Asia Pacific country, particularly in China, may exacerbate the effect of the significant recent slowdowns in the economies of the United States and the European Union and may have a material adverse effect on our business, financial condition and results of operations, as well as our future prospects. Before the global economic financial crisis that began in 2008, China had one of the world's fastest growing economies in terms of gross domestic product, or GDP, which had a significant impact on shipping demand. While the growth rate of China's GDP increased to approximately 10.3% for the year ended December 31, 2010, as compared to approximately 9.1% for the year ended December 31, 2009, the Chinese GDP growth rate remains below pre-2008 levels. China has recently imposed measures to restrain lending, which may further contribute to a slowdown in its economic growth. It is possible that China and other countries in the Asia Pacific region will continue to experience slowed or even negative economic growth in the near future. Moreover, the current economic slowdown in the economies of the United States, the European Union and other Asian countries may further adversely affect economic growth in China and elsewhere. Our 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 any of these countries.

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

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

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

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

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

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

The market supply of dry bulk carriers has been increasing, and the number of dry bulk carriers on order is near historic highs. Dry bulk newbuildings were delivered in significant numbers starting at the beginning of 2006 and continue to be delivered in significant numbers. As of March 1, 2011, dry bulk carrier newbuilding orders had been placed for an aggregate of more than 49% of the current global dry bulk carrier fleet, with deliveries expected during the next 34 months. Due to lack of financing many analysts expect significant cancellations and/ or slippage of newbuilding orders. While vessel supply will continue to be affected by the delivery of new vessels and the removal of vessels from the global fleet, either through scrapping or accidental losses, an over-supply of dry bulk carrier capacity could exacerbate the recent decrease in charter rates or prolong the period during which low charter rates prevail. If the current low charter rate environment persists, or a further reduction occurs, during a period when the current charters for our dry bulk carriers expire or are terminated, we may only be able to re-charter those vessels at reduced rates or we may not be able to charter our vessels at all.

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

Terrorist attacks such as those in New York on September 11, 2001, in London on July 7, 2005 and in Mumbai on November 26, 2008 and the continuing response of the world community to these attacks, as well as the threat of future terrorist attacks around the world, continues to cause uncertainty in the world's financial markets and may affect our business, operating results and financial condition. Continuing conflicts in North Africa and the Middle East and the presence of United States and other armed forces in Iraq and Afghanistan may lead to additional acts of terrorism and armed conflict around the world, which may contribute to further economic instability in the global financial markets. These uncertainties could also adversely affect our ability to obtain additional financing on terms acceptable to us or at all. In the past, political conflicts have also resulted in attacks on vessels, mining of waterways and other efforts to disrupt international shipping, particularly in the Arabian Gulf region. Acts of terrorism and piracy have also affected vessels trading in regions such as the South China Sea and the Gulf of Aden off the coast of Somalia. Any of these occurrences could have a material adverse impact on our operating results, revenues and costs.

Terrorist attacks on vessels, such as the October 2002 attack on the M.V. *Limburg*, a very large crude carrier not related to us, may in the future also negatively affect our operations and financial condition and directly impact our vessels or our customers. Future terrorist attacks could result in increased volatility and turmoil of the financial markets in the United States and globally. Any of these occurrences could have a material adverse impact on our revenues and costs.

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

Acts of piracy have historically affected ocean-going vessels trading in regions of the world such as the South China Sea and in the Gulf of Aden off the coast of Somalia. Beginning in 2008, the frequency of piracy incidents increased significantly, and continues at a relatively high level through today, particularly in the Gulf of Aden off the coast of Somalia. In November 2008, the *Sirius Star*, a tanker vessel not affiliated with us, was captured by pirates in the Indian Ocean while carrying crude oil estimated to be worth \$100 million, and was released in January 2009 upon a ransom payment of \$3 million. In April 2009, the *Maersk Alabama*, a 17,000-ton containership not affiliated with us, was seized by Somali pirates. The ship was later released. If these piracy attacks result in regions in which our vessels are deployed being characterized by insurers as "war risk" zones, as the Gulf of Aden temporarily was in May 2008, or Joint War Committee "war and strikes" listed areas, premiums payable for such coverage could increase significantly and such insurance coverage may be more difficult to obtain. In addition, crew costs, including those due to employing onboard security guards, could increase in such circumstances. We may not be adequately insured to cover losses from these incidents, which could have a material adverse effect on us. In addition, 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.

The recent earthquake and tsunami in Japan may have an adverse affect on our business, results of operations, financial condition and ability to pay dividends.

Japan is one of the world's leading importers of dry bulk commodities. The earthquake and tsunami that occurred in Japan on March 11, 2011 have caused an estimated \$180 billion of damage and has threatened to send the Japanese economy into a recession. As of the date of this annual report, the extent to which the earthquake and tsunami will affect the international shipping industry is unclear. With the third largest economy in the world, a prolonged recovery period with a relatively stagnant Japanese economy could decrease dry bulk imports to that country. This, in turn, could have a material adverse effect on our business and results of operations.

Disruptions in world financial markets and the resulting governmental action in the United States and in other parts of the world could have a material adverse impact on our results of operations, financial condition and cash flows, and could cause the market price of our common stock to further decline.

The United States and other parts of the world have and continue to experience weakened economic conditions and have been in a recession. For example, the credit markets in the United States have experienced significant contraction, deleveraging and reduced liquidity, and the United States federal government and state governments have implemented and are considering a broad variety of governmental action and/or new regulation of the financial markets. Securities and futures markets and the credit markets are subject to comprehensive statutes, regulations and other requirements. 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.

The uncertainty surrounding the future of the credit markets in the United States and the rest of the world has resulted in reduced access to credit worldwide. As of December 31, 2010, we have total outstanding indebtedness of \$385.0 million (of principal balance) under our loan facilities.

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 and the current adverse changes in market conditions and regulatory climate in the United States and worldwide may adversely affect our business or impair our ability to borrow amounts under our credit facilities or any future financial arrangements. We cannot predict how long the current market conditions will last. However, these recent and developing economic and governmental factors, together with the concurrent decline in charter rates and vessel values, may have a material adverse effect on our results of operations, financial condition or cash flows and could cause the price of our shares to decline.

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

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

Fuel, or bunker prices, may adversely affect profits.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The U.S. sanctions and embargo laws and regulations vary in their application, as they do not all apply to the same covered persons or proscribe the same activities, and such sanctions and embargo laws and regulations may be amended or strengthened over time. In 2010, the U.S. enacted the Comprehensive Iran Sanctions Accountability and Divestment Act ("CISADA"), which expanded the scope of the former Iran Sanctions Act. Among other things, CISADA expands the application of the prohibitions to non-U.S. companies, such as our company, and introduces limits on the ability of companies and persons to do business or trade with Iran when such activities relate to the investment, supply or export of refined petroleum or petroleum products. 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 result in some investors deciding, or being required, to divest their interest, or not to invest, in our company. Additionally, some investors may decide to divest their interest, or not to invest, in our company simply because we do business with companies that do business in sanctioned countries. 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. Investor perception of the value of our common stock may be adversely affected by the consequences of war, the effects of terrorism, civil unrest and governmental actions in these and surrounding countries.

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

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

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

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

Company Specific Risk Factors

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

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

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

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

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

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

We believe that the market value of the vessels in our fleet is in excess of amounts required under our credit facilities. However, if the market values of our vessels, which are at relatively low levels, decrease further, we may breach some of the covenants contained in the financing agreements relating to our indebtedness at the time, including covenants in our credit facilities. If we do breach such covenants and we are unable to remedy the relevant breach, our lenders could accelerate our debt and foreclose on our fleet. In addition, if the book value of a vessel is impaired due to unfavorable market conditions or a vessel is sold at a price below its book value, we would incur a loss that could adversely affect our operating results.

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

We charter certain of our vessels pursuant to short-term time charters, although we have also entered into long-term time charters ranging in duration on commencement of the time charter from 21 months to 62 months for 21 of the vessels in our fleet and we may in the future employ additional vessels on longer term time charters. Currently, five of our vessels are employed on time charters scheduled to expire within the next six months, at which time we expect to enter into new charters for those vessels. Although significant exposure to short-term time charters is not unusual in the dry bulk shipping industry, the short-term time charter market is highly competitive and spot market charter hire rates (which affect time charter rates) may fluctuate significantly based upon available charters and the supply of, and demand for, seaborne shipping capacity. While the short-term time charter market may enable us to benefit in periods of increasing charter hire rates, we must consistently renew our charters and this dependence makes us vulnerable to declining charter rates. As a result of the volatility in the dry bulk carrier charter market, we may not be able to employ our vessels upon the termination of their existing charters at their current charter hire rates. The dry bulk carrier charter market is volatile, and in the recent past, short-term time charter and spot market charter rates for some dry bulk carriers declined below the operating costs of those vessels before rising. We cannot assure you that future charter hire rates will enable us to operate our vessels profitably, or to pay dividends again.

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

We charter certain of our dry bulk carriers to customers pursuant to short-term time charters that range in duration from 11 to 14 months. However, as part of our business strategy, 21 of our vessels are currently fixed on long-term time charters ranging in duration from 21 months to 62 months. We may extend the charter periods for additional vessels in our fleet, including additional dry bulk carriers or container vessels that we may purchase in the future, to take advantage of the relatively stable cash flow and high utilization rates that are associated with long-term time charters. While we believe that long-term charters provide us with relatively stable cash flows and higher utilization rates than shorter-term charters, our vessels that are committed to long-term charters may not be available for employment on short-term charters during periods of increasing short-term charter hire rates when these charters may be more profitable than long-term charters.

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

We currently own approximately 11% of Diana Containerships Inc., which operates in the containership market. Through this investment, we are partially exposed to containership market risks such as the cyclicity and volatility of charterhire rates; the reduction in demand for container shipping due to the recent global economic recession; increased risk of charter counterparty risk due to financial pressure on liner companies as a result of a decline in global trade; and the risk of over-supply of containership capacity. Containership market risks may reduce the value of our investment in Diana Containerships Inc., and could adversely affect our financial condition.

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

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

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

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

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

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

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

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

Since the completion of our initial public offering in March 2005, we have taken delivery of six Panamax dry bulk carriers, one Post-Panamax dry bulk carrier and eight Capesize dry bulk carriers, sold one of our Capesize dry bulk carriers and entered into two shipbuilding contracts for the construction of two Newcastlemax dry bulk carriers. The addition of these vessels to our fleet has resulted in a significant increase in the size of our fleet and imposes significant additional responsibilities on our management and staff. While we expect our fleet to grow further, this may require us to increase the number of our personnel. We will also have to increase our customer base to provide continued employment for the new vessels.

Our future growth will primarily depend on our ability to:

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

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

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

We entered into a \$230.0 million secured revolving credit facility with The Royal Bank of Scotland Plc in February 2005, amended in May 2006 to increase the facility amount to \$300.0 million. In October 2009, we entered into loan agreements with Deutsche Bank AG and Bremer Landesbank, or Bremer, for a loan of \$40 million, each, which we used to finance part of the construction cost of our Capesize dry bulk carriers, *New York* delivered in March 2010 and *Houston* delivered in October 2009, respectively. In October 2010, we entered into a loan agreement with Export – Import Bank of China and DNB NOR Bank ASA, for a loan of up to \$82.6 million, to finance part of the acquisition cost of our Newcastlemax vessels that are under construction. As of December 31, 2010, we had \$385.0 million outstanding under our facilities. We have used our loan facilities to finance vessel acquisitions. Our ability to borrow amounts under our facilities is subject to the execution of customary documentation relating to the facility, including security documents, satisfaction of certain customary conditions precedent and compliance with terms and conditions included in the loan documents. Prior to each drawdown, we are required, among other things, to provide the lender with acceptable valuations of the vessels in our fleet confirming that the vessels in our fleet have a minimum value and that the vessels in our fleet that secure our obligations under the facilities are sufficient to satisfy minimum security requirements. To the extent that we are not able to satisfy these requirements, including as a result of a decline in the value of our vessels, we may not be able to draw down the full amount under the facilities without obtaining a waiver or consent from the lender. We will also not be permitted to borrow amounts under the facilities if we experience a change of control.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In general, the cost of maintaining a vessel in good operating condition increases with the age of the vessel. Currently, our fleet consists of 14 Panamax dry bulk carriers, one Post-Panamax dry bulk carrier, eight Capesize dry bulk carriers and two newbuilding Newcastlemax vessels under construction, having a combined carrying capacity of 2.5 million dead weight tons (dwt) and a weighted average age of 5.6 years, excluding our newbuilding Newcastlemax vessels under construction. As our fleet ages, we will incur increased costs. Older vessels are typically less fuel efficient and more costly to maintain than more recently constructed vessels due to improvements in engine technology. Cargo insurance rates increase with the age of a vessel, making older vessels less desirable to charterers. Governmental regulations and safety or other equipment standards related to the age of vessels may also require expenditures for alterations or the addition of new equipment to our vessels and may restrict the type of activities in which our vessels may engage. We cannot assure you that, as our vessels age, market conditions will justify those expenditures or enable us to operate our vessels profitably during the remainder of their useful lives.

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

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

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

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

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

We have historically derived a significant part of our revenues from a small number of charterers. During 2010, approximately 44% of our revenues derived from three charterers. During 2009, approximately 69% of our revenues derived from four charterers. During 2008, approximately 31% of our revenues derived from two charterers. If one or more of our charterers chooses not to charter our vessels or is unable to perform under one or more charters with us and we are not able to find a replacement charter, we could suffer a loss of revenues that could adversely affect our financial condition and results of operations.

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

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

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

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

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

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

We expect that we and each of our subsidiaries qualify for this statutory tax exemption for the 2010 taxable year and we will take this position for U.S. federal income tax return reporting purposes. However, there are factual circumstances beyond our control that could cause us to lose the benefit of this tax exemption in future years and thereby become subject to U.S. federal income tax on our U.S. source income. For example, at December 31, 2010, our 5% shareholders owned approximately 18.0% of our outstanding common stock. There is a risk that we could no longer qualify for exemption under Section 883 of the Code for a particular taxable year if other shareholders with a 5% or greater interest in our common stock were, in combination with our existing 5% shareholders, to own 50% or more of the outstanding shares of our common stock on more than half the days during the taxable year. Due to the factual nature of the issues involved, we can give no assurances on our tax-exempt status or that of any of our subsidiaries.

If we or our subsidiaries are not entitled to this exemption under Section 883 of the Code for any taxable year, we or our subsidiaries would be subject for those years to a 4% U.S. federal income tax on our gross U.S.-source shipping income. The imposition of this taxation could have a negative effect on our business and would result in decreased earnings available for distribution to our shareholders, although, for the 2010 taxable year, we estimate our maximum U.S. federal income tax liability to be immaterial if we were subject to this U.S. federal income tax. Please see the section of this Annual Report entitled "Taxation" under Item 10E for a more comprehensive discussion of U.S. federal income tax considerations.

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

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

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

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

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

Risks Relating to Our Common Stock

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

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

- actual or anticipated fluctuations in our quarterly and annual results and those of other public companies in our industry;
- mergers and strategic alliances in the dry bulk shipping industry;

- market conditions in the dry bulk shipping industry;
- changes in government regulation;
- shortfalls in our operating results from levels forecast by securities analysts;
- announcements concerning us or our competitors; and
- the general state of the securities market.

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

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

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

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

As of the date of this report Mr. Simeon Palios, our Chairman and Chief Executive Officer, beneficially owns 14,923,018 shares, or approximately 18.1% of our outstanding common stock, the vast majority of which is held indirectly through entities over which he exercises sole voting power. Please see Item 7.A. "Major Shareholders." While Mr. Palios and the non-voting shareholders of these entities have no agreement, arrangement or understanding relating to the voting of their shares of our common stock, they are able to influence the outcome of matters on which our shareholders are entitled to vote, including the election of directors and other significant corporate actions. The interests of these shareholders may be different from your interests.

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

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

Our amended and restated articles of incorporation authorize us to issue up to 200,000,000 shares of common stock, of which as of December 31, 2010, 81,955,813 shares were outstanding. The number of shares of common stock available for sale in the public market is limited by restrictions applicable under securities laws and agreements that we and our executive officers, directors and principal shareholders have entered into.

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

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

These provisions include:

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

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

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

Item 4. Information on the Company

A. History and development of the Company

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

Business Development and Capital Expenditures and Divestitures

During 2008, we drew down an aggregate amount of \$237.2 million under our revolving \$300 million credit facility with the Royal Bank of Scotland and repaid an aggregate amount of \$97.5 million. On December 31, 2008 an amount of \$214.7 million was outstanding under the revolving credit facility, which was used to fund part of the purchase cost of the dry bulk carriers *Salt Lake City* and *Norfolk* delivered in December 2007 and February 2008, respectively.

On April 13, 2009, we entered into agreements with the shipbuilders, Shanghai Jiangnan-Changxing Shipbuilding Co. Ltd., and 4 Sweet Dreams S.A., a related party controlled by the two daughters of our Chairman and Chief Executive Officer, under which we:

- acquired Gala Properties Inc. ("Gala"), that had a contract with the China Shipbuilding Trading Company, Limited and Shanghai Jiangnan-Changxing Shipbuilding Co. Ltd., for the construction of the *Houston*, or Hull No. *H1138* (delivered in October 2009), for a contract price of \$60.2 million, as amended, in exchange for our ownership interest in our former subsidiary Eniwetok Shipping Company Inc., which had a contract with the shipbuilders for the construction of a separate 177,000 dwt Capesize drybulk carrier, identified as Hull No. *H1108*, for the contract price of \$60.2 million, with a scheduled delivery date of June 30, 2010 (the "Eniwetok contract"); and
- acquired the charter party, which Gala had already entered into, for the *Houston* with Jiangsu Shagang Group Co. ("Shagang") or its nominee (with performance guaranteed by Shagang) providing for a gross charter hire rate of \$55,000 per day for a period of a minimum of 59 months and a maximum of 62 months for a consideration of \$15.0 million.

Assets exchanged were recorded at fair value, measured on the consummation date of the transaction. No gain or loss was recognized as a result of the transaction.

In April 2009, we entered into a supplemental loan agreement with Fortis Bank to amend and restate the existing loan agreement, so as to include Gala, as a borrower. Pursuant to the supplemental loan agreement and the amended and restated loan agreement, the bank consented to (i) the termination of the Eniwetok Contract; (ii) the amendment of the purpose of the loan facility made available under the principal agreement such that its purpose includes the financing of part of the construction and acquisition cost of the *Houston*; and (iii) certain amendments to the terms of the principal agreement and the corporate guarantee. Under the amended and restated agreement, the bank also agreed to reduce the shareholding required to be beneficially owned by the Palios' and Margaronis' families from 20% to 10%.

In 2009, we drew down an aggregate amount of \$30.1 million under the loan facility with Fortis Bank to finance part of the first and the second installment of the construction cost of the *Houston*, and the second and third installment of the construction cost of the *New York*. After delivery of the *Houston*, in October 2009, the Company repaid \$30.1 million of the outstanding loan and drew down \$40.0 million under our loan facility with Bremer Landesbank.

In May 2009, we completed a secondary public offering in the United States under the Securities Act, of 6,000,000 shares of common stock at a price of \$16.85 per share from which we received \$98.4 million of net proceeds.

In October 2009, we, through our wholly-owned subsidiaries Gala Properties Inc. and Bikini Shipping Company Inc., entered into loan agreements with Bremer Landesbank and Deutsche Bank AG, respectively, for an amount of \$40.0 million each, to finance part of the acquisition cost of our vessels *Houston* and *New York*, respectively.

In December 2009, we, through our wholly owned subsidiary Taka Shipping Company Inc. ("Taka"), entered into a Memorandum of Agreement with an unrelated third party to acquire the 76,436 dwt Panamax dry bulk carrier *Melite* (built 2004) for a total consideration of \$35.1 million, of which a 10% advance or \$3.5 million was paid in December 2009 and the balance of \$31.6 million was paid in January 2010 when the vessel was delivered. The acquisition cost of the vessel was funded with funds drawn under our revolving credit facility with the Royal Bank of Scotland.

In January 2010, we established Diana Containerships Inc., or Diana Containerships, with the purpose of acquiring containerships, and we made an initial capital contribution of \$500 in exchange for 500 common shares of Diana Containerships.

In March 2010, we took delivery of the New York and repaid \$30.1 million under our loan agreement with Fortis Bank and therefore, our loan with Fortis Bank was terminated. We financed \$40.0 million of the acquisition cost of the New York with funds drawn under our facility with Deutsche Bank AG that we entered into in October 2009.

In April 2010, we, through Lae Shipping Company Inc. and Namu Shipping Company Inc., entered into a shipbuilding contract with China Shipbuilding Trading Company, Limited and Shanghai Jiangnan-Changxing Shipbuilding Co., Ltd for the construction of one Newcastlemax dry bulk carrier of approximately 206,000 dwt for each subsidiary. Each newbuilding (*H1234* to be named *Los Angeles* and *H1235* to be named *Philadelphia*) has a contract price of \$59.0 million and we expect to take delivery of the newbuildings during the fourth quarter of 2011 and the first quarter of 2012, respectively. However, according to the shipbuilding contract, the yard may deliver the vessels up to the second and third quarters of 2012, respectively. In April 2010, we paid an aggregate amount of \$29.0 million representing the first installment of \$14.5 million for each newbuilding and in November 2010 the second installment for Hull H1234, amounting to \$5.8 million.

In April 2010, Diana Containerships completed the sale of an aggregate of 5,892,330 common shares in a private offering under Rule 144A, Regulation S and Regulation D under the Securities Act of 1933, as amended, or the Securities Act, pursuant to the purchase/placement agreement, dated March 29, 2010, by and between Diana Containerships and FBR Capital Markets & Co., including 290,000 common shares issued pursuant to the exercise of FBR Capital Markets & Co.'s option to purchase additional shares, with aggregate net proceeds of \$85.3 million. We invested \$50.0 million in this private offering to acquire 3,333,333 common shares of Diana Containerships.

In June 2010, we and Diana Containerships terminated our existing Consultancy Agreements with companies controlled by each of the executive officers and the services that were previously provided to us and to Diana Containerships by the consultants are provided by Diana Shipping Services, or DSS. DSS has appointed Diana Enterprises Inc., or Diana Enterprises, a related party controlled by our Chief Executive Officer and Chairman Mr. Simeon Palios, as broker to assist it in providing services to us and to Diana Containerships pursuant to the Broker Services Agreement, dated June 1, 2010.

In June 2010, Likiep Shipping Company Inc. and Orangina Inc., wholly owned subsidiaries of Diana Containerships, entered into memoranda of agreement with a third party company to acquire Hull 558 and Hull 559, named *Sagitta* and *Centaurus*, respectively, for the purchase price of Euro 37.3 million, each. *Sagitta* was delivered in June 2010 and its purchase price amounted to \$45.7 million. *Centaurus* was delivered in July 2010 and its purchase price amounted to \$47.2 million.

In July 2010, Diana Containerships, through its wholly owned subsidiaries Likiep Shipping Company Inc. and Orangina Inc., entered into a loan facility with DnB NOR Bank ASA for up to \$40.0 million to finance part of the acquisition cost of the two newbuilding containerships *Centaurus* and *Sagitta*.

In September 2010, we, through our wholly owned subsidiary, Majuro Shipping Company Inc., entered into a memorandum of agreement to purchase the dry bulk vessel *East Sunrise 88*, renamed *Alcmene* for the purchase price of \$40.8 million and we paid 15% of the purchase price, or \$6.1 million. The balance of \$34.7 million was paid in November 2010, when the vessel was delivered.

In October 2010, we, through our wholly owned subsidiaries Lae Shipping Company Inc. and Namu Shipping Company Inc., entered into a loan agreement with the Export – Import Bank of China and DnB NOR Bank ASA to finance part of the acquisition cost of the newbuildings Hull *H1234* to be named *Los Angeles* and Hull *H1235* to be named *Philadelphia*, for an amount of up to \$82.6 million. The loan is available until November 30, 2012 in two advances with each advance not exceeding the lower of \$41.3 million and the 70% of the market value of the ship relevant to it.

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

In October 2010, Diana Containerships filed a registration statement on Form F-4, to register an aggregate of 2,558,997 common shares sold previously in the private offering. On October 19, 2010 the registration statement was declared effective.

In December 2010, Diana Containerships applied to list on the Nasdaq Global Market. Its shares became available to trade on January 3, 2011 on a "when issued basis" and its common shares became available for trading on January 19, 2011, on a "regular way" basis.

In January 2011, we distributed 2,667,015 shares or 80% of our interest in Diana Containerships to our shareholders of record on January 3, 2011 and as a result our ownership percentage of Diana Containerships reduced to approximately 11%. As a result of this partial spin-off, the consolidated financial statements of Diana Containerships will no longer be consolidated to our consolidated financial statements.

We also refer you to Item 5B – "Loan Facilities" for a discussion of our loan facilities.

B. Business overview

We are a global provider of shipping transportation services. We specialize in transporting dry bulk cargoes, including such commodities as iron ore, coal, grain and other materials along worldwide shipping routes. Currently, our existing fleet consists of 23 dry bulk carriers, of which 14 are Panamax, one is Post-Panamax and eight are Capesize dry bulk carriers, having a combined carrying capacity of approximately 2.5 million dwt. In addition, in 2011 and 2012 we expect to take delivery of two newbuilding Newcastlemax vessels which are currently under construction with a combined carrying capacity of 0.4 million dwt.

As of December 31, 2010, our fleet consisted of 14 modern Panamax dry bulk carriers, one Post-Panamax, eight Capesize dry bulk carriers, and two container vessels, owned by Diana Containerships, that had a combined carrying capacity of approximately 2.6 million dwt, and a weighted average age of 5.4 years, excluding the container vessels owned by Diana Containerships and our Newcastlemax vessels under construction. At December 31, 2010, the weighted average age of the containerships was 0.6 years and their carrying capacity was 6,852 TEUs.

As of December 31, 2009, our fleet consisted of 13 modern Panamax dry bulk carriers and seven Capesize dry bulk carriers that had a combined carrying capacity of approximately 2.2 million dwt and a weighted average age of 4.9 years. As of December 31, 2008, our fleet consisted of 13 modern Panamax dry bulk carriers and six Capesize dry bulk carriers that had a combined carrying capacity of approximately 2.0 million dwt and a weighted average age of 4.3 years.

During 2010, 2009 and 2008, we had a fleet utilization of 99.7%, 98.9% and 99.6%, respectively, our vessels achieved daily time charter equivalent rates of \$32,049, \$32,811 and \$46,777, respectively, and we generated revenues of \$275.4 million, \$239.3 million and \$337.4 million, respectively.

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

The following table presents certain information concerning the dry bulk carriers in our fleet, as of March 30, 2011.

Fleet Employment Profile (As of March 30, 2011)

Currently Diana Shipping's fleet is employed as follows:

Vessel BUILT	DWT	Sister Ships*	Gross Rate (USD Per Day)	Com**	Charterer	Delivery Date to Charterer	Redelivery Date to Owners***	Notes
Panamax Vessels								
CORONIS 2006	74,381	C	\$24,000	5.00%	Siba Ships Asia Pte. Ltd.	6-Apr-10	6-Mar-12 - 21-Jun-12	
ERATO 2004	74,444	C	\$20,500	5.00%	C Transport Panamax Ltd., Isle of Man	4-Mar-10	4-Dec-11 - 4-Mar-12	
NAIAS 2006	73,546	B	\$19,750	5.00%	J. Aron & Company, New York	24-Sep-10	24-Aug-12 - 24-Oct-12	
CLIO 2005	73,691	B	\$25,000	5.00%	Daelim Corporation, Seoul	8-May-10	8-Apr-12 - 8-Jun-12	
CALIPSO 2005	73,691	B	\$23,000	5.00%	Cargill International S.A., Geneva	4-Sep-10	20-Jul-11 - 19-Oct-11	
PROTEFS 2004	73,630	B	\$59,000	5.00%	Hanjin Shipping Co. Ltd., Seoul	18-Sep-08	18-Aug-11 - 18-Nov-11	
THETIS 2004	73,583	B	\$23,000 \$13,750	5.00% 5.00%	Glencore Grain BV, Rotterdam Cargill International S.A., Geneva	6-Mar-10 23-Feb-11	23-Feb-11 23-Jan-12 - 23-Apr-12	
DIONE 2001	75,172	A	\$20,500	5.00%	Louis Dreyfus Commodities S.A., Geneva	26-Sep-10	26-Jul-12 - 26-Nov-12	
DANAE 2001	75,106	A	\$12,000	5.00%	Augustea Oceanbulk Maritime Limitada, Madeira	7-Apr-09	12-Apr-11 - 12-May-11	1,2
OCEANIS 2001	75,211	A	\$19,750	5.00%	China National Chartering Co. Ltd. (Sinochart), Beijing	17-Sep-10	17-Aug-12 - 1-Nov-12	
TRITON 2001	75,336	A	\$19,500	4.75%	Resource Marine Pte., Ltd, Singapore	11-Dec-10	11-Nov-13 - 11-Feb-14	3
ALCYON 2001	75,247	A	\$34,500	4.75%	Cargill International S.A., Geneva	21-Feb-08	21-Nov-12 - 21-Feb-13	
NIREFS 2001	75,311	A	\$21,000	5.00%	Louis Dreyfus Commodities Suisse S.A.	12-Feb-10	28-Dec-11 - 27-Mar-12	
MELITE			\$24,250	5.00%	J. Aron & Company, New York	29-Jan-10	1-Feb-11	

		\$16,500	5.00%	Cargill International S.A., Geneva	1-Feb-11	1-Jan-13	1-Mar-13
2004	76,436						

Post-Panamax Vessels

ALCMENE		\$20,250	5.00%	Cargill International S.A., Geneva	20-Nov-10	5-Oct-12 - 4-Jan-13	
2010	93,193						

Capesize Vessels

NORFOLK		\$74,750	3.75%	Corus UK Limited	12-Feb-08	12-Jan-13 - 12-Mar-13	
2002	164,218						

ALIKI		\$45,000	4.75%	Cargill International S.A., Geneva	1-May-09	1-Mar-11	
		\$26,500	5.00%	Minmetals Logistics Group Co. Ltd., Beijing	1-Mar-11	1-Feb-16 - 1-Apr-16	
2005	180,235						

SALT LAKE CITY		\$55,800	5.00%	Refined Success Limited	28-Sep-07	28-Aug-12 - 28-Oct-12	
2005	171,810						

SIDERIS GS	D	\$36,000	5.00%	BHP Billiton Marketing AG	30-Nov-09	16-Oct-10	
2006	174,186	\$30,500			16-Oct-10	16-Feb-13 - 16-Jun-13	

SEMIRIO	D	\$31,000	5.00%	BHP Billiton Marketing AG	15-Jun-09	30-Apr-11 - 30-Jul-11	
2007	174,261						

BOSTON	D	\$52,000	5.00%	BHP Billiton Marketing AG	13-Nov-07	28-Sep-11 - 28-Dec-11	4
2007	177,828						

HOUSTON	D	\$55,000	4.75%	Shagang Shipping Co.	3-Nov-09	3-Oct-14 - 3-Jan-15	5
2009	177,729						

NEW YORK	D	\$48,000	3.75%	Nippon Yusen Kaisha, Tokyo (NYK)	3-Mar-10	3-Jan-15 - 3-May-15	
2010	177,773						

Vessels Under Construction

LOS ANGELES	E	N/A	N/A	N/A	N/A	N/A N/A	6,7
2012	206,000						

PHILADELPHIA	E	N/A	N/A	N/A	N/A	N/A N/A	6,8
2012	206,000						

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

** Total commission percentage paid to third parties.

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

1 Based on latest information received from charterers.

2 Augustea Oceanbulk Maritime Limitada, Madeira is a guaranteed nominee of Augustea Atlantica Srl, Naples.

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

4 The charterer has the option to employ the vessel for a further 11-13 month period. The optional period, if exercised, must be declared on or before the end of the 42nd month of employment and can only commence at the end of the 48th month, at the daily time charter rate of \$52,000.

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

6 Year of delivery and dwt based on shipbuilding contracts.

7 This newbuilding is also referred to as Hull H1234

8 This newbuilding is also referred to as Hull H1235

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

Our vessels operate worldwide within the trading limits imposed by our insurance terms and do not operate in areas where sanctions of the United States, the European Union or the United Nations have been imposed.

Management of Our Fleet

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

DSS also provides to Diana Containerships commercial, technical, accounting, administrative, financial reporting and other services necessary for the operation of its business, pursuant to an Administrative Services Agreement and Vessel Management Agreements. DSS receives a monthly fee of \$10,000 for administrative services; a commission of 1% of the gross charterhire and freight earned by the vessels and a technical management fee of \$15,000 per vessel per month for employed vessels; and will receive \$20,000 per vessel per month for laid-up vessels, if any, owned by Diana Containerships. For 2010 and until January 18, 2011, such fees received by DSS, relating to the management services offered to Diana Containerships, have been eliminated from our consolidated financial statements as intercompany transactions. However, effective January 19, 2011, after the partial spin-off of Diana Containerships, they constitute part of our revenues.

Pursuant to the Broker Services Agreement, dated June 1, 2010, DSS has appointed Diana Enterprises, a related party controlled by our Chief Executive Officer and Chairman, Mr. Simeon Palios, as broker to assist it in providing services to us and Diana Containerships. Under the Broker Services Agreement, DSS pays to Diana Enterprises a commission of \$1,652,000 per year for Diana Shipping Inc. and \$1,040,000 per year for Diana Containerships. Such fees constitute part of our general and administrative expenses. Effective January 19, 2011, after the partial spin-off of Diana Containerships, fees relating to Diana Containerships do not constitute part of our expenses.

Our Customers

Our customers include national, regional and international companies, such as Cargill International S.A., BHP Billiton, Hanjin Shipping Company Ltd and Corus UK Limited. During 2010, three of our charterers accounted for 44% of our revenues; BHP Billiton (18%), Cargill International S.A., (16%) and Corus UK Limited (10%). During 2009, four of our charterers accounted for 69% of our revenues; Cargill International S.A., (23%), BHP Billiton (21%), Hanjin Shipping Company Ltd. (14%) and Corus UK Limited (11%). During 2008, two of our customers accounted for 31% of our revenues; Cargill International S.A., (16%) and BHP Billiton (15%).

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

We strategically monitor developments in the dry bulk shipping industry on a regular basis and, subject to market demand, seek to adjust the charter hire periods for our vessels according to prevailing market conditions. In order to take advantage of the relatively stable cash flow and high utilization rates associated with long-term time charters along with the historically high charter hire rates for Panamax and Capesize vessels we had during 2010, we fixed 21 of our vessels on long-term time charters ranging in duration from 21 months to 62 months. Those of our vessels on short-term time charters provide us with flexibility in responding to market developments. We will continue to evaluate our balance of short- and long-term charters and may extend or reduce the charter hire periods of the vessels in our fleet according to the developments in the dry bulk shipping industry.

The Dry Bulk Shipping Industry

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

- **Very Large Ore Carriers (VLOC).** Very large ore carriers have a carrying capacity of more than 200,000 dwt and are a comparatively new sector of the dry bulk carrier fleet. VLOCs are built to exploit economies of scale on long-haul iron ore routes.
- **Capesize.** Capesize vessels have a carrying capacity of 110,000-199,999 dwt. Only the largest ports around the world possess the infrastructure to accommodate vessels of this size. Capesize vessels are primarily used to transport iron ore or coal and, to a much lesser extent, grains, primarily on long-haul routes.
- **Post-Panamax.** Post-Panamax vessels have a carrying capacity of 80,000-109,999 dwt. These vessels tend to have a shallower draft and larger beam than a standard Panamax vessel with a higher cargo capacity. These vessels have been designed specifically for loading high cubic cargoes from draught restricted ports, although they cannot transit the Panama Canal.
- **Panamax.** Panamax vessels have a carrying capacity of 60,000-79,999 dwt. These vessels carry coal, iron ore, grains, and, to a lesser extent, minor bulks, including steel products, cement and fertilizers. Panamax vessels are able to pass through the Panama Canal, making them more versatile than larger vessels with regard to accessing different trade routes. Most Panamax and Post-Panamax vessels are "gearless," and therefore must be served by shore-based cargo handling equipment. However, there are a small number of geared vessels with onboard cranes, a feature that enhances trading flexibility and enables operation in ports which have poor infrastructure in terms of loading and unloading facilities.

- **Handymax/Supramax.** Handymax vessels have a carrying capacity of 40,000-59,999 dwt. These vessels operate in a large number of geographically dispersed global trade routes, carrying primarily grains and minor bulks. Within the Handymax category there is also a sub-sector known as Supramax. Supramax bulk carriers are ships between 50,000 to 59,999 dwt, normally offering cargo loading and unloading flexibility with on-board cranes, or "gear," while at the same time possessing the cargo carrying capability approaching conventional Panamax bulk carriers.
- **Handysize.** Handysize vessels have a carrying capacity of up to 39,999 dwt. These vessels are primarily involved in carrying minor bulk cargoes. Increasingly, ships of this type operate within regional trading routes, and may serve as trans-shipment feeders for larger vessels. Handysize vessels are well suited for small ports with length and draft restrictions. Their cargo gear enables them to service ports lacking the infrastructure for cargo loading and unloading.

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

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

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

Charter Hire Rates

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

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

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

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

The Baltic Dry Index, or BDI, a daily average of charter rates in 20 shipping routes measured on a time charter and voyage basis and covering Capesize, Panamax, Supramax, and Handysize dry bulk carriers declined from a high of 11,793 in May 2008 to a low of 663 in December 2008. In 2009, BDI ranged from a low of 772 in January 2009 to a high of 4,661 in November 2009, representing an increase of 504%. In 2010, BDI decreased from a high of 4,209 in May 2010 to a low of 1700 in July 2010 and has since declined; as of March 28, 2011, it closed at 1,585.

Vessel Prices

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

Competition

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

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

- *We own a modern, high quality fleet of dry bulk carriers.* We believe that owning a modern, high quality fleet reduces operating costs, improves safety and provides us with a competitive advantage in securing favorable time charters. We maintain the quality of our vessels by carrying out regular inspections, both while in port and at sea, and adopting a comprehensive maintenance program for each vessel.
- *Our fleet includes four groups of sister ships.* We believe that maintaining a fleet that includes sister ships enhances the revenue generating potential of our fleet by providing us with operational and scheduling flexibility. The uniform nature of sister ships also improves our operating efficiency by allowing our fleet manager to apply the technical knowledge of one vessel to all vessels of the same series and creates economies of scale that enable us to realize cost savings when maintaining, supplying and crewing our vessels.
- *We have an experienced management team.* Our management team consists of experienced executives who each have, on average, more than 25 years of operating experience in the shipping industry and has demonstrated ability in managing the commercial, technical and financial areas of our business. Our management team is led by Mr. Simeon Palios, a qualified naval architect and engineer who has 41 years of experience in the shipping industry.

- *Internal management of vessel operations.* We conduct all of the commercial and technical management of our vessels in-house through DSS. We believe having in-house commercial and technical management provides us with a competitive advantage over many of our competitors by allowing us to more closely monitor our operations and to offer higher quality performance, reliability and efficiency in arranging charters and the maintenance of our vessels.
- *We benefit from strong relationships with members of the shipping and financial industries.* We have developed strong relationships with major international charterers, shipbuilders and financial institutions that we believe are the result of the quality of our operations, the strength of our management team and our reputation for dependability.
- *We have a strong balance sheet and a low level of indebtedness.* We believe that our strong balance sheet and low level of indebtedness provide us with the flexibility to increase the amount of funds that we may draw under our loan facilities in connection with future acquisitions and enable us to use cash flow that would otherwise be dedicated to debt service for other purposes.

Permits and Authorizations

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

Environmental and Other Regulations

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

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

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

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

International Maritime Organization

The International Maritime Organization, the United Nations agency for maritime safety and the prevention of pollution by ships, or the IMO, has adopted the International Convention for the Prevention of Marine Pollution, 1973, as modified by the related Protocol of 1978 relating thereto, which has been updated through various amendments, or the MARPOL Convention. The MARPOL Convention 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. The IMO adopted regulations that set forth pollution prevention requirements applicable to dry bulk carriers. These regulations have been adopted by over 150 nations, including many of the jurisdictions in which our vessels operate.

In September 1997, the IMO adopted Annex VI to MARPOL to address air pollution from ships. Annex VI came into force on May 19, 2005. It sets limits on sulfur oxide and nitrogen oxide emissions from ship exhausts and prohibits deliberate emissions of ozone depleting substances, such as chlorofluorocarbons. 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. Annex VI has been ratified by some, but not all IMO member states. In October 2008, the Marine Environment Protection Committee, or MEPC, of the IMO approved amendments to Annex VI regarding particulate matter, nitrogen oxide and sulfur oxide emissions standards. These amendments entered into force in July 2010. They seek to reduce air pollution from vessels by establishing a series of progressive standards to further limit the sulfur content in fuel oil, which would be phased in by 2020, and by establishing new tiers of nitrogen oxide emission standards for new marine diesel engines, depending on their date of installation. Additionally, more stringent emission standards could apply in coastal areas designated as Emission Control Areas, or ECAs. The United States ratified the Annex VI amendments, and the U.S. Environmental Protection Agency, or EPA, has promulgated equivalent emissions standards.

In March 2010, the IMO accepted the proposal by the United States and Canada to designate the area extending 200 nautical miles from the Atlantic/Gulf and Pacific coasts of the United States and Canada and the Hawaiian Islands as Emission Control Areas under the MARPOL Annex VI amendments, which will subject ocean-going vessels in these areas to stringent emissions controls, expected to begin in August 2012, and may cause us to incur additional costs. The jurisdictions in which our vessels operate may adopt more stringent emissions standards independent of the IMO.

Safety Management System Requirements

IMO also adopted the International Convention for the Safety of Life at Sea, or SOLAS and the International Convention on Load Lines, or the LL Convention, which impose a variety of standards that regulate the design and operational features of ships. The IMO periodically revises the SOLAS and LL Convention standards. We believe that all our vessels are in material compliance with SOLAS and LL Convention standards.

Under Chapter IX of SOLAS, the International Safety Management Code for the Safe Operation of Ships and for Pollution Prevention, or ISM Code, our operations are also subject to environmental standards and requirements contained in the ISM Code promulgated by the IMO. 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 manager have developed for compliance with the ISM Code. The failure of a ship owner or bareboat charterer to comply with the ISM Code may subject such party to increased liability, may decrease available insurance coverage for the affected vessels and may result in a denial of access to, or detention in, certain ports. As of the date of this filing, each of our vessels is ISM code-certified.

The ISM Code requires that vessel operators obtain a safety management certificate 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. Our appointed ship managers have obtained documents of compliance for their offices and safety management certificates for all of our vessels for which the certificates are required by the IMO. The document of compliance, or the DOC, and ship management certificate, or the SMC, are renewed as required.

International Labor Organization

The International Labor Organization (ILO) is a specialized agency of the UN that deals with labor issues with its headquarters based in Geneva, Switzerland. The International Labor Organization (ILO) has adopted the Maritime Labor Convention 2006 (MLC 2006). A Maritime Labor Certificate (MLC) and a Declaration of Maritime Labor Compliance (DMLC) will be required to ensure compliance with the Convention for all ships above 500 tons in international trade. The MLC 2006 will enter into force one year after 30 countries with a minimum of 33% of the world's tonnage have ratified it. Although at this moment no action is required since the convention has not been ratified (and all the above dates are only an estimation), we and our Safety & Quality department are already in the process of developing procedures for full compliance with the MLC 2006 requirements.

Pollution Control and Liability Requirements

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, IMO adopted an International Convention for the Control and Management of Ships' Ballast Water and Sediments, or the BWM Convention, in February 2004. The BWM Convention's implementing regulations call for a phased introduction of mandatory ballast water exchange requirements, to be replaced in time with mandatory concentration limits. The BWM Convention will not become effective until 12 months after it has been adopted by 30 states, the combined merchant fleets of which represent not less than 35% of the gross tonnage of the world's merchant shipping. The Convention has not yet entered into force because a sufficient number of states have failed to adopt it. However, the IMO's Marine Environment Protection Committee passed a resolution in March 2010 encouraging the ratification of the Convention and calling upon those countries that have already ratified to encourage the installation of ballast water management systems. If mid-ocean ballast exchange or ballast water treatment requirements become mandatory, the cost of compliance could increase for ocean carriers, and these costs may be material.

The IMO adopted the International Convention on Civil Liability for Bunker Oil Pollution Damage, or the Bunker Convention, to impose strict liability on ship owners for pollution damage in jurisdictional waters of ratifying states caused by discharges of bunker fuel. The Bunker Convention, which became effective on November 21, 2008, requires registered owners of ships over 1,000 gross tons to maintain insurance for pollution damage in an amount equal to the limits of liability under the applicable national or international limitation regime (but not exceeding the amount calculated in accordance with the Convention on Limitation of Liability for Maritime Claims of 1976, as amended). With respect to non-ratifying states, liability for spills or releases of oil carried as fuel in ship's bunkers typically is determined by the national or other domestic laws in the jurisdiction where the events or damages occur.

Noncompliance with the ISM Code or other IMO regulations may subject the ship owner or bareboat charterer to increased liability, lead to decreases in available insurance coverage for affected vessels or result in the denial of access to, or detention in, some ports. The U.S. Coast Guard and European Union authorities have indicated that vessels not in compliance with the ISM Code by the 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 certificate will be maintained.

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

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

The U.S. Oil Pollution Act of 1990, or 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 in the United States, its territories and possessions or whose vessels operate in U.S. waters, which includes the U.S. territorial sea and its 200 nautical mile exclusive economic zone. The United States has also enacted the Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, which applies to the discharge of hazardous substances other than oil, whether on land or at sea. Both OPA and CERCLA impact our operations.

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

- natural resources damage and related assessment costs;
- real and personal property damage;
- net loss of taxes, royalties, rents, fees and other lost revenues;
- lost profits or impairment of earning capacity due to property or natural resources damage;
- net cost of public services necessitated by a spill response, such as protection from fire, safety or health hazards; and
- loss of subsistence use of natural resources.

Effective July 31, 2009, the U.S. Coast Guard adjusted the limits of OPA liability for non-tank vessels to the greater of \$1,000 per gross ton or \$0.85 million per non-tank vessel that is over 3,000 gross tons (subject to possible adjustment for inflation). CERCLA, which applies to owners and operators of vessels, contains a similar liability regime and provides for cleanup, removal and natural resource damages. Liability under CERCLA is limited to the greater of \$300 per gross ton or \$5 million for vessels carrying a hazardous substance as cargo and the greater of \$300 per gross ton or \$0.5 million for any other vessel. These OPA and CERCLA limits of liability do not apply if an incident was directly caused by violation of applicable U.S. federal safety, construction or operating regulations or by a responsible party's gross negligence or willful misconduct, or if the responsible party fails or refuses to report the incident or to cooperate and assist in connection with oil removal activities.

OPA and the U.S. Coast Guard also require owners and operators of vessels to establish and maintain with the U.S. Coast Guard evidence of financial responsibility sufficient to meet the limit of their potential liability under OPA and CERCLA.

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

OPA specifically permits individual states to impose their own liability regimes with regard to oil pollution incidents occurring within their boundaries, and some states have enacted legislation providing for unlimited liability for oil spills.

Other Environmental Initiatives

The U.S. Clean Water Act, or CWA, prohibits the discharge of oil or hazardous substances 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 and remediation and damages and complements the remedies available under OPA and CERCLA. In addition, most U.S. states that border a navigable waterway have enacted environmental pollution laws that impose strict liability on a person for removal costs and damages resulting from a discharge of oil or a release of a hazardous substance. These laws may be more stringent than U.S. federal law.

The U.S. Environmental Protection Agency, or the EPA, regulates the discharge of ballast water and other substances in U.S. waters under the CWA. Effective February 6, 2009, EPA regulations require vessels 79 feet in length or longer (other than commercial fishing and recreational vessels) to comply with a Vessel General Permit authorizing ballast water discharges and other discharges incidental to the operation of vessels. The Vessel General Permit imposes technology and water-quality based effluent limits for certain types of discharges and establishes specific inspection, monitoring, recordkeeping and reporting requirements to ensure the effluent limits are met. U.S. Coast Guard regulations adopted and proposed for adoption under the U.S. National Invasive Species Act, or NISA, also impose mandatory ballast water management practices for all vessels equipped with ballast water tanks entering or operating in U.S. waters. Compliance with the EPA and the U.S. Coast Guard regulations could require 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 cost, and/or 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. Criminal liability for pollution may result in substantial penalties or fines and increased civil liability claims.

A July 2005 EU Directive 2005/33/EC amends an earlier Directive, 1999/32/EC, relating to a reduction in the sulphur content of certain liquid fuels which itself amended Directive 93/12/EEC. One aspect of the 2005/33/EC amendments is Article 4b which requires that, from 1 January 2010, the fuel oil used by ships while 'at berth' in EU ports is to be limited to 0.1% m/m maximum sulphur content. More specifically article 4b requires that:

- the change-over to this sulphur limited fuel oil is to be undertaken as soon as possible after arrival and from it as late as possible prior to departure; and
- the times of these changeovers are to be recorded in the ship's logbook.

Greenhouse Gas Regulation

The IMO is evaluating mandatory measures to reduce greenhouse gas emissions from international shipping, which may include market-based instruments or a carbon tax. The European Union has indicated that it intends to propose an expansion of the existing European Union emissions trading scheme to include emissions of greenhouse gases from marine vessels. In the United States, the EPA has issued a proposed finding that greenhouse gases threaten the public health and safety. In addition, climate change initiatives are being considered in the U.S. Congress. Any passage of climate control legislation or other regulatory initiatives by the IMO, EU, the U.S. or other countries where we operate, or any treaty adopted at the international level to succeed the Kyoto Protocol, that restrict emissions of greenhouse gases could require us to make significant financial expenditures that we cannot predict with certainty at this time.

Vessel Security Regulations

Since the terrorist attacks of September 11, 2001, there have been a variety of initiatives intended to enhance vessel security. On November 25, 2002, the U.S. Maritime Transportation Security Act of 2002, or the MTSA came into effect. To implement certain portions of the MTSA, in July 2003, the U.S. Coast Guard issued regulations requiring the implementation of certain security requirements aboard vessels operating in waters subject to the jurisdiction of the United States. Similarly, in December 2002, amendments to SOLAS created a new chapter of the convention dealing specifically with maritime security. The new chapter became effective in July 2004 and imposes various detailed security obligations on vessels and port authorities, most of which are contained in the newly created International Ship and Port Facilities Security Code, or the ISPS Code. The ISPS Code is designed to protect ports and international shipping against terrorism. After July 1, 2004, to trade internationally, a vessel must attain an International Ship Security Certificate from a recognized security organization approved by the vessel's flag state. Among the various requirements are:

- on-board installation of automatic identification systems to provide a means for the automatic transmission of safety-related information from among similarly equipped ships and shore stations, including information on a ship's identity, position, course, speed and navigational status;
- on-board installation of ship security alert systems, which do not sound on the vessel but only alert the authorities on shore;
- the development of vessel security plans;
- ship identification number to be permanently marked on a vessel's hull;
- a continuous synopsis record kept onboard showing a vessel's history including the name of the ship and of 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 U.S. Coast Guard regulations, intended to align with international maritime security standards, exempt from MTSA vessel security measures non-U.S. vessels that have on board, as of July 1, 2004, a valid International Ship Security Certificate attesting to the vessel's compliance with SOLAS security requirements and the ISPS Code. Our managers intend to implement the various security measures addressed by MTSA, SOLAS and the ISPS Code, and we intend that our fleet will comply with applicable security requirements. We have implemented the various security measures addressed by the MTSA, SOLAS and the ISPS Code.

Inspection by Classification Societies

Every oceangoing vessel must be "classed" by a classification society. The classification society alone is qualified to confirm the class of the ship and the validity of its Certificate of Classification. A Certificate of Classification, bearing the class notations assigned to the ship, certifies that the vessel is "in class," signifying that the vessel has been built and maintained in accordance with the rules of the classification society and complies with applicable rules and regulations of the vessel's flag administration and any international conventions of which that country is a member. In addition, where surveys are required by international conventions and corresponding laws and ordinances of the flag administration, the classification society will undertake them on application or by official order, acting on behalf of the authorities concerned.

The classification society also undertakes on request other surveys and checks that are required by regulations and requirements of the flag administration. These surveys are subject to agreements made in each individual case and/or to the regulations of the country concerned. For maintenance of the class certification, regular and extraordinary surveys of hull, machinery, including the electrical plant, and any special equipment classed are required to be performed as follows:

Annual Class Surveys for seagoing ships are conducted for the hull and the machinery, including the electrical plant and where applicable for special equipment classed, at intervals of 12 months from the date of commencement of the class period indicated in the certificate. The date of commencement is considered as the anniversary date. Annual surveys are to be carried out within three months before or after each anniversary date.

Intermediate Class Survey where applicable, is to be carried out within three months before the second to three months after the third anniversary date. The Intermediate survey is applicable at any period of class to ships which are five years old and over. The extent of the inspection is related to the vessel's type and age. Thus the 1st Intermediate Survey is an extended Annual survey, when the 2nd for Cape size vessels is almost a Special Survey and any next are similar to a Special Survey.

Class Renewal Surveys Class renewal surveys, also known as special surveys, are carried out for the ship's hull, machinery, including the electrical plant, and for any special equipment classed, at five years (class symbol I) intervals. However, consideration may be given by the society to granting an extension for a maximum of three months after the limit date, in exceptional circumstances. In such cases the next period of class will start from the limit date for the previous class renewal survey before the extension was granted. At the special survey the vessel is thoroughly examined, including ultrasonic gauging to determine the thickness of the steel structures.

Should the thickness be found to be less than class requirements, the classification society would prescribe steel renewals. Substantial amounts of money may have to be spent for steel renewals to pass a special survey if the vessel experiences excessive wear and tear. All areas subject to survey as defined by the classification society are required to be surveyed at least once per class period, unless shorter intervals between surveys are prescribed elsewhere. The period between two subsequent surveys of each area must not exceed five years.

The Owner has the option of a Normal Survey system (SS) or a Continuous Survey system (CS). When the normal survey system is applied to ships with a 5 years period of class, the class renewal survey may be commenced at the fourth annual survey and continued during the following year with a view to completion by its due date. In this case the survey may be carried out by partial surveys at different times.

When the Continuous survey system (CS) is applied, the ships are provided with lists of items to be surveyed under this system. These lists are attached to the Certificate of Classification. The items are to be surveyed in rotation, so far as practicable ensuring that approximately equivalent portions are examined each year. The interval between two consecutive surveys of each item is not to exceed five years. For ships classed with the class symbol I there are to be two inspections of the outside of the ships bottom and related items in each period of class of five years. In all cases, the interval between any two such inspections is not to exceed 36 months. This inspection may be carried out with the ship either in dry dock or afloat referred as in-water survey in lieu of dry-docking. Such in water inspection is accepted only for inspections between two consecutive class renewals for ships which are not over fifteen years old.

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

Risk of Loss and Liability Insurance

General

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

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

Hull & Machinery and War Risks Insurance

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

Protection and Indemnity Insurance

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

Our current protection and indemnity insurance coverage for pollution is \$1 billion per vessel per incident. The 13 P&I Associations that comprise the International Group insure approximately 90% of the world's commercial tonnage and have entered into a pooling agreement to reinsure each association's liabilities. As a member of a P&I Association, which is a member of the International Group, we are subject to calls payable to the associations based on the group's claim records as well as the claim records of all other members of the individual associations and members of the pool of P&I Associations comprising the International Group. Our vessels may be subject to supplemental calls which are based on estimates of premium income and anticipated and paid claims. Such estimates are adjusted each year by the Board of Directors of the P&I Association until the closing of the relevant policy year, which generally occurs within three years from the end of the policy year. Supplemental calls, if any, are expensed when they are announced and according to the period they relate to. The Company is not aware of any supplemental calls in respect of the 2008/09/10/11 policy years.

C. *Organizational structure*

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

D. *Property, plants and equipment*

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

Apart from our interest in real estate property, our only other property interest is our interest in the vessels in our fleet.

Item 4A. *Unresolved Staff Comments*

None.

Item 5. *Operating and Financial Review and Prospects*

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

A. *Operating results*

We charter our vessels to customers primarily pursuant to short-term and long-term time charters. Currently, 21 of our vessels are currently employed on long-term time charters ranging in duration from 21 to 62 months. Under our time charters, the charterer typically pays us a fixed daily charter hire rate and bears all voyage expenses, including the cost of bunkers (fuel oil) and port and canal charges. We remain responsible for paying the chartered vessel's operating expenses, including the cost of crewing, insuring, repairing and maintaining the vessel, the costs of spares and consumable stores, tonnage taxes and other miscellaneous expenses, and we also pay commissions to one or more unaffiliated ship brokers and to in-house brokers associated with the charterer for the arrangement of the relevant charter.

Factors Affecting Our Results of Operations

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

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

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

	Year Ended December 31,		
	2010	2009	2008
Ownership days	8,348	7,000	6,913
Available days	8,208	6,930	6,892
Operating days	8,180	6,857	6,862
Fleet utilization	99.7%	98.9%	99.6%
Time charter equivalent (TCE) rate (1)	\$32,049	\$32,811	\$46,777

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

Time Charter Revenues

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

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

Our revenues grew significantly during the previous years as a result of the enlargement of our fleet, which increased our ownership, available and operating days. However, our revenues decreased during 2009 due to the drastic decline in market charter rates during the latter five months of 2008. During 2010, our revenues increased due to the enlargement of our fleet and the consolidation of Diana Containerships's fleet. At the same time, we have maintained relatively high vessel utilization rates. We expect our revenues in 2011 to decrease, both as a result of the deconsolidation of Diana Containerships after its partial spin-off in January 2011 and the decreasing average market charter rates. Currently, five of our vessels are employed on time charters scheduled to expire within the next six months, at which time we expect to enter into new charters for those vessels. Our time charter agreements subject us to counterparty risk. In depressed market conditions, charterers may seek to renegotiate the terms of their existing charter parties or avoid their obligations under those contracts. Should a counterparty fail to honor 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.

Voyage Expenses

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

As is common in the shipping industry, we have historically paid commissions ranging from 0% to 6.25% of the total daily charter hire rate of each charter to unaffiliated ship brokers and in-house brokers associated with the charterers, depending on the number of brokers involved with arranging the charter. In addition to commissions paid to third parties, we have historically paid our fleet manager a commission that is equal to 2% of our revenues in exchange for providing us with technical and commercial management services in connection with the employment of our fleet. However, this commission has been eliminated from our consolidated financial statements as an intercompany transaction since April 1, 2006 (after DSS was acquired). During 2010, Diana Containerships has also paid our fleet manager a commission of 1%, which has also been eliminated from our consolidated financial statements as an intercompany transaction.

We expect that the amount of our total commissions will decrease due to decreased charter hire rates and revenues and the deconsolidation of Diana Containerships after its partial spin-off in January 2011. After the partial spin-off, the 1% commission paid by Diana Containerships will constitute revenue of DSS.

Vessel Operating Expenses

Vessel operating expenses include crew wages and related costs, the cost of insurance, expenses relating to repairs and maintenance, the cost of spares and consumable stores, tonnage taxes and other miscellaneous expenses. Our vessel operating expenses, which generally represent fixed costs, have historically increased as a result of the enlargement of our fleet. In 2011, we expect these expenses to decrease due to the deconsolidation of Diana Containerships after its partial spin-off in January 2011. However, there may be other factors beyond our control, some of which may affect the shipping industry in general, including, for instance, developments relating to market prices for insurance that may cause these expenses to increase.

Vessel Depreciation

The cost of our vessels is depreciated on a straight-line basis over the estimated useful life of each vessel. Depreciation is based on the cost of the vessel less its estimated salvage value. We estimate the useful life of our dry bulk vessels to be 25 years from the date of initial delivery from the shipyard, which we believe is common in the dry bulk shipping industry. Furthermore, we estimate the salvage values of our vessels to be \$150 per light-weight ton which we also believe is common in the dry bulk shipping industry and has been a historical average price of the cost of the light-weight ton of vessels being scrapped. Diana Containerships has estimated the useful life of containerships to be 30 years from the date of initial delivery from the shipyard and the salvage values of the vessels to be \$200 per light-weight ton. We believe that both assumptions are common in the containerships industry. We do not expect these assumptions to change in the near future. Our depreciation charges have increased in recent periods due to the enlargement of our fleet which has also led to an increase of ownership days and during 2010 due to the consolidation with us of Diana Containerships and its fleet. We expect that these charges will decrease in 2011 due to the de-consolidation of Diana Containerships from us after its partial spin-off in January 2011.

General and Administrative Expenses

We incur general and administrative expenses which include our onshore related expenses such as legal and professional expenses and other general vessel expenses. Our general and administrative expenses also include payroll expenses of employees, executive officers and consultants, compensation cost of restricted stock awarded to senior management and non-executive directors, traveling, promotional and other expenses of the public company. Subsequent to April 2006, our general and administrative expenses increased as a result of our acquisition of our fleet manager. They also increased during 2010 due to our ownership of Diana Containerships. In 2011 we expect such costs to decrease due to the de-consolidation of Diana Containerships from us after its partial spin-off in January 2011.

Interest and Finance Costs

We have historically incurred interest expense and financing costs in connection with the vessel-specific debt. As of December 31, 2010 and 2009, we had \$385.0 million and \$282.3 million of indebtedness outstanding, respectively. We incur interest expense and financing costs relating to our outstanding debt. We will incur additional debt to finance part of the construction cost of our vessels under construction and we may incur additional debt to finance future acquisitions. We expect to manage any exposure in interest rates through our regular operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments.

Lack of Historical Operating Data for Vessels before Their Acquisition

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

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

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

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

- obtain the charterer's consent to us as the new owner;
- obtain the charterer's consent to a new technical manager;
- in some cases, obtain the charterer's consent to a new flag for the vessel;

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

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

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

Our business is comprised of the following main elements:

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

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

- vessel maintenance and repair;
- crew selection and training;
- vessel spares and stores supply;
- contingency response planning;
- onboard safety procedures auditing;
- accounting;
- vessel insurance arrangement;
- vessel chartering;
- vessel security training and security response plans (ISPS);

- obtaining of ISM certification and audit for each vessel within the six months of taking over a vessel;
- vessel hiring management;
- vessel surveying; and
- vessel performance monitoring.

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

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

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

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

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

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

Based on: (i) the carrying value of each of our vessels as of December 31, 2010, and (ii) what we believe the charter-free market value of each of our vessels was as of December 31, 2010, the aggregate carrying value of seven of the vessels in our fleet as of December 31, 2010 exceeded their aggregate charter-free market value by approximately \$300.0 million, as noted in the table below. This aggregate difference represents the approximate analysis of the amount by which we believe we would have to reduce our net income if we sold all of such vessels at December 31 2010, on industry standard terms, in cash transactions, and to a willing buyer where we were not under any compulsion to sell, and where the buyer was not under any compulsion to buy. For purposes of this calculation, we have assumed that these seven vessels would be sold at a price that reflects our estimate of their charter-free market values as of December 31, 2010. However, as of the same date, all of those dry bulk vessels were employed for their remaining charter duration, under time charters which we believe were above market levels. We believe that if the vessels were sold with those charters attached, we would have received a premium over their charter-free market value. However, as of December 31, 2010 and as of the date of this report, we were not and are not holding any of our vessels for sale.

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

- reports by industry analysts and data providers that focus on our industry and related dynamics affecting vessel values;
- news and industry reports of similar vessel sales;
- news and industry reports of sales of vessels that are not similar to our vessels where we have made certain adjustments in an attempt to derive information that can be used as part of our estimates;
- approximate market values for our vessels or similar vessels that we have received from shipbrokers, whether solicited or unsolicited, or that shipbrokers have generally disseminated;
- offers that we may have received from potential purchasers of our vessels; and
- vessel sale prices and values of which we are aware through both formal and informal communications with shipowners, shipbrokers, industry analysts and various other shipping industry participants and observers.

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

	Vessel	Dwt	Year Built	Carrying Value (in millions of US dollars)
Dry bulk vessels				
1	Nirefs	75,311	2001	13.0
2	Alcyon	75,247	2001	13.0
3	Triton	75,336	2001	13.2
4	Oceanis	75,211	2001	13.3
5	Dione	75,172	2001	15.2
6	Danae	75,106	2001	15.3
7	Protefs	73,630	2004	16.3
8	Calipso	73,691	2005	16.6
9	Clio	73,691	2005	17.0
10	Thetis	73,583	2004	30.9
11	Erato	74,444	2004	31.1
12	Coronis	74,381	2006	34.2
13	Naïas	73,546	2006	33.0
14	Sideris GS	174,186	2006	76.8 *
15	Aliki	180,235	2005	93.0 *
16	Semirio	174,261	2007	84.8 *
17	Boston	177,828	2007	96.9 *
18	Salt Lake City	171,810	2005	143.7 *
19	Norfolk	164,218	2002	116.0 *
20	Houston	177,729	2009	60.0
21	Melite	76,436	2004	33.6
22	New York	177,773	2010	61.0 *
23	Alcmene	93,193	2010	40.7
Total for dry bulk vessels		2,536,018		1,068.6
Dry bulk vessels under construction				
1	H1234	206,000		20.6
2	H1235	206,000		14.7
Total for vessels under construction		412,000		35.3
Containerships				
1	Sagitta	42,650	2010	45.2
2	Centaurus	42,650	2010	46.8
Total for containerships		85,300		92
Group Total		3,033,318		1,195.9

* Indicates dry bulk vessels for which we believe, as of December 31, 2010, the charter-free market value was lower than the vessel's carrying value. We believe that the aggregate carrying value of these vessels exceeded their aggregate charter-free market value by approximately \$300 million.

Critical Accounting Policies

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

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

Accounts Receivable, Trade

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

Accounting for Revenues and Expenses

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

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

Prepaid/Deferred Charter Revenue

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

Vessel Depreciation

We record the value of our vessels at their cost (which includes acquisition costs directly attributable to the vessel and expenditures made to prepare the vessel for its initial voyage) less accumulated depreciation. We depreciate our dry bulk vessels on a straight-line basis over their estimated useful lives, estimated to be 25 years from the date of initial delivery from the shipyard which we believe is common in the dry bulk shipping industry. Second hand vessels are depreciated from the date of their acquisition through their remaining estimated useful life. Depreciation is based on cost less the estimated salvage value. Furthermore, we estimate the salvage values of our vessels to be \$150 per light-weight ton which we believe is common in the dry bulk shipping industry. Diana Containerships has estimated the useful life of containerships to be 30 years from the date of initial delivery from the shipyard and the salvage values of the vessels to be \$200 per light-weight ton. A decrease in the useful life of a vessel or in its salvage value would have the effect of increasing the annual depreciation charge. When regulations place limitations on the ability of a vessel to trade on a worldwide basis, the vessel's useful life is adjusted at the date such regulations are adopted.

Deferred Drydock Cost

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

Impairment of Long-lived Assets

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

We determine undiscounted projected net operating cash flows for each vessel and compare it to the vessel's carrying value. The projected net operating cash flows are determined by considering the charter revenues from existing time charters for the fixed fleet days and an estimated daily time charter equivalent for the unfixed days (based on the most recent ten-year blended (for modern and older vessels) average historical one-year time charter rates available for each type of vessel) over the remaining estimated life of each vessel, net of brokerage commissions, expected outflows for scheduled vessels' maintenance and vessel operating expenses assuming an average annual inflation rate of 3%. Historical ten-year blended average one-year time charter rates used in our impairment test exercise are in line with our overall chartering strategy, especially in periods/years of depressed charter rates; they reflect the full operating history of vessels of the same type and particulars with our operating fleet (Panamax and Capesize vessels with dwt over 70,000 and 150,000, respectively) and they cover at least a full business cycle. The average annual inflation rate applied on vessels' maintenance and operating costs approximates current projections for global inflation rate for the remaining useful life of our vessels. Effective fleet utilization is assumed at 98%, taking into account the period(s) each vessel is expected to undergo her scheduled maintenance (drydocking and special surveys), as well as an estimate of 1% off hire days each year, assumptions in line with the Company's historical performance and our expectations for future fleet utilization under our current fleet deployment strategy.

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

Derivatives

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

Results of Operations

Year ended December 31, 2010 compared to the year ended December 31, 2009

Time Charter Revenues. Time charter revenues increased by \$36.1 million, or 15%, to \$275.4 million for 2010, compared to \$239.3 million for 2009. The increase was due to the 19% increase of our ownerships days resulting from the delivery of our new vessels to our fleet following our acquisition of the *Melite*, the *New York* and the *Alcmene* in January, March and November 2010, respectively, the delivery of the *Houston* in October 2009 and the consolidation of Diana Containerships's fleet in 2010. The increase was partly off-set by a 2% decrease of our average charter rates in 2010 compared to 2009. Time charter revenues of the Diana Containerships's fleet amounted to \$5.7 million in 2010. Also, in 2010 we had total operating days of 8,180 and fleet utilization of 99.7%, compared to 6,857 total operating days and a fleet utilization of 98.9% in 2009.

Voyage Expenses. Voyage expenses increased by \$0.4 million, or 3%, to \$12.4 million in 2010 compared to \$12.0 million in 2009. This increase in voyage expenses is attributable to the increase in commissions paid to unaffiliated ship brokers and in-house ship brokers associated with charterers. Commissions are a percentage of time charter revenues and as such they follow the same trend with time charter revenues. The increase in voyage expenses was offset by gains in bunkers amounting to \$0.7 million in 2010 compared to losses in bunkers of \$0.8 million in 2009. These fluctuations are the result of the different prices of bunkers at the delivery and redelivery of our vessels for which fixtures were renewed during the year. Voyage expenses relating to Diana Containerships's fleet in 2010 amounted to \$0.3 million.

Vessel Operating Expenses. Vessel operating expenses increased by \$11.2 million, or 27%, to \$52.6 million in 2010 compared to \$41.4 million in 2009. The increase in operating expenses is attributable to the 19% increase in ownership days resulting from the delivery of our new vessels to our fleet, the *Melite*, the *New York* and the *Alcmene*, in January, March and November 2010, respectively, the delivery of the *Houston* in October 2009 and the consolidation of Diana Containerships's fleet in 2010, and from increased daily costs in stores, spares and repairs. This increase was partly offset by reduced daily crew costs in 2010 compared to 2009. Daily operating expenses were \$6,299 in 2010 compared to \$5,910 in 2009, representing a 7% increase. Vessel operating expenses relating to Diana Containerships in 2010 amounted to \$2.9 million or 5.5% of our total vessel operating expenses.

Depreciation and Amortization of Deferred Charges. Depreciation and amortization of deferred charges increased by \$8.4 million, or 19%, to \$53.1 million for 2010, compared to \$44.7 million for 2009. This increase is the result of both the enlargement of our dry bulk fleet and the consolidation of Diana Containerships's fleet, which resulted in increased depreciation in 2010 compared to 2009; and also the increase in amortization of deferred charges. Depreciation and amortization of deferred charges relating to Diana Containerships's fleet in 2010 amounted to \$1.5 million.

General and Administrative Expenses. General and Administrative Expenses for 2010 increased by \$7.8 million, or 45%, to \$25.3 million compared to \$17.5 million in 2009. The increase is mainly attributable to increases in salaries and compensation cost relating to restricted stock awards to executive management and non-executive directors. We also incurred additional General and Administrative Expenses for Diana Containerships, which amounted to \$3.5 million.

Interest and Finance Costs. Interest and finance costs increased by \$1.9 million, or 58%, to \$5.2 million in 2010 compared to \$3.3 million in 2009. The increase is primarily attributable to higher interest rates and higher average long term debt outstanding during 2010 compared to 2009. Interest costs in 2010 amounted to \$4.6 million compared to \$2.9 million in 2009. Interest and finance costs relating to Diana Containerships in 2010 amounted to \$0.5 million, of which \$0.3 million related to interest costs.

Interest Income. Interest income decreased by \$0.1 million, or 10%, to \$0.9 million in 2010 compared to \$1.0 million in 2009. The decrease is attributable to decreased average interest rates on deposits and was partly offset by increased levels of cash on hand during the year. Interest income relating to Diana Containerships in 2010 amounted to \$0.1 million.

Year ended December 31, 2009 compared to the year ended December 31, 2008

Time Charter Revenues. Time charter revenues decreased by \$98.1 million, or 29%, to \$239.3 million for 2009, compared to \$337.4 million for 2008. The decrease is attributable to a 30% decrease of our average charter rates as a result of the deteriorating shipping rates in 2009 compared to 2008 that were a result of the disruptions in world financial markets and deteriorating economic trends since August 2008. This decrease, however, was partly offset by a 1% increase in ownership days following our acquisition of the *Houston* in October 2009. However, in 2009 we had total operating days of 6,857 and fleet utilization of 98.9%, compared to 6,862 total operating days and a fleet utilization of 99.6%, in 2008.

Voyage Expenses. Voyage expenses decreased by \$3.0 million, or 20%, to \$12.0 million in 2009 compared to \$15.0 million in 2008. This decrease in voyage expenses is attributable to the decrease in commissions paid to unaffiliated ship brokers and in-house ship brokers associated with charterers. Commissions are a percentage of time charter revenues and as such they follow the same trend with time charter revenues. The decrease in voyage expenses was offset by increased costs in bunkers amounting to \$0.8 million in 2009 compared to gains of \$0.8 million in 2008. These fluctuations are the result of the different prices of bunkers at the delivery and redelivery of our vessels for which fixtures were renewed during the year.

Vessel Operating Expenses. Vessel operating expenses increased by \$1.5 million, or 4%, to \$41.4 million in 2009 compared to \$39.9 million in 2008. The increase in operating expenses is attributable to the 1% increase in ownership days resulting from the delivery of our new Capesize vessel to our fleet, the *Houston*, as well as increased costs in stores, spares and repairs. This increase was partly offset by reduced insurance costs in 2009 compared to 2008. Daily operating expenses were \$5,910 in 2009 compared to \$5,772 in 2008, representing a 2% increase.

Depreciation and Amortization of Deferred Charges. Depreciation and amortization of deferred charges increased by \$1.4 million, or 3%, to \$44.7 million for 2009, compared to \$43.3 million for 2008. This increase is the result of enlargement of our fleet which resulted in increased depreciation in 2009 compared to 2008 and the increase in amortization of deferred charges as in 2009, eight of the vessels in our fleet went under drydock surveys.

General and Administrative Expenses. General and Administrative Expenses for 2009 increased by \$3.7 million, or 27%, to \$17.5 million compared to \$13.8 million in 2008. The increase is mainly attributable to increases in salaries and compensation cost relating to restricted stock awards to executive management and non-executive directors.

Interest and Finance Costs. Interest and finance costs decreased by \$2.6 million, or 44%, to \$3.3 million in 2009 compared to \$5.9 million in 2008. The decrease is primarily attributable to lower interest rates related to long-term debt outstanding. Interest costs in 2009 amounted to \$2.9 million compared to \$5.4 million in 2008.

Interest Income. Interest income increased by \$0.2 million, or 25%, to \$1.0 million in 2009 compared to \$0.8 million in 2008. The increase is attributable to increased levels of cash on hand during the year and was partly offset by decreased average interest rates on deposits.

Inflation

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

B. Liquidity and Capital Resources

We have historically financed our capital requirements with cash flow from operations, equity contributions from shareholders and long-term bank debt. Our main uses of funds have been capital expenditures for the acquisition of new vessels, expenditures incurred in connection with ensuring that our vessels comply with international and regulatory standards, repayments of bank loans and payments of dividends. We will require capital to fund ongoing operations, the construction of our new vessels and debt service. Working capital, which is current assets minus current liabilities, including the current portion of long-term debt, amounted to \$322.1 million at December 31, 2010 and \$264.8 million at December 31, 2009.

We anticipate that internally generated cash flow will be sufficient to fund the operations of our fleet, including our working capital requirements. As at December 31, 2010, we had \$345.4 million of Cash and cash equivalents, \$9.3 million available under our revolving credit facility with the Royal Bank of Scotland to finance future vessel acquisitions or for working capital purposes and up to \$82.6 million available under our loan facility with the Export-Import Bank of China and DnB NOR Bank ASA, to finance part of the construction cost of our two vessels under construction.

Cash Flow

Cash and cash equivalents increased to \$345.4 million as of December 31, 2010 compared to \$282.4 million as of December 31, 2009. We consider highly liquid investments such as time deposits and certificates of deposit with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents are primarily held in U.S. dollars.

Net Cash Provided By Operating Activities

Net cash provided by operating activities increased by \$26.4 million, or 17%, to \$178.3 million in 2010 compared to \$151.9 million in 2009. The increase was primarily attributable to the increase in revenues due to the addition in our fleet of our vessels *Melite*, *New York* and *Alcmene* in January, March and November 2010, respectively and the delivery of the *Houston* in October 2009 and was partly offset by operating losses incurred by Diana Containerships's fleet.

Net cash provided by operating activities decreased by \$109.3 million, or 42%, to \$151.9 million in 2009 compared to \$261.2 million in 2008. The decrease was primarily attributable to the decrease in the charter rates, which resulted in decreased revenues.

Net Cash Used In Investing Activities

Net cash used in investing activities was \$252.3 million in 2010, which consists of \$35.3 million of advances for our vessels under construction; \$202.9 million of amounts paid for vessel acquisitions; \$21.5 million for the acquisition of the real estate property which we were leasing as our principal executive offices in Athens; \$7.7 million of investments in time deposits transferred to cash and cash equivalents; and \$0.3 million relating to purchases of furniture, equipment and software development costs.

Net cash used in investing activities was \$73.1 million in 2009, which consists of \$65.2 million of advances for vessels under construction; \$7.7 million of investments in long term time deposits; and \$0.2 million relating to purchases of furniture and equipment.

Net cash used in investing activities was \$108.7 million for 2008, which consists of the 80% balance of the purchase price and additional predelivery costs of the *Norfolk*, amounting to \$108.5 million; \$1.1 million of construction costs we paid for the *New York* and the *Los Angeles* and \$0.9 million we received from insurers for unrepaired damages to the *Coronis* caused during its grounding in 2007.

Net Cash Provided By / Used In Financing Activities

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

Net cash provided by financing activities was \$141.6 million in 2009, which consists of \$73.6 million of proceeds drawn under our loan facilities and \$30.1 million of indebtedness that we repaid; \$98.4 million of proceeds received from an issuance of 6,000,000 shares of common stock in May 2009; \$0.1 million proceeds received under our dividend reinvestment plan; and \$0.4 million that we paid in financing costs relating to our new loan agreements.

Net cash used in financing activities in 2008 amounted to \$107.2 million and consists of \$237.2 million of proceeds drawn under our revolving credit facility for the acquisition of the *Salt Lake City* and the *Norfolk*; \$97.5 million of indebtedness that we repaid under our revolving credit facility with the Royal Bank of Scotland and \$0.1 million proceeds we received under our dividend reinvestment plan and \$247.0 million of dividends paid to shareholders.

Loan Facilities

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

The \$300.0 million revolving credit facility has a term of ten years from May 24, 2006, which we refer to as the availability date, and we are permitted to borrow up to the facility limit, provided that conditions to drawdown are satisfied and that borrowings do not exceed 75% of the aggregate market value of the mortgaged vessels. The facility limit is \$300.0 million for a period of six years from the availability date, at which time the facility limit will be reduced to \$285.0 million. Thereafter, the facility limit will be reduced by \$15.0 million semi-annually over a period of four years with a final reduction of \$165.0 million together with the last semi-annual reduction.

The credit facility has commitment fees of 0.25% per annum on the amount of the undrawn balance of the facility, payable quarterly in arrears. Interest on amounts drawn are payable at a rate ranging from 0.75% to 0.85% per annum over LIBOR. During 2010 and 2009, the weighted average interest rate relating to the amounts drawn under the credit facility was 1.10% and 1.29%, respectively.

As of December 31, 2010 and as of the date of this annual report, we had \$290.7 million of principal balance outstanding under our \$300.0 million revolving credit facility.

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

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

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

In November 2006, we, through Eniwetok Shipping Company Inc. and Bikini Shipping Company Inc., entered into a loan agreement with Fortis Bank for a secured term loan of up to \$60.2 million and a guarantee facility of up to \$36.5 million, which we used to finance the pre-delivery installments of our vessels that were under construction (Hull *H1107* and Hull *H1108*). In April 2009, we entered into a supplemental loan agreement with Fortis Bank to amend and restate the existing loan agreement, so as to include in the loan agreement our new wholly owned subsidiary Gala Properties Inc., owner of the Houston, as a borrower. Pursuant to the supplemental loan agreement and the amended and restated loan agreement, the bank consented to the termination of our contract for the construction of one of our vessels included in the loan agreement, the amendment of the purpose of the loan facility made available under the principal agreement such that its purpose includes the financing of part of the construction and acquisition cost of the Houston (Hull *H1138*) and certain amendments to the terms of the principal agreement and the corporate guarantee. Under the amended and restated agreement, the bank also agreed to reduce the shareholding required to be beneficially owned by the Palios and Margaronis families from 20% to 10%.

Our \$60.2 million loan facility with Fortis Bank was terminated in February 2010, after we repaid all of our outstanding indebtedness on delivery of the New York.

In October 2009, we, through Gala Properties Inc., entered into a loan agreement with Bremer Landesbank to partly finance or, as the case may be, refinance the contract price of the *Houston* for an amount of \$40.0 million. The loan has a term of ten years and is repayable in 40 quarterly installments of \$0.9 million plus one balloon installment of \$4.0 million to be paid together with the last installment. The loan bears interest at Libor plus a margin of 2.15% per annum for the first two years, or the Initial Margin Application Period. Upon expiration of the Initial Margin Application Period, Bremer will propose a new margin for the remaining security period or part thereof, for agreement by Gala Properties Inc. We drew down the loan amount of \$40.0 million in November 2009 after the delivery of the *Houston* in October 2009. During 2010 and 2009, the weighted average interest rate was 2.48% and 2.39%, respectively.

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

As of December 31, 2010 and as of the date of this annual report, we had \$36.4 million and \$35.5 million, respectively, of principal balance outstanding under our \$40.0 million loan facility with Bremer Landesbank.

In October 2009, we, through Bikini Shipping Company Inc., entered into a loan agreement with Deutsche Bank AG to partly finance or, as the case may be, refinance the contract price of the *New York* for an amount of \$40.0 million but not exceeding 80% of the fair value of the vessel. The loan has a term of five years and is repayable in 19 quarterly installments of \$0.6 million, or the 1.50% of the loan amount and a 20th installment equal to the remaining outstanding balance of the loan. The loan bears interest at Libor plus a margin of 2.40% per annum. We drew down the loan amount of \$40.0 million in March 2010 on the delivery of the *New York*. During 2010, the weighted average interest rate was 2.76%.

The loan is secured by a first priority or preferred ship mortgage on the vessel, a first priority assignment of all earnings, insurances, and requisition compensation and a corporate guarantee. The lenders may also require additional security in the future in the event we breach certain covenants including restrictions as to changes in management and ownership of the vessel, additional indebtedness, as well as minimum requirements regarding hull cover ratio (vessel's market value of at least 125% of the outstanding balance of the loan), minimum liquidity of \$0.4 million, average cash balance of \$10.0 million, and other financial covenants. Furthermore, we are not permitted to pay any dividends that would result in a breach of the financial covenants.

As of December 31, 2010 and as of the date of this annual report, we had \$38.2 million and \$37.6 million, respectively, of principal balance outstanding under our \$40.0 million loan facility with Deutsche Bank.

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

The repayment of the loan is in 24 quarterly installments of \$165,000 for each advance and a balloon of \$6.04 million payable together with the last installment. The loan bears interest at LIBOR plus a margin of 2.40% per annum. An arrangement fee of \$0.4 million was paid on signing the facility agreement. The loan bears commitment fees of 0.96%, on the undrawn part of the loan.

As of December 31, 2010, we had \$19.7 million of principal balance outstanding. During 2010, the weighted average interest rate was 2.82%. As of the date of this annual report, Diana Containerships and its subsidiaries are no longer consolidated to our consolidated financial statements, after its partial spin-off in January 2011.

In October 2010, we, through our wholly owned subsidiaries, Lae Shipping Company Inc. and Namu Shipping Company Inc., entered into a loan agreement with the Export – Import Bank of China and DnB NOR Bank ASA to finance part of the acquisition cost of our newbuildings *Hull 1234*, to be named "*Los Angeles*", and *Hull 1235*, to be named "*Philadelphia*", for an amount of up to \$82.6 million. The loan is available until November 30, 2012 in two advances with each advance not exceeding the lower of \$41.3 million and the 70% of the market value of the ship relevant to it. The repayment of the loan will be made in 40 quarterly installments of \$692,500 for each advance and a balloon of \$13.6 million payable together with the last installment. Each Bank has the right to demand repayment of the outstanding balance of any advance 72 months after the respective advance drawdown. Such demand shall be subject to written notification to be made no earlier than 54 months and not later than 60 months after the respective drawdown date for that advance. The loan will bear interest at LIBOR plus a margin of 2.50% per annum. The loan bears commitment fees of 0.50% per annum, on the undrawn portion of the loan and an agency fee of \$10,000 paid annually until full repayment of the loan. An arrangement and structuring fee of \$619,500 was paid on signing the agreement along with the payment of the annual agency fee.

The loan is secured by a first preferred ship mortgage on the vessels, general assignments, charter assignments, operating account assignments, a corporate guarantee from Diana Shipping Inc. and manager's undertakings. The lender may also require additional security, if at any time the market value of the ships becomes less than the 125% of the aggregate of (a) the Loan and (b) the Swap Exposure. Additionally, the borrowers are required to maintain minimum liquidity of \$0.4 million at each operating account, and the guarantor is required to maintain net worth of not less than \$150.0 million and at least 25% of the total assets and an average cash balance of \$10.0 million. As at December 31, 2010, and the date of this annual report, we did not have any balance outstanding under this loan facility.

Currently, 12 of our vessels have been provided as collateral to secure our credit facility with the Royal Bank of Scotland; one vessel has been provided as collateral to secure our loan facility with Bremer Landesbank; and one vessel to secure our loan facility with Deutsche Bank AG.

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

As of December 31, 2010, 2009 and 2008 and as of the date of this annual report, we did not and have not designated any financial instruments as accounting hedging instruments. In May 2009, we entered into a five-year zero cost collar agreement with a floor at 1% and a cap at 7.8% of a notional amount of \$100.0 million to manage our exposure to interest rate changes related to our borrowings. The collar agreement is considered as an economic hedge agreement as it does not meet the criteria of hedge accounting; therefore, the change in its fair value is recognized in earnings. As of December 31, 2010, the fair value of the floor resulted in losses of \$1.2 million and the fair value of the cap in gains of \$0.2 million, resulting in an aggregate loss of \$1.0 million compared to \$0.2 million in 2009. Also during 2010 and 2009, we incurred additional realized losses of \$0.7 million and \$0.3 million, respectively, and unrealized losses of \$0.8 million and \$0.2 million respectively.

Capital Expenditures

We make capital expenditures from time to time in connection with our vessel acquisitions which we finance with cash from operations, debt under loan facilities that provide necessary funds at terms acceptable to us, or with funds from equity issuances. Currently, we have contractual obligations relating to the construction of our two newbuildings, which as of December 31, 2010 and the date of this annual report amounted to \$83.2 million. We have entered into a loan agreement with the Export – Import Bank of China and DnB NOR Bank ASA for an amount of up to \$82.6 million to finance part of the construction cost of the vessels and the remaining balance will be paid with cash on hand.

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

C. Research and development, patents and licenses

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

D. Trend information

Our results of operations depend primarily on the charter hire rates that we are able to realize. Charter hire rates paid for dry bulk carriers are primarily a function of the underlying balance between vessel supply and demand.

Since mid-August 2008, the charter rates in the dry bulk charter market have declined significantly, and dry bulk vessel values have also declined both as a result of a slowdown in the availability of global credit and the significant deterioration in charter rates. Market conditions have affected our earnings in 2009, which decreased compared to 2008. In 2009 charter rates increased from their low levels experienced at the end of 2008 and the beginning of 2009, but decreased again in 2010, thus affecting the average time charter rate we achieved during 2010 and compared to 2009. In the beginning of 2011, the BDI, which has decreased further than the lows of 2010, indicates even lower charter rates. As such, we cannot assure investors that we will be able to fix our vessels, upon expiration of their current charters, at average rates higher than or similar to those achieved in previous years.

E. Off-balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations, in thousands of U.S. dollars, and their maturity dates as of December 31, 2010:

	Payments due by period					Total
	Within One Year	One to Three Years	Three to Five Years	More than Five years		
	(in thousands of U.S. dollars)					
Long term debt (1)\	\$ 7,320	\$ 65,340	\$ 100,840	\$ 211,470	\$ 384,970	
Shipbuilding contracts						
(2)	\$ 56,100	\$ 27,100	-	-	\$ 83,200	
Broker services agreements						
(3)	\$ 2,692	\$ 5,384	\$ 3,814	-	\$ 11,890	
Total	66,112	97,824	104,654	211,470	480,060	

(1) As of December 31, 2010, we had an aggregate principal of \$385.0 million of indebtedness outstanding under our loan facilities, of which \$19.7 million related to Diana Containerships. This indebtedness was incurred in connection with the acquisition of dry bulk vessels and containerships and does not include projected interest payments which are based on LIBOR plus a margin. Effective January 19, 2011 Diana Containerships has been de-consolidated from our consolidated financial statements and since that date the related portion of outstanding debt does not constitute our contractual obligation.

(2) As of December 31, 2010, we had paid the 1st and 2nd predelivery installments for the construction of Hull *H1234*, to be renamed *Los Angeles*, amounting to \$20.3 million and the 1st predelivery installment for the construction of the Hull *H1235*, to be renamed *Philadelphia*, amounting to \$14.5 million. According to our shipbuilding contracts, the vessels are expected to be delivered to us in the second and third quarter of 2012. However, the shipyard has informed us that they may deliver H1234 in the fourth quarter of 2011 and H1235 in the first quarter of 2012. Our contractual obligations for the construction of the two hulls are presented in accordance with the latest information from the shipyard.

(3) On June 1, 2010, we and Diana Containerships terminated our existing Consultancy Agreements with companies controlled by our executive officers and the services that were previously provided to us and Diana Containerships by the consultants are provided by DSS. DSS has appointed Diana Enterprises, a related party controlled by our Chief Executive Officer and Chairman, Mr. Simeon Palios, as broker to assist it in providing services to us and to Diana Containerships pursuant to two separate Broker Services Agreements, both dated June 1, 2010, for an annual fee of \$1.7 million and \$1.0 million, respectively. Effective January 19, 2011 Diana Containerships has been de-consolidated from our consolidated financial statements and since that date the related contract does not constitute our contractual obligation.

G. Safe Harbor

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

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

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

Name	Age	Position
Simeon Palios	69	Class I Director, Chief Executive Officer and Chairman
Anastasios Margaronis	55	Class I Director and President
Ioannis Zafirakis	39	Class I Director, Executive Vice President and Secretary
Andreas Michalopoulos	39	Chief Financial Officer and Treasurer
Maria Dede	38	Chief Accounting Officer
William (Bill) Lawes	67	Class II Director
Konstantinos Psaltis	72	Class II Director
Boris Nachamkin	77	Class III Director
Apostolos Kontoyannis	62	Class III Director

The term of our Class I directors expires in 2012, the term of our Class II directors expires in 2013 and the term of our Class III directors expires in 2011.

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

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

Simeon P. Palios has served as our Chief Executive Officer and Chairman since February 21, 2005 and as a Director since March 9, 1999 and has served as the Chief Executive Officer and Chairman of Diana Containerships since January 13, 2010. Mr. Palios also serves as an employee of DSS. Prior to November 12, 2004, Mr. Palios was the Managing Director of Diana Shipping Agencies S.A. and performed on our behalf the services he now performs as Chief Executive Officer. Since 1972, when he formed Diana Shipping Agencies, Mr. Palios has had the overall responsibility of our activities. Mr. Palios has 41 years experience in the shipping industry and expertise in technical and operational issues. He has served as an ensign in the Greek Navy for the inspection of passenger boats on behalf of Ministry of Merchant Marine and is qualified as a naval architect and engineer. Mr. Palios is a member of various leading classification societies worldwide and he is a member of the board of directors of the United Kingdom Freight Demurrage and Defense Association Limited. He holds a bachelor's degree in Marine Engineering from Durham University.

Anastasios C. Margaronis has served as our President and as a Director since February 21, 2005 and has served as the Director and President of Diana Containerships since January 13, 2010. Mr. Margaronis also serves as an employee of DSS. Prior to February 21, 2005, Mr. Margaronis was employed by Diana Shipping Agencies S.A. and performed on our behalf the services he now performs as President. He joined Diana Shipping Agencies in 1979 and has been responsible for overseeing our insurance matters, including hull and machinery, protection and indemnity and war risks cover. Mr. Margaronis has 28 years of experience in shipping, including in ship finance and insurance. He is a member of the Governing Council of the Greek Shipowner's Union and a member of the board of directors of the United Kingdom Mutual Steam Ship Assurance Association (Bermuda) Limited. He holds a bachelor's degree in Economics from the University of Warwick and a master's of science degree in Maritime Law from the Wales Institute of Science and Technology.

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

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

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

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

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

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

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

B. Compensation

The aggregate compensation to members of our senior management for 2010, 2009 and 2008 was \$1.4 million, \$2.3 million and \$1.9 million, respectively. In 2011, 2010 and 2009 our senior management received a cash bonus of \$0.4 million, \$1.2 million and \$1.0 million respectively, relating to 2010, 2009 and 2008 performance, respectively. Since June 1, 2010, DSS entered into two Broker Services Agreements with Diana Enterprises, a related party, to provide brokerage services to us and Diana Containerships. Under these agreements, which are described in Item 7B, "Related Party Transactions", we pay an annual fee of \$1.7 million and Diana Containerships pays annual fees of \$1.0 million. We consider that fees paid under those agreements to be part of our executive compensation due to the affiliation with Diana Enterprises. In 2010, brokerage services amounted to \$1.6 million. Diana Enterprises also received an amount of \$0.8 million, in 2011 as bonus for the performance of 2010.

Also, in 2011, 2010 and 2009, our senior management received an aggregate of 499,575 shares, 423,886 shares and 315,400 shares, respectively of restricted common stock to vest ratably over three years, relating to 2010, 2009 and 2008 performance, respectively. In 2008, our senior management also received 500,000 and 65,100 restricted shares of common stock to vest ratably over six years and three years, respectively. All restricted stock has been awarded in accordance with the terms and conditions of the incentive plan we have had in place since 2005. In 2010, our senior management also received 213,331 shares of restricted stock awards of Diana Containerships, 25% of which vested in 2010 and the remaining will vest ratably over three years by one third each year.

Non-employee directors receive annual fees in the amount of \$52,000 plus reimbursement of their out-of-pocket expenses, since January 1, 2009. Until then their annual fees amounted to \$40,000. In addition, each non-executive serving as chairman or member of the committees receives annual fees of \$26,000 and \$13,000, respectively, plus reimbursement of his/her out-of-pocket expenses, since January 1, 2009 compared to \$20,000 and \$10,000, respectively, plus reimbursement of his/her out-of-pocket expenses until 2008. For 2010, 2009 and 2008 fees and expenses of our non-executive directors amounted to \$0.4 million, \$0.3 million and \$0.2 million, respectively. In addition to that, in 2011, 2010 and 2009, non-employee directors received an aggregate of 116,480 shares, 96,040 shares and 48,800 shares, respectively, of restricted common stock to vest ratably over three years. In 2008 they also received 100,000 and 10,400 restricted shares of common stock to vest ratably over six years and three years, respectively.

In 2010, 2009 and 2008, compensation cost relating to the aggregate amount of restricted stock awards amounted to \$7.5 million, \$3.9 million and \$1.1 million, respectively. We do not have a retirement plan for our officers or directors.

C. Board Practices

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

In addition, we have established a Compensation Committee comprised of two members, which is responsible for establishing executive officers' compensation and benefits. The members of the Audit Committee are Mr. William Lawes (Chairman and financial expert) and Mr. Apostolos Kontoyannis (member and financial expert) and the members of the Compensation Committee are Mr. Apostolos Kontoyannis (Chairman) and Mr. Boris Nachamkin (member). While we are exempt from New York Stock Exchange rules on independent directors, we currently conform to those rules.

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

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

D. *Crewing and Shore Employees*

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

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

	Year Ended December 31,		
	2010	2009	2008
Shoreside	58	46	44
Seafaring	577	445	422
Total	635	491	466

E. *Share Ownership*

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

Equity Incentive Plan

We have adopted an equity incentive plan, which we refer to as the plan, which entitles employees, officers and directors to receive options to acquire our common stock. A total of 2,800,000 shares of common stock are reserved for issuance under the plan. The plan is administered by our board of directors. Under the terms of the plan, our Board of Directors will be able to grant a) incentive stock options, b) non-qualified stock options, c) stock appreciation rights, d) dividend equivalent rights, e) restricted stock, f) unrestricted stock, g) restricted stock units, and h) performance shares. No options, stock appreciation rights or restricted stock units can be exercisable prior to the first anniversary or subsequent to the tenth anniversary of the date on which such award was granted. The plan will expire ten years from the adoption of the Plan by the Board of Directors.

In 2011, 2010, 2009 and 2008 an aggregate of 616,055 shares, 519,926 shares, 364,200 shares and 75,500 shares, respectively, of restricted common stock were awarded by the Board of Directors to all executives and non-executive directors, relating to 2010, 2009, 2008 and 2007 performance, respectively. The shares awarded relating to the 2007 performance have been fully vested and the remainder vest ratably over three years. Also in 2008, an additional aggregate of 600,000 shares was issued to executives and non-executive directors, to vest ratably over six years. The restricted shares are subject to forfeiture until they become vested. Unless they forfeit their shares, grantees have the right to vote, to receive and retain all dividends paid and to exercise all other rights, powers and privileges of a holder of shares. Currently, 624,319 shares of common stock are reserved for issuance under the plan.

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

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

Title of Class	Identity of Person or Group	Number of Shares Owned	Percent of Class
Common Stock, par value \$0.01	Simeon Palios (1)	14,923,018	18.1%
	All officers and directors as a group (2)	16,283,341	19.7%

- (1) Currently, Mr. Simeon Palios beneficially owns 636,478 restricted common shares granted through the Company's Equity Incentive Plan and 14,286,540 shares indirectly through Corozal Compania Naviera S.A. and Ironwood Trading Corp. over which Mr. Simeon Palios exercises sole voting and dispositive power. As of December 31, 2008, 2009, 2010 and currently, Mr. Simeon Palios owned indirectly through Corozal and Ironwood 19.30%, 17.54%, 17.4% and 17.3%, respectively, of our common stock.
- (2) Mr. Simeon Palios is our only director or officer that beneficially owns 5% or more of our common stock. Mr. Anastasios Margaronis, our President and a member of our board of directors, and Mr. Ioannis Zafirakis, our Executive Vice President and a member of our board of directors, are indirect shareholders through ownership of stock held in Corozal Compania Naviera S.A., which is the registered owner of some of our common stock. Mr. Margaronis and Mr. Zafirakis do not have dispositive or voting power with regard to shares held by Corozal Compania S.A. and, accordingly, are not considered to be beneficial owners of our common shares held through Corozal Compania Naviera S.A. Messrs. Lawes, Psaltis, Nachamkin and Kontoyannis, each a non-executive director of ours, and Messrs. Margaronis, Zafirakis and Michalopoulos, each executive officers of ours, own shares of our common stock of less than 1% each.

B. Related Party Transactions

Universal Shipping and Real Estates Inc.

Until October 8, 2010, we were paying rent for our office space to Universal Shipping and Real Estates Inc., or Universal, a company controlled by our Chairman and Chief Executive Officer, Mr. Simeon Palios. On October 8, 2010, we acquired Universal and on October 21, 2010 we transferred the building and land owned by Universal to DSS, and Universal was subsequently dissolved. In 2010, 2009 and 2008, we paid rent amounting to about \$304,000, \$216,000 and \$231,000, respectively. In 2010 and 2009 rent expense was classified in General and administrative expenses and in 2008 rent expense was classified as interest expense of a financing lease in Interest and finance costs.

Diana Shipping Agencies S.A.

Until October 8, 2010, we were paying rent for our office space to Diana Shipping Agencies S.A., or DSA, a company controlled by our Chairman and Chief Executive Officer, Mr. Simeon Palios. On October 8, 2010, we acquired DSA and on October 21, 2010 we transferred the building and land owned by DSA to DSS. DSA was subsequently dissolved. In 2010, 2009 and 2008, we paid rent amounting to \$283,000, \$146,000 and \$156,000, respectively, classified in General and administrative expenses.

Consultancy Agreements

Until June 1, 2010, we and Diana Containerships had consulting agreements with companies owned by Mr. Palios, Mr. Margaronis, Mr. Zafirakis and Mr. Michalopoulos. In 2010, 2009 and 2008, we paid to these companies \$1.2 million, \$2.0 million and \$1.7 million respectively, for services provided by their owners and performed outside of Greece. On June 1, 2010, when the consultancy agreements were terminated, we entered into brokerage services agreements with Diana Enterprises, as described below.

Diana Enterprises Inc.

On June 1, 2010, DSS entered into two agreements with Diana Enterprises, a company controlled by our Chairman and Chief Executive Officer, Mr. Simeon Palios, to provide brokerage services. The first agreement was made on behalf of Diana Shipping Inc. for an annual fee of \$1.7 million and the second agreement was made on behalf of Diana Containerships, for an annual fee of \$1.0 million. Both agreements have a term of five years and the fees are paid quarterly in advance. During 2010, brokerage fees amounted to \$1.6 million. In 2011, Diana Enterprises also received an amount of \$0.8 million, as bonus for the 2010 performance. Effective January 19, 2011 after the partial spin-off of Diana Containerships, the relevant fees relating to Diana Containerships are being reimbursed to us by Diana Containerships and do not constitute part of our expenses.

Altair Travel Agency S.A.

Altair Travel Agency S.A., or Altair, an affiliated entity that is controlled by our Chairman and Chief Executive Officer, Mr. Simeon Palios, provides us with travel related services. Travel related expenses in 2010, 2009 and 2008 amounted to \$1.6 million, \$1.4 million and \$1.5 million, respectively. We believe that the fees that we pay to Altair Travel Agency S.A. are no greater than fees we would pay to an unrelated third party for comparable services in an arm's length transaction. Until September 30, 2010, we were also paying rent to Altair for the lease of office and parking space, which for 2010, 2009 and 2008 amounted to about \$76,000, \$19,000 and \$19,000, respectively, classified in General and administrative expenses. In September 2010, Altair sold its property to Universal and as of that date our lease agreement with Altair was terminated.

Poinsettia Management Ltd.

On October 8, 2010, we entered into two transfer agreements with Poinsettia Management Ltd. ("Poinsettia"), an entity affiliated with our CEO and Chairman and with other executives, whereby we acquired 100% of the issued and outstanding shares of Universal and DSA from Poinsettia for a total consideration of \$21.5 million. After Altair sold its property to Universal, Universal and DSA together owned 100% of the real estate property, building and land, we were leasing and using for our principal executive offices in Athens, Greece. The transaction was approved by an independent committee appointed by our Board of Directors and consisting of the independent members of the Board of Directors. This independent committee addressed all issues in connection with this acquisition and evaluated the merits and fairness of the consideration of the transaction. The Independent Committee considered specific facts and circumstances and the developments in the domestic real estate market, obtained financial, legal and other advice as deemed appropriate and utilized multiple valuation approaches from different sources in its analysis, including but not limited to: i) independent market valuations for the entities' real property based on comparable real estate prices, ii) independent assessment of the physical condition of the real property, its fixtures and other infrastructure included within the real property and iii) discounted cash flow analyses (with reference also to the present value of the future lease outflows based upon the Company's then existing lease agreements for office space). Based upon the various inputs discussed above, the independent committee determined that the transaction was in our and our shareholders' best interests and recommended the transaction to the Board for an aggregate purchase price not to exceed \$21.5 million. On October 21, 2010 the building and land were transferred from Universal and DSA to DSS, and Universal and DSA were subsequently dissolved.

Administrative Services Agreement

On April 6, 2010, Diana Containerships entered into an Administrative Services Agreement with DSS, whereby DSS provides to it accounting, administrative, financial reporting and other services necessary for the operation of its business. Diana Containerships pays DSS a monthly fee of \$10,000 for these administrative services. The initial term of the agreement is for a period of one year and will automatically renew for successive twelve month periods unless the agreement is terminated as provided therein. The agreement may be terminated by Diana Containerships (i) upon thirty days' written notice to the Manager; (ii) if the Manager materially breaches the agreement and such breach is not resolved within ninety days; (iii) if the Manager has been convicted of or entered a plea of guilty or nolo contendere with respect to a crime and such occurrence is materially injurious to Diana Containerships (iv) if the holders of a majority of Diana Containerships's outstanding common shares elect to terminate the agreement; (v) if the Manager commits fraud, gross negligence or commits an act of willful misconduct, and Diana Containerships is materially injured thereby; (vi) if the Manager becomes insolvent; or (vi) if there is a "change of control" (as defined therein) of the Manager. The Administrative Services Agreement may be terminated by the Manager (i) after the expiration of the initial term, with six months' notice to Diana Containerships; (ii) if Diana Containerships materially breaches the agreement and such breach is not resolved within ninety days; or (iii) at any time upon the earlier to occur of (a) the occurrence of a change of control of Diana Containerships; (b) the Manager's receipt of written notice from Diana Containerships that a change of control will occur until sixty (60) days after the later of (1) the occurrence of such a change of control or (2) the Manager's receipt of the written notice in the preceding clause (b). If Diana Containerships has knowledge that a change of control of Diana Containerships will occur, it is required to give prompt written notice thereof to the Manager.

As at December 31, 2010, such administrative services fees received by DSS have been eliminated from our consolidated financial statements as intercompany transactions. However, after the partial spin-off of Diana Containerships on January 18, 2011 and its consequent de-consolidation from our financial statements, such fees will constitute part of our revenues.

Vessel Management Agreements

DSS also provides commercial and technical management services for Diana Containerships's vessels under separate vessel management agreements with Diana Containerships's vessel owning subsidiaries entered into on June 8, 2010. The vessel management agreements continue unless terminated by either party giving three months' written notice; provided that Diana Containerships may terminate the agreement without such notice upon payment to the Manager of a fee equal to the average management fees paid to the Manager during the last three full months immediately preceding such termination. Commercial management includes, among other things, negotiating charters for vessels, monitoring the performance of vessels under charter, and managing Diana Containerships's relationships with charterers, obtaining insurance coverage for Diana Containerships's vessels, as well as supervision of the technical management of the vessels. Technical management includes managing day-to-day vessel operations, performing general vessel maintenance, ensuring regulatory and classification society compliance, supervising the maintenance and general efficiency of vessels, arranging the hire of qualified officers and crew, arranging and supervising drydocking and repairs, arranging for the purchase of supplies, spare parts and new equipment for vessels, appointing supervisors and technical consultants and providing technical support. Pursuant to each vessel management agreement, DSS receives a commission of 1% of the gross charterhire and freight earned by the vessel and a technical management fee of \$15,000 per vessel per month for employed vessels and will receive \$20,000 per vessel per month for laid-up vessels, if any.

As at December 31, 2010, such management fees received by DSS have been eliminated from our consolidated financial statements as intercompany transactions. However, after the partial spin-off of Diana Containerships on January 18, 2011 and its consequent de-consolidation from our financial statements, such fees will constitute part of our revenues.

C. *Interests of Experts and Counsel*

Not Applicable.

Item 8. Financial information

A. *Consolidated statements and other financial information*

See Item 18.

Legal Proceedings

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

Dividend Policy

Our board of directors reviews and amends our dividend policy from time to time in light of our plans for future growth and other factors. In 2008, 2007 and 2006, we declared and paid dividends of \$3.31 per share, \$2.05 per share and \$1.50 per share, respectively, representing our cash available from operations. However, as a result of market conditions in the international shipping industry and in line with our dividend policy, as of November 2008, our board of directors decided to suspend the payment of future dividends. We believe that this suspension enhances our flexibility by permitting cash flow that would have been devoted to dividends to be used for opportunities that may arise in the current marketplace, such as funding our operations, acquiring vessels or servicing our debt. In December 2010, our board of directors resolved to distribute 2,667,015 shares of Diana Containerships, or 80% of our interest, as a stock dividend to all shareholders on a pro-rata basis. As a result of this decision, an information statement was prepared and filed in January 2011. In December 2010, Diana Containerships applied for its listing in Nasdaq Global Market where its shares started to trade on January 3, 2011 on a "when issued" basis and on January 19, 2011, on a "regular way" basis. As a result of this partial spin-off, Diana Containerships, effective January 19, 2011, is no longer consolidated to our consolidated financial statements.

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

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

B. Significant Changes

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

Item 9. The Offer and Listing

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

Period	2011		2010		2009		2008		2007		2006	
	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low
Annual			\$16.27	\$11.19	\$18.52	\$10.15	\$31.66	\$7.24	\$44.82	\$15.79	\$13.55	\$11.19
1st quarter			\$16.27	\$13.26	\$16.89	\$10.15						
2nd quarter			15.82	11.19	18.52	11.73						
3rd quarter			13.39	11.46	14.98	12.01						
4th quarter			14.08	11.82	17.97	12.61						
September			\$12.93	\$12.11								
October			14.08	12.51								
November			14.03	12.63								
December			13.53	11.82								
January	\$12.52	\$11.59										
February	12.64	11.74										
March 1 - 29	12.59	11.50										

Item 10. Additional Information

A. Share Capital

Not Applicable.

B. Memorandum and articles of association

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

Information regarding the rights, preferences and restrictions attaching to each class of the shares is described in section "Description of Capital Stock" in our Registration Statement on Form F-1 filed with the Securities and Exchange Commission on November 23, 2005 with file number 333-129726, provided that since the date of that Registration Statement, our outstanding shares of common stock has increased to 82,573,242. We have also filed with the Securities and Exchange Commission our amended and restated stockholders rights agreement as exhibit 4.5 to our Form 8-A12B/A filed on October 7, 2008 and amended on October 10, 2008, with file number 001-32458.

C. *Material Contracts*

Attached as exhibits to this annual report are the contracts we consider to be both material and not entered into in the ordinary course of business. Other than these agreements, we have no material contracts, other than contracts entered into in the ordinary course of business, to which the Company or any member of the group is a party. A description of these is included in our description of our agreements generally: we refer you to Item 5.B for a discussion of our loan facilities, Item 4.A for a discussion of our agreement with 4 Sweet Dreams S.A., and item 7.B for a discussion of our agreements with companies controlled by our Chairman and Chief Executive Officer, Mr. Simeon Palios.

D. *Exchange Controls*

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

E. *Taxation*

United States Taxation

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

Taxation of the Company's Shipping Income

In General

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

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

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

In the year ended December 31, 2010, approximately 3.4% of the Company's shipping income was attributable to the transportation of cargoes either to or from a U.S. port. Accordingly, 1.7% of the Company's shipping income would be treated as derived from U.S. sources for the year ended December 31, 2010. In the absence of exemption from U.S. federal income tax under Section 883 of the Code, the Company would have been subject to a 4% tax on its gross U.S. source Shipping Income, equal to approximately \$0.2 million for the year ended December 31, 2010.

Application of Exemption under Section 883 of the Code

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

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

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

For the 2010 tax year, the Company believes that it is unlikely that the 50% Ownership Test was satisfied. Therefore, the eligibility of the Company and each subsidiary to qualify for exemption under Section 883 of the Code is wholly dependent upon the Company's ability to satisfy the Publicly Traded Test.

Under the Treasury Regulations, stock of a foreign corporation is considered "primarily traded" on an established securities market in a country if the number of shares of each class of stock that is traded during the taxable year on all established securities markets in that country exceeds the number of shares in each such class that is traded during that year on established securities markets in any other single country. The Company's common stock, which is the sole class of issued and outstanding stock, was "primarily traded" on the New York Stock Exchange, or "NYSE", during the 2010 taxable year.

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

The Company believes that its common stock has satisfied the Listing Threshold, as well as the Trading Frequency Test and Trading Volume Tests, during the 2010 taxable year.

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

For more than half the days during the 2010 taxable year, only 18.0% of the Company's common stock was owned by 5% Shareholders. Therefore, the Company is not subject to the 5% Override Rule, and therefore believes that it has satisfied the Publicly Traded Test for the 2010 taxable year. However, there is no assurance that the Company will continue to satisfy the Publicly Traded Test in future taxable years. For example, the Company could be subject to the 5% Override Rule if another 5% Shareholder in combination with the Company's existing 5% Shareholders were to own 50% or more of the Company's common stock. In such a case, the Company would be subject to the 5% Override Rule unless it could establish that, among the shares of the common stock owned by the 5% Shareholders, sufficient shares are owned by qualified shareholders, for purposes of Section 883 of the Code, to preclude non-qualified shareholders from owning 50% or more of the Company's stock for more than half the number of days during the taxable year. The requirements of establishing this exception to the 5% Override Rule are onerous and there is no assurance the Company will be able to satisfy them.

Based on the foregoing, the Company believes that it satisfied the Publicly Traded Test and therefore believes that it was exempt from U.S. federal income tax under Section 883 of the Code, during the 2010 taxable year, and intends to take this position on its 2010 U.S. federal income tax returns.

Taxation in Absence of Exemption Under Section 883 of the Code

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

Based on its U.S. source Shipping Income for the 2010 taxable year and in the absence of exemption under Section 883 of the Code, the Company would be subject to approximately \$0.2 million of U.S. federal income tax under the 4% Gross Basis Tax Regime.

The 4% Gross Basis Tax Regime would not apply to U.S. source Shipping Income to the extent considered to be "effectively connected" with the conduct of a U.S. trade or business. In the absence of exemption under Section 883 of the Code, such "effectively connected" U.S. source Shipping Income, net of applicable deductions, would be subject to U.S. federal income tax currently imposed at corporate rates of up to 35%. In addition, earnings "effectively connected" with the conduct of such U.S. trade or business, as determined after allowance for certain adjustments, and certain interest paid or deemed paid attributable to the conduct of the U.S. trade or business may be subject to U.S. federal branch profits tax imposed at a rate of 30%. The Company's U.S. source Shipping Income would be considered "effectively connected" with the conduct of a U.S. trade or business only if: (1) the Company has, or is considered to have, a fixed place or business in the United States involved in the earning of Shipping Income; and (2) substantially all of the Company's U.S. source Shipping Income is attributable to regularly scheduled transportation, such as the operation of a vessel that followed a published schedule with repeated sailings at regular intervals between the same points for voyages that begin or end in the United States, or, in the case of income from the chartering of a vessel, is attributable to a fixed place of business in the United States.

Gain on Sale of Vessels

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

Taxation of U.S. Holders

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

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

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

Distributions

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

Dividends paid to a U.S. Holder which is an individual, trust, or estate (a "U.S. Non-Corporate Holder") will generally be treated as "qualified dividend income" that is taxable to Holders at preferential U.S. federal income tax rates (currently through the end of 2012) provided that (1) the common stock is readily tradable on an established securities market in the United States (such as the NYSE on which the common stock is listed); (2) the Company is not a passive foreign investment company for the taxable year during which the dividend is paid or the immediately preceding taxable year (which the Company does not believe it is, has been or will be); (3) the U.S. Non-Corporate Holder has owned the common stock for more than 60 days in the 121-day period beginning 60 days before the date on which the common stock becomes ex-dividend; and (4) the U.S. Non-Corporate Holder is not under an obligation (whether pursuant to a short sale or otherwise) to make payments with respect to positions in substantially similar or related property. There is no assurance that any dividends paid on our common stock will be eligible for these preferential rates in the hands of a U.S. Non-Corporate Holder. Legislation has been previously introduced in the U.S. Congress which, if enacted in its present form, would preclude the dividends paid by the Company from qualifying for such preferential rates prospectively from the date of the enactment. Any dividends paid by the Company which are not eligible for these preferential rates will be taxed as ordinary income to a U.S. Non-Corporate Holder.

Sale, Exchange or other Disposition of Common Stock

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

Passive Foreign Investment Company Status and Significant Tax Consequences

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Dividends on Common Stock

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

Sale, Exchange or Other Disposition of Common Stock

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

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

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

Backup Withholding and Information Reporting

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

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

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

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

Marshall Islands Tax Considerations

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

F. Dividends and paying agents

Not Applicable.

G. Statement by experts

Not Applicable.

H. Documents on display

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

I. *Subsidiary information*

Not Applicable.

Item 11. Quantitative and Qualitative Disclosures about Market Risk

Interest Rates

We are exposed to market risks associated with changes in interest rates relating to our loan facilities. At December 31, 2010, we had \$385.0 million of principal balance outstanding under our loan agreements of which \$290.7 million was under our revolving credit facility with the Royal Bank of Scotland; \$36.4 million was under our loan facility with Bremer Landesbank, \$38.2 million was under our loan facility with Deutsche Bank AG and \$19.7 million was under the loan facility of Diana Containerships with DnB NOR Bank. Total interest incurred under our long-term debt in 2010 amounted to \$5.0 million, out of which \$0.3 million was capitalized. Interest costs, net of interest capitalized, are included in Interest and finance costs in our consolidated statement of income.

In 2010, the weighted average interest rate for our facilities was 1.46% and the respective interest rates ranged from 1.03% to 2.94%, including margins. An average increase of 1% in 2010 interest rates would have resulted in interest costs of \$8.4 million instead of \$5.0 million, an increase of 68%.

The weighted average interest rate relating to our revolving credit facility with The Royal Bank of Scotland was 1.10% and the respective interest rates ranged from 1.03% to 1.37%, including margins. An average increase of 1% in 2010 interest rates would have resulted in interest expenses of \$5.4 million, instead of \$2.8 million, an increase of 93%.

The weighted average interest rate relating to our revolving credit facility with Bremer Landesbank was 2.48% and the respective interest rates ranged from 2.39% to 2.57%, including margins. An average increase of 1% in 2010 interest rates would have resulted in interest expenses of \$1.3 million, instead of \$1.0 million, an increase of 30%.

The weighted average interest rate relating to our revolving credit facility with Deutsche Bank was 2.76% and the respective interest rates ranged from 2.65% to 2.94%, including margins. An average increase of 1% in 2010 interest rates would have resulted in interest expenses of \$1.2 million, instead of \$0.9 million, an increase of 33%.

The weighted average interest rate relating to the facility between Diana Containerships's vessel owning subsidiaries and DnB NOR Bank ASA was 2.82% and the respective interest rates ranged from 2.69% to 2.93%, including margins. An average increase of 1% in 2010 interest rates would have resulted in interest expenses of \$0.4 million, instead of \$0.3 million, an increase of 33%.

Currently, we have \$290.7 million of the principal balance outstanding under our credit facility with the Royal Bank of Scotland; \$35.5 million outstanding under our facility with Bremer Landesbank and \$37.6million outstanding under our facility with Deutsche Bank. Effective January 19, 2011, the facility with DnB NOR Bank is not included in our consolidated financial statements after the partial spin-off of Diana Containerships.

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

In May 2009, we entered into a five-year zero cost collar agreement with a floor at 1% and a cap at 7.8% of a notional amount of \$100.0 million to manage our exposure to interest rate changes related to our borrowings. The collar agreement is considered as an economic hedge agreement as it does not meet the criteria of hedge accounting; therefore, the changes in its fair value are recognized in earnings. As of December 31, 2010 and 2009 the aggregate fair value of the collar resulted in a loss of \$1.0 million and \$0.2 million, respectively. During 2010 and 2009 we incurred unrealized losses from the swap amounting to \$0.8 million and \$0.2 million, respectively and we also incurred realized losses of \$0.7 million and \$0.3, respectively. Should LIBOR interest rates remain at levels below 1% which is our floor, we will continue to incur losses from this financial instrument.

Currency and Exchange Rates

We generate all of our revenues in U.S. dollars but currently incur about half of our operating expenses (around 48% in 2010) and a big part of our general and administrative expenses (around 38% in 2010) in currencies other than the U.S. dollar, primarily the Euro. For accounting purposes, including throughout this annual report, expenses incurred in Euros are converted into U.S. dollars at the exchange rate prevailing on the date of each transaction. Because a significant portion of our expenses are incurred in currencies other than the U.S. dollar, our expenses may from time to time increase relative to our revenues as a result of fluctuations in exchange rates, particularly between the U.S. dollar and the Euro, which could affect the amount of net income that we report in future periods.

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

Item 12. Description of Securities Other than Equity Securities

Not Applicable.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

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

None.

Item 15. Controls and Procedures

a) Disclosure Controls and Procedures

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

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

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

Management has conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on the framework established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2010 is effective.

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

c) Attestation Report of Independent Registered Public Accounting Firm

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

d) Changes in Internal Control over Financial Reporting

None.

Inherent Limitations on Effectiveness of Controls

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

Item 16A. Audit Committee Financial Expert

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

Item 16B. Code of Ethics

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

Item 16C. Principal Accountant Fees and Services

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

Audit fees in 2010 and 2009 amounted to € 660,000 and € 420,000, or approximately \$885,000 and \$467,700, respectively, and relate to audit services provided in connection with timely SAS 100 reviews, the audit of our consolidated financial statements, the audit of internal control over financial reporting, as well as audit services performed in connection with the Company's follow on equity offerings (in 2009) and Diana Containerships's private offering and registration statement (in 2010).

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

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

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

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

None.

Item 16F. Change in Registrant's Certifying Accountant

Not applicable.

Item 16G. Corporate Governance

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

Overview

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

Executive Sessions

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

Nominating / Corporate Governance Committee.

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

Audit Committee

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

Corporate Governance Guidelines

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

PART III

Item 17. Financial Statements

See Item 18.

Item 18. Financial Statements

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

Item 19. Exhibits

Exhibit Number	Description
1.1	Amended and Restated Articles of Incorporation of Diana Shipping Inc. (originally known as Diana Shipping Investment Corp.) (1)
1.2	Amended and Restated By-laws of the Company (2)
2.1	Form of Share Certificate (10)
4.1	Second Amended and Restated Stockholders Rights Agreement dated October 7, 2008 (4)
4.2	Amended and Restated 2005 Stock Incentive Plan (6)
4.3	Form of Technical Manager Purchase Option Agreement (5)
4.4	Form of Management Agreement (3)
4.5	Loan Agreement with Royal Bank of Scotland dated February 18, 2005 (5)
4.6	Amending and Restating Loan Agreement with Royal Bank of Scotland dated May 24, 2006 (8)
4.7	Supplemental Agreement with the Royal Bank of Scotland dated January 30, 2007 (7)
4.8	Sales Agency Financing Agreement dated April 23, 2008 (9)
4.9	Loan Agreement with Deutsche Bank dated October 8, 2009
4.10	Loan Agreement with Bremer Landesbank dated October 22, 2009
4.11	Loan Agreement with the Export-Import Bank of China and DnB Nor Bank ASA dated October 2, 2010
8.1	Subsidiaries of the Company
11.1	Code of Ethics (10)
12.1	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer
12.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer
13.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1	Consent of Independent Registered Public Accounting Firm
(1)	Filed as Exhibit 1 to the Company's Form 6-K filed on May 29, 2008.
(2)	Filed as Exhibit 1 to the Company's Form 6-K filed on December 4, 2007.

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

SIGNATURES

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

DIANA SHIPPING INC.

/s/ Andreas Michalopoulos

Andreas Michalopoulos

Chief Financial Officer

Dated: March 30, 2011

DIANA SHIPPING INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	F-2
Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting	F-3
Consolidated Balance Sheets as of December 31, 2010 and 2009	F-4
Consolidated Statements of Income for the years ended December 31, 2010, 2009 and 2008	F-5
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2010, 2009 and 2008	F-6
Consolidated Statements of Cash Flows for the years ended December 31, 2010, 2009 and 2008	F-7
Notes to Consolidated Financial Statements	F-8

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Diana Shipping Inc.

We have audited the accompanying consolidated balance sheets of Diana Shipping Inc. as of December 31, 2010 and 2009, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Diana Shipping Inc. at December 31, 2010 and 2009, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Diana Shipping Inc.'s internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 30, 2011 expressed an unqualified opinion thereon.

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

Athens, Greece
March 30, 2011

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Diana Shipping Inc.

We have audited Diana Shipping Inc.'s internal control over financial reporting as of December 31, 2010, based on criteria established in internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Diana Shipping Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the Management's Annual Report on Internal Control over Financial Reporting appearing under Item 15.b) in the Company's annual report on Form 20-F for the year ended December 31, 2010. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Diana Shipping Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Diana Shipping Inc. as of December 31, 2010 and 2009 and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2010 of Diana Shipping Inc. and our report dated March 30, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young (Hellas) Certified Auditors Accountants S.A.
Athens, Greece
March 30, 2011

DIANA SHIPPING INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2010 and 2009
(Expressed in thousands of U.S. Dollars – except for share and per share data)

	2010	2009
ASSETS	-	-
CURRENT ASSETS:		
Cash and cash equivalents	\$ 345,414	\$ 282,438
Investments in time deposits	-	7,690
Accounts receivable, trade (Note 2(f))	467	183
Inventories	4,068	2,831
Prepaid insurance and other	1,650	964
Prepaid charter revenue (Note 7)	3,050	3,050
Total current assets	354,649	297,156
FIXED ASSETS:		
Advances for vessels under construction and acquisitions and other vessel costs (Note 4)	35,280	29,630
Vessels (Note 5)	1,355,644	1,123,105
Accumulated depreciation (Note 5)	(194,794)	(143,762)
Vessels' net book value (Note 5)	1,160,850	979,343
Property and equipment, net (Note 6)	21,842	200
Total fixed assets	1,217,972	1,009,173
OTHER NON-CURRENT ASSETS:		
Deferred charges, net	4,359	2,639
Prepaid charter revenue, non-current portion (Note 7)	8,409	11,457
Total assets	\$ 1,585,389	\$ 1,320,425
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt (Note 8)	\$ 7,320	\$ 5,400
Accounts payable, trade and other	5,759	4,528
Due to related parties (Note 3)	279	209
Accrued liabilities	5,329	3,974
Deferred revenue, current portion (Note 9)	13,662	18,119
Other current liabilities	161	156
Total current liabilities	32,510	32,386
Long-term debt, non-current portion (Note 8)	376,303	276,081
Deferred revenue, non-current portion (Note 9)	4,227	11,244
Other non-current liabilities	1,428	1,202
Fair value of derivative instruments (Note 16)	991	187
Commitments and contingencies	-	-
STOCKHOLDERS' EQUITY:		
Preferred stock, \$0.01 par value; 25,000,000 shares authorized, none issued	-	-
Common stock, \$0.01 par value; 200,000,000 shares authorized and 81,955,813 and 81,431,696 issued and outstanding at December 31, 2010 and 2009, respectively (Note 11)	820	815
Additional paid-in capital	908,467	904,977
Other comprehensive income / (expense) (Note 2(c))	(16)	66
Retained earnings	222,246	93,467
Stockholders' equity of Diana Shipping Inc.	1,131,517	999,325
Non-controlling interests (Note 1)	38,413	-
Total stockholders' equity	1,169,930	999,325
Total liabilities and stockholders' equity	\$ 1,585,389	\$ 1,320,425

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

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

For the years ended December 31, 2010, 2009 and 2008

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
REVENUES:			
Time charter revenues	\$ 275,448	\$ 239,342	\$ 337,391
EXPENSES:			
Voyage expenses (Note 12)	12,392	11,965	15,003
Vessel operating expenses (Note 12)	52,585	41,369	39,899
Depreciation and amortization of deferred charges	53,083	44,686	43,259
General and administrative expenses	25,347	17,464	13,831
Foreign currency gains	(1,598)	(478)	(438)
Operating income	<u>133,639</u>	<u>124,336</u>	<u>225,837</u>
OTHER INCOME / (EXPENSES):			
Interest and finance costs (Note 13)	(5,213)	(3,284)	(5,851)
Interest income	920	951	768
Loss from derivative instruments (Note 16)	(1,477)	(505)	-
Insurance settlement for vessel un-repaired damages	-	-	945
Total other expenses, net	<u>(5,770)</u>	<u>(2,838)</u>	<u>(4,138)</u>
Net income	<u>\$ 127,869</u>	<u>\$ 121,498</u>	<u>\$ 221,699</u>
Loss assumed by non-controlling interests	910	-	-
Net income attributed to Diana Shipping Inc.	<u>\$ 128,779</u>	<u>\$ 121,498</u>	<u>\$ 221,699</u>
Earnings per common share, basic	<u>\$ 1.60</u>	<u>\$ 1.55</u>	<u>\$ 2.97</u>
Earnings per common share, diluted	<u>\$ 1.59</u>	<u>\$ 1.55</u>	<u>\$ 2.97</u>
Weighted average number of common shares, basic	<u>80,682,770</u>	<u>78,282,775</u>	<u>74,375,686</u>
Weighted average number of common shares, diluted	<u>80,808,232</u>	<u>78,385,464</u>	<u>74,558,254</u>

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

DIANA SHIPPING INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the years ended December 31, 2010, 2009 and 2008

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

		Common Stock		Additional	Other	Retained	Diana	Non-	Total
	Comprehensive	# of	Par	Paid-in	Comprehensive	Earnings /	Shipping	controlling	Equity
	Income	Shares	Value	Capital	Income /	Accumulated	Inc. Total	Interests	Equity
					(Expense)	Deficit	Equity		
BALANCE, December 31, 2007		74,375,000	\$ 744	\$ 801,349	\$ 110	\$ (2,729)	\$ 799,474	\$ -	\$ 799,474
Net Income	\$ 221,699	-	-	-	-	221,699	221,699	-	221,699
Issuance of common stock	-	686,697	7	1,225	-	-	1,232	-	1,232
- Dividends declared and paid (\$ 0.60 per share)	-	-	-	-	-	(44,670)	(44,670)	-	(44,670)
- Dividends declared and paid (\$ 0.85 per share)	-	-	-	-	-	(63,283)	(63,283)	-	(63,283)
- Dividends declared and paid (\$ 0.91 per share)	-	-	-	-	-	(67,750)	(67,750)	-	(67,750)
- Dividends declared and paid (\$ 0.95 per share)	-	-	-	-	-	(71,298)	(71,298)	-	(71,298)
- Actuarial gains	72	-	-	-	72	-	72	-	72
Comprehensive income	\$ 221,771								-
BALANCE, December 31, 2008		75,061,697	\$ 751	\$ 802,574	\$ 182	\$ (28,031)	\$ 775,476	\$ -	\$ 775,476
- Net income	121,498	-	-	-	-	121,498	121,498	-	121,498
- Issuance of common stock	-	6,369,999	64	102,403	-	-	102,467	-	102,467
- Actuarial losses	(116)	-	-	-	(116)	-	(116)	-	(116)
Comprehensive income	\$ 121,382								
BALANCE, December 31, 2009		81,431,696	\$ 815	\$ 904,977	\$ 66	\$ 93,467	\$ 999,325	\$ -	\$ 999,325
Net Income / (loss)	\$ 128,779	-	-	-	-	128,779	128,779	(910)	127,869
Issuance of common stock		524,117	5	6,202	-	-	6,207		6,207
Contributions from non-controlling interests (Note 11d))		-	-	(2,712)	-	-	(2,712)	39,323	36,611
Actuarial losses	(82)	-	-	-	(82)	-	(82)	-	(82)
Comprehensive income	\$ 128,697								
BALANCE, December 31, 2010		81,955,813	\$ 820	\$ 908,467	\$ (16)	\$ 222,246	\$ 1,131,517	\$ 38,413	\$ 1,169,930

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

DIANA SHIPPING INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2010, 2009 and 2008

(Expressed in thousands of U.S. Dollars)

	2010	2009	2008
Cash Flows from Operating Activities:			
Net income	\$ 127,869	\$ 121,498	\$ 221,699
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization of deferred charges	53,083	44,686	43,259
Amortization of financing costs (Note 13)	263	65	86
Amortization of free lubricants benefit	(171)	(177)	(124)
Compensation cost on restricted stock (Notes 11(b) and (d))	7,482	3,944	1,113
Insurance settlements for vessel un-repaired damages	-	-	(945)
Actuarial gains / (losses)	(82)	(116)	72
Change in fair value of derivative instruments	804	187	-
(Increase) Decrease in:			
Receivables	(284)	1,463	176
Inventories	(1,237)	315	(1,044)
Prepayments and other	(686)	765	(865)
Prepaid charter revenue	3,048	(14,507)	-
Other assets	-	-	712
Increase (Decrease) in:			
Accounts payable	1,231	303	507
Due to related parties	70	32	16
Accrued liabilities	1,355	343	(528)
Deferred revenue	(11,474)	(4,941)	(1,783)
Other liabilities	402	236	(502)
Drydock costs	(3,381)	(2,193)	(698)
Net Cash provided by Operating Activities	178,292	151,903	261,151
Cash Flows used in Investing Activities:			
Advances for vessels under construction and acquisitions and other vessel costs (Note 4)	(35,280)	(65,225)	(1,099)
Vessel acquisitions (Note 5)	(202,909)	-	(108,469)
Real property acquisition (Note 6)	(21,500)		
Investments in time deposits	7,690	(7,690)	-
Other Assets (Note 6)	(314)	(166)	(39)
Proceeds from insurance settlements for vessel un-repaired damages	-	-	945
Net Cash used in Investing Activities	(252,313)	(73,081)	(108,662)
Cash Flows from Financing Activities:			
Proceeds from long-term debt	138,510	73,610	237,200
Proceeds from issuance of share capital, net of expenses	-	98,444	-
Contributions from non-controlling interests	35,281	-	-
Proceeds from dividend reinvestment	56	79	119
Financing costs	(1,020)	(450)	-
Loan payments	(35,830)	(30,100)	(97,500)
Cash dividends	-	-	(247,001)
Net Cash provided by / (used in) Financing Activities	136,997	141,583	(107,182)
Net increase in cash and cash equivalents	62,976	220,405	45,307
Cash and cash equivalents at beginning of period	282,438	62,033	16,726
Cash and cash equivalents at end of period	\$ 345,414	\$ 282,438	\$ 62,033
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest payments, net of amounts capitalized	\$ 4,673	\$ 2,952	\$ 5,356

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

DIANA SHIPPING INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

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

1. Basis of Presentation and General Information

The accompanying consolidated financial statements include the accounts of Diana Shipping Inc. ("Diana" or "DSI") and its wholly-owned and beneficially-owned subsidiaries (collectively, the "Company"). Diana was formed on March 8, 1999 as Diana Shipping Investment Corp. under the laws of the Republic of Liberia. In February 2005, the Company's articles of incorporation were amended. Under the amended articles of incorporation, the Company was renamed Diana Shipping Inc. and was redomiciled from the Republic of Liberia to the Republic of the Marshall Islands. In May 2008, the amended articles of incorporation were further amended to increase the authorized shares from 100.0 million to 200.0 million. In March 2005, December 2005, June 2006, April 2007, September 2007 and May 2009, the Company completed its initial and five secondary public offerings in the United States under the Securities Act of 1933, as amended, the net proceeds of which amounted to \$193,976, \$63,085, \$71,651, \$159,342, \$273,743 and \$98,444, respectively.

In January 2010, the Company established Diana Containerships Inc. ("Diana Containerships") for the purpose of acquiring containerships. On April 6, 2010, Diana Containerships completed a private offering under Rule 144A and Regulation S and Regulation D of the Securities Act of 1933, as amended, the net proceeds of which amounted to \$85,281, of which the Company invested \$50,000. As at December 31, 2010, Diana Containerships had 6,106,161 shares of common stock issued and outstanding of which DSI owned 54.6%. As a result of the transaction the Company reports non-controlling interests in its accompanying consolidated financial statements. On January 18, 2011, Diana spun off 2,667,015 shares or 80% of its shares in Diana Containerships through a distribution of shares to its stockholders of record of the Company on January 3, 2011, decreasing its ownership to 11% (refer to Note 18).

The Company is engaged in the ocean transportation of dry bulk cargoes and containers worldwide through the control and operation of dry bulk carrier vessels and containerships. As at December 31, 2010, the following subsidiaries are included in the consolidation:

1.1. Subsidiaries incorporated in the Republic of Panama

- (a) ***Skyvan Shipping Company S.A. ("Skyvan")***, owner of the Bahamas flag 75,311 dwt bulk carrier vessel "Nirefs" which was built and delivered in January 2001.
- (b) ***Buenos Aires Compania Armadora S.A. ("Buenos")***, owner of the Bahamas flag 75,247 dwt bulk carrier vessel "Alcyon" which was built and delivered in February 2001.
- (c) ***Husky Trading S.A. ("Husky")***, owner of the Bahamas flag 75,336 dwt bulk carrier vessel "Triton" which was built and delivered in March 2001.
- (d) ***Panama Compania Armadora S.A. ("Panama")***, owner of the Bahamas flag 75,211 dwt bulk carrier vessel "Oceanis", which was built and delivered in May 2001.
- (e) ***Eaton Marine S.A. ("Eaton")***, owner of the Greek flag 75,106 dwt bulk carrier vessel "Danae" (built in 2001), which was acquired in July 2003.
- (f) ***Chorrera Compania Armadora S.A. ("Chorrera")***, owner of the Greek flag 75,172 dwt bulk carrier vessel "Dione" (built in 2001), which was acquired in May 2003.

DIANA SHIPPING INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

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

- (g) *Cypres Enterprises Corp. ("Cypres")*, owner of the Bahamas flag 73,630 dwt bulk carrier vessel "Protefs" which was built and delivered in August 2004.
- (h) *Darien Compania Armadora S.A. ("Darien")*, owner of the Bahamas flag 73,691 dwt bulk carrier vessel "Calipso" which was built and delivered in February 2005.
- (i) *Cerada International S.A. ("Cerada")*, ex-owner of the Bahamas flag 169,883 dwt bulk carrier vessel "Pantelis SP" (built in 1999), which was acquired in February 2005. The vessel was sold in February 2007, and was delivered to her new owners in July 2007.
- (j) *Texford Maritime S.A. ("Texford")*, owner of the Bahamas flag 73,691 dwt bulk carrier vessel "Clio" which was built and delivered in May 2005.
- (k) *Urbina Bay Trading, S.A. ("Urbina")*, owner of the Bahamas flag 74,444 dwt bulk carrier vessel "Erato" (built in 2004), which was acquired in November 2005.
- (l) *Changame Compania Armadora S.A. ("Changame")*, owner of the Bahamas flag 73,583 dwt bulk carrier vessel "Thetis" (built in 2004), which was acquired in November 2005.
- (m) *Vesta Commercial, S.A. ("Vesta")*, owner of the Bahamas flag 74,381 dwt bulk carrier vessel "Coronis" which was built and delivered in January 2006.
- (n) *Diana Shipping Services S.A. (the "Manager" or "DSS")*. DSS was acquired in April 2006, and provides the Company and its vessels with management services since November 12, 2004, pursuant to management agreements, for a fixed monthly fee of \$15 per vessel and 2% commission on all voyage and time charter revenues for operating vessels and for a fixed monthly fee of \$0.5 for vessels under construction. Since April 2010, DSS provides to Diana Containerships, the Company's beneficially owned subsidiary and its vessels, administrative services for a monthly fee of \$10, and since June 2010 technical and commercial services for a monthly fee of \$15 per vessel for employed vessels, \$20 per vessel per month for laid-up vessels, and 1% commission on the gross charter hire and freight earned by each vessel. Management fees, administrative services fees and commissions charged by DSS are eliminated from the consolidated financial statements as intercompany transactions.

1.2. Subsidiaries incorporated in the Republic of the Marshall Islands

- (a) *Ailuk Shipping Company Inc. ("Ailuk")*, owner of the Marshall Islands' flag 73,546 dwt dry bulk carrier vessel "Naia" which was built in 2006 and delivered in August 2006.
- (b) *Bikini Shipping Company Inc. ("Bikini")*, owner of the Marshall Islands' flag 177,773 dwt dry bulk carrier vessel "New York" which was built and delivered in March 2010 (Note 5).
- (c) *Jaluit Shipping Company Inc. ("Jaluit")*, owner of the Marshall Islands' flag, 174,186 dwt, dry bulk carrier vessel "Sideris GS" which was built and delivered in November 2006.
- (d) *Kili Shipping Company Inc. ("Kili")*, owner of the Marshall Islands' flag, 174,261 dwt, dry bulk carrier vessel "Semirio" which was built and delivered in June 2007.

DIANA SHIPPING INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

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

- (e) **Knox Shipping Company Inc. ("Knox")**, owner of the Marshall Islands flag, 180,235 dwt, dry bulk carrier vessel "Aliko" (built 2005), which was acquired in April 2007.
- (f) **Lib Shipping Company Inc. ("Lib")**, owner of the Marshall Islands flag, 177,828 dwt, dry bulk carrier vessel "Boston" which was built and delivered in November 2007.
- (g) **Majuro Shipping Company Inc. ("Majuro")**, owner of the Marshall Islands flag, 93,193 dwt, dry bulk carrier vessel "Alcmene" (built 2010), which was delivered in November 2010 (Note 5).
- (h) **Taka Shipping Company Inc. ("Taka")**, owner of the Marshall Islands flag, 76,436 dwt, dry bulk carrier vessel, "Melite" (built 2004) which was acquired in January 2010 (Note 5).
- (i) **Gala Properties Inc. ("Gala")**, owner of the Marshall Islands flag 177,729 dwt, dry bulk carrier vessel "Houston" which was built and delivered in October 2009.
- (j) **Lae Shipping Company Inc. ("Lae")**, entered into a shipbuilding contract with China Shipbuilding Trading Company, Limited and Shanghai Jiangnan-Changxing Shipbuilding Co., Ltd for the construction of one Newcastlemax dry bulk carrier of approximately 206,000 dwt. The vessel has a contract price of \$59,000, and is expected to be delivered during the second quarter of 2012 (Note 4).
- (k) **Namu Shipping Company Inc. ("Namu")**, entered into a shipbuilding contract with China Shipbuilding Trading Company, Limited and Shanghai Jiangnan-Changxing Shipbuilding Co., Ltd for the construction of one Newcastlemax dry bulk carrier of approximately 206,000 dwt. The vessel has a contract price of \$59,000, and is expected to be delivered during the third quarter of 2012 (Note 4).

1.3. Subsidiaries incorporated in the United States of America

- (a) **Bulk Carriers (USA) LLC ("Bulk Carriers")** was established in September 2006 in the State of Delaware, USA, to act as the Company's authorized representative in the United States.

1.4. Subsidiaries incorporated in the Republic of Cyprus

- (a) **Marfort Navigation Company Limited ("Marfort")**, owner of the Cyprus flag 171,810 dwt bulk carrier vessel "Salt Lake City" (built 2005) which was acquired in December 2007.
- (b) **Silver Chandra Shipping Company Limited ("Silver")**, owner of the Cyprus flag 164,218 dwt bulk carrier vessel "Norfolk" (built 2002) which was acquired in February 2008.

1.5. Other Subsidiaries

Diana Containerships Inc. ("Diana Containerships") is engaged in the seaborne transportation industry through the ownership and operation of containerships, and is the sole owner of all outstanding shares of the following subsidiaries, incorporated in the Marshall Islands:

- i. **Likiep Shipping Company Inc. ("Likiep")**, owner of the Marshall Islands flag, 3,426 TEU capacity container vessel, "Sagitta" which was built and delivered in June 2010 (Note 5).

DIANA SHIPPING INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

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

ii. *Orangina Inc. ("Orangina")*, owner of the Marshall Islands flag, 3,426 TEU capacity container vessel, "Centaurus" which was built and delivered in July 2010 (Note 5).

iii. *Lemongina Inc. ("Lemongina")*, a newly established wholly owned subsidiary of Diana Containerships. As at December 31, 2010, Lemongina did not have any operations.

During 2010, 2009 and 2008, three, four and two charterers, respectively, individually accounted for more than 10% of the Company's time charter revenues as follows:

Charterer	2010	2009	2008
A	18%	21%	15%
B	16%	23%	16%
C	10%	11%	
D	-	14%	

All of the above charterers employed vessels of the dry bulk reportable segment (Note 17).

2. Significant Accounting Policies and Recent Accounting Pronouncements

- (a) **Principles of Consolidation:** The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles, and include the accounts of Diana Shipping Inc. and its wholly-owned subsidiaries referred to in Note 1 above. All significant intercompany balances and transactions have been eliminated upon consolidation.
- (b) **Use of Estimates:** The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- (c) **Other Comprehensive Income / (Expense):** The Company follows the provisions of FASB Accounting Standard Codification (ASC) 220, "Comprehensive Income", which requires separate presentation of certain transactions, which are recorded directly as components of stockholders' equity. In 2010, 2009 and 2008, Other comprehensive income / (expense) increased/(decreased) with gains/(losses) of (\$82), (\$116) and \$72, respectively that resulted from the actuarial valuation of the employees' retirement and staff leaving indemnities (Note 2(u)). As of December 31, 2010, 2009 and 2008, Other comprehensive income / (expense) amounted to (\$16), \$66 and \$182, respectively.
- (d) **Foreign Currency Translation:** The functional currency of the Company is the U.S. Dollar because the Company's vessels operate in international shipping markets, and therefore primarily transact business in U.S. Dollars. The Company's books of accounts are maintained in U.S. Dollars. Transactions involving other currencies during the year are converted into U.S. Dollars using the exchange rates in effect at the time of the transactions. At the balance sheet dates, monetary assets and liabilities which are denominated in other currencies are translated into U.S. Dollars at the year-end exchange rates. Resulting gains or losses are reflected separately in the accompanying consolidated statements of income.

DIANA SHIPPING INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

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

- (e) **Cash and Cash Equivalents:** The Company considers highly liquid investments such as time deposits, certificates of deposit and their equivalents with an original maturity of three months or less to be cash equivalents.
- (f) **Accounts Receivable, Trade:** The amount shown as accounts receivable, trade, at each balance sheet date, includes receivables from charterers for hire, freight and demurrage billings, net of any provision for doubtful accounts. At each balance sheet date, all potentially uncollectible accounts are assessed individually for purposes of determining the appropriate provision for doubtful accounts. No provision for doubtful accounts was established as of December 31, 2010 and 2009.
- (g) **Inventories:** Inventories consist of lubricants and victualling which are stated at the lower of cost or market. Cost is determined by the first in, first out method. Inventories may also consist of bunkers when on the cut-off date a vessel has been redelivered by its previous charterers and has not yet been delivered to the new charterers, or remains idle. Bunkers are also stated at the lower of cost or market and cost is determined by the first in, first out method.
- (h) **Vessel Cost:** Vessels are stated at cost which consists of the contract price and any material expenses incurred upon acquisition (initial repairs, improvements and delivery expenses, interest and on-site supervision costs incurred during the construction periods). Subsequent expenditures for conversions and major improvements are also capitalized when they appreciably extend the life, increase the earning capacity or improve the efficiency or safety of the vessels; otherwise these amounts are charged to expense as incurred. Interest cost incurred during the assets' construction periods that theoretically could have been avoided if expenditure for the assets had not been made is also capitalized. The capitalization rate, applied on accumulated expenditures for the vessel, is based on interest rates applicable to outstanding borrowings of the period.
- (i) **Prepaid/Deferred Charter Revenue:** The Company records identified assets or liabilities associated with the acquisition of a vessel at fair value, determined by reference to market data. The Company values any asset or liability arising from the market value of the time charters assumed when a vessel is acquired. The amount to be recorded as an asset or liability at the date of vessel delivery is based on the difference between the current fair market value of the charter and the net present value of future contractual cash flows. When the present value of the contractual cash flows of the time charter assumed is greater than its current fair value, the difference is recorded as prepaid charter revenue. When the opposite situation occurs, any difference, capped to the vessel's fair value on a charter free basis, is recorded as deferred revenue. Such assets and liabilities, respectively, are amortized as a reduction of, or an increase in, revenue over the period of the time charter assumed.
- (j) **Impairment of Long-Lived Assets:** The Company follows ASC 360-10-40 "Impairment or Disposal of Long-Lived Assets", which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The guidance requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. When the estimate of undiscounted projected net operating cash flows, excluding interest charges, expected to be generated by the use of the asset is less than its carrying amount, the Company should evaluate the asset for an impairment loss. Measurement of the impairment loss is based on the fair value of the asset. The Company determines the fair value of its assets based on management estimates and assumptions and by making use of available market data and taking into consideration third party valuations.

DIANA SHIPPING INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

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

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

The Company determines undiscounted projected net operating cash flows for each vessel and compares it to the vessel's carrying value. The projected net operating cash flows are determined by considering the historical and estimated vessels' performance and utilization, the charter revenues from existing time charters for the fixed fleet days and an estimated daily time charter equivalent for the unfixed days (based on the most recent 10 year average historical 1 year time charter rates available for each type of vessel, considering also current market rates) over the remaining estimated life of each vessel, net of brokerage commissions, expected outflows for scheduled vessels' maintenance and vessel operating expenses assuming an average annual inflation rate of 3%. Effective fleet utilization is assumed to 98% in the Company's exercise, taking into account the period(s) each vessel is expected to undergo her scheduled maintenance (dry docking and special surveys), as well as an estimate of 1% off hire days each year, assumptions in line with the Company's historical performance. The Company concluded based on this exercise that step two of the impairment analysis was not required and no impairment of vessels existed at December 31, 2010 as the undiscounted projected cash flows exceeded their carrying value.

No impairment loss was identified or recorded for 2010, 2009 and 2008, and the Company has not identified any other facts or circumstances that would require the write down of vessel values in the near future.

- (k) **Assets held for sale:** It is the Company's policy to dispose of vessels and other fixed assets when suitable opportunities occur and not necessarily to keep them until the end of their useful life. The Company classifies assets and disposal groups as being held for sale in accordance with ASC 360-10-45-9 "Long-Lived Assets Classified as Held for Sale", when the following criteria are met: (i) management possessing the necessary authority has committed to a plan to sell the asset (disposal group); (ii) the asset (disposal group) is immediately available for sale on an "as is" basis; (iii) an active program to find the buyer and other actions required to execute the plan to sell the asset (disposal group) have been initiated; (iv) the sale of the asset (disposal group) is probable, and transfer of the asset (disposal group) is expected to qualify for recognition as a completed sale within one year; and (v) the asset (disposal group) is being actively marketed for sale at a price that is reasonable in relation to its current fair value and actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. In case a long-lived asset is to be disposed of other than by sale (for example, by abandonment, in an exchange measured based on the recorded amount of the nonmonetary asset relinquished, or in a distribution to owners in a spinoff) the Company continues to classify it as held and used until its disposal date. Long-lived assets or disposal groups classified as held for sale are measured at the lower of their carrying amount or fair value less cost to sell. These assets are not depreciated once they meet the criteria to be held for sale.
- (l) **Reporting of discontinued operations:** The current and prior year periods' results of operations and cash flows of assets (disposal groups) classified as held for sale are reported as discontinued operations when it is determined that their operations and cash flows will be eliminated from the ongoing operations of the Company as a result of their disposal, and that the Company will not have continuing involvement in the operation of these assets after their disposal.

DIANA SHIPPING INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

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

- (m) **Vessel Depreciation:** Depreciation is computed using the straight-line method over the estimated useful life of the vessels, after considering the estimated salvage value. Each vessel's salvage value is equal to the product of its lightweight tonnage and estimated scrap rate. Management estimates the useful life of the Company's vessels to be 25 years for dry bulk vessels and 30 years for containerships from the date of initial delivery from the shipyard. Second hand vessels are depreciated from the date of their acquisition through their remaining estimated useful life. When regulations place limitations over the ability of a vessel to trade on a worldwide basis, its remaining useful life is adjusted at the date such regulations are adopted.
- (n) **Accounting for Dry-Docking Costs:** The Company follows the deferral method of accounting for dry-docking costs whereby actual costs incurred are deferred and are amortized on a straight-line basis over the period through the date the next dry-docking is scheduled to become due. Unamortized dry-docking costs of vessels that are sold are written off and included in the calculation of the resulting gain or loss in the year of the vessel's sale.
- (o) **Financing Costs:** Fees paid to lenders for obtaining new loans or refinancing existing ones are deferred and recorded as a contra to debt. Other fees paid for obtaining loan facilities not used at the balance sheet date are capitalized as deferred financing costs. Fees are amortized to interest and finance costs over the life of the related debt using the effective interest method and, for the loan facilities not used at the balance sheet date, according to their availability terms. Unamortized fees relating to loans repaid or refinanced as debt extinguishment are expensed as interest and finance costs in the period the repayment or extinguishment is made. Loan commitment fees are charged to expense in the period incurred.
- (p) **Property and equipment.** The Company has acquired the land and building where its offices are located. Land is presented in its fair value on the date of acquisition and it is not subject to depreciation, but it is reviewed for impairment. As at December 31, 2010, no impairment loss was identified or recorded and the Company has not identified any other facts or circumstances that would require the write down of the value of its land or building in the near future. The building which consists of office space, a warehouse and parking spaces has an estimated useful life of 55 years with no residual value and depreciation is calculated on a straight-line basis. Equipment consists of office furniture and equipment, computer software and hardware and vehicles. The useful life of the office furniture, equipment and vehicles is 5 years; and the computer software and hardware is 3 years. Depreciation is calculated on a straight-line basis.
- (q) **Concentration of Credit Risk:** Financial instruments, which potentially subject the Company to significant concentrations of credit risk, consist principally of cash and trade accounts receivable. The Company places its temporary cash investments, consisting mostly of deposits, with high credit qualified financial institutions. The Company performs periodic evaluations of the relative credit standing of those financial institutions that are considered in the Company's investment strategy. The Company limits its credit risk with accounts receivable by performing ongoing credit evaluations of its customers' financial condition and generally does not require collateral for its accounts receivable and does not have any agreements to mitigate credit risk.
- (r) **Accounting for Revenues and Expenses:** Revenues are generated from time charter agreements and are usually paid fifteen days in advance. Time charter agreements with the same charterer are accounted for as separate agreements according to the terms and conditions of each agreement. Time charter revenues are recorded over the term of the charter as service is provided. Revenues from time charter agreements providing for varying annual rates over their term are accounted for on a straight line basis. Deferred revenue includes cash received prior to the balance sheet date for which all criteria to recognize as revenue have not been met, including any deferred revenue resulting from charter agreements providing for varying annual rates, which are accounted for on a straight line basis. Deferred revenue also includes the unamortized balance of the liability associated with the acquisition of second-hand vessels with time charters attached which were acquired at values below fair market value at the date the acquisition agreement is consummated. Voyage expenses, primarily consisting of port, canal and bunker expenses that are unique to a particular charter, are paid for by the charterer under time charter arrangements or by the Company under voyage charter arrangements, except for commissions, which are always paid for by the Company, regardless of charter type. All voyage and vessel operating expenses are expensed as incurred, except for commissions. Commissions are deferred over the related voyage charter period to the extent revenue has been deferred since commissions are due as the Company's revenues are earned.

DIANA SHIPPING INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

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

- (s) **Repairs and Maintenance:** All repair and maintenance expenses including underwater inspection expenses are expensed in the year incurred. Such costs are included in vessel operating expenses in the accompanying consolidated statements of income.
- (t) **Pension and retirement benefit obligations.** Administrative employees are covered by state-sponsored pension funds. Both employees and the Company are required to contribute a portion of the employees' gross salary to the fund. Upon retirement, the state-sponsored pension funds are responsible for paying the employees retirement benefits and accordingly the Company has no such obligation. Employer's contributions for 2010, 2009 and 2008 amounted to \$838, \$627 and \$631, respectively.
- (u) **Employees' retirement and staff leaving indemnities.** Administrative personnel are entitled to an indemnity in case of dismissal or retirement unless they resign or are dismissed with cause. The Company, as of the acquisition date of DSS (April 1, 2006), recognizes the estimated benefit obligation for the past service of DSS's employees under the requirements of ASC 715-60, "Defined Benefit Plans - Other Postretirement". This is an unfunded plan and the Company engages a third party company to determine the other comprehensive income component, net of tax and, the gains or losses, the prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost, and to measure defined benefit plan obligations as of the date of the fiscal year-end statement of financial position. At December 31, 2010 and 2009, the projected benefit obligation amounted to \$1,154 and \$1,034, respectively.
- (v) **Earnings per Common Share:** Basic earnings per common share are computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the year. Diluted earnings per common share, reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised. As of December 31, 2010, 2009 and 2008, the Company had 125,462, 102,689 and 182,568, respectively, dilutive shares (Note 14).
- (w) **Segmental Reporting:** The Company has determined that it operates under two reportable segments, one relating to its operations of the dry bulk vessels and one to the operations of the container vessels. For both segments, the Company reports financial information and evaluates the operations of the two segments by charter revenues and not by the length of ship employment for its customers, i.e. spot or time charters. The Company does not use discrete financial information to evaluate the operating results for each such type of charter. Although revenue can be identified for these types of charters, management cannot and does not identify expenses, profitability or other financial information for these charters. As a result, management, including the chief operating decision maker, reviews operating results solely by revenue per day and operating results of the two fleets. Furthermore, when the Company charters a vessel to a charterer, the charterer is free to trade the vessel worldwide and, as a result, the disclosure of geographic information is impracticable.

DIANA SHIPPING INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

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

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

The Company evaluates financial instruments, service contracts, and other arrangements to determine if any variable interests relating to an entity exist, as the primary beneficiary would be required to include assets, liabilities, and the results of operations of the variable interest entity in its financial statements. As of December 31, 2010 and 2009, no such interests existed.

- (y) **Fair Value Measurements:** ASC 820 "Fair Value Measurements and Disclosures", provides guidance for using fair value to measure assets and liabilities. The guidance also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. The guidance describes fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. The guidance clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, the guidance establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, the reporting entity's own data. Under the guidance, fair value measurements would be separately disclosed by level within the fair value hierarchy. Financial statements should include disclosures for transfers in and out of Level 1 and Level 2 fair value measurements and description for the reason for transfer, for inputs and valuation techniques for fair value measurements that fall in either Level 2 or Level 3 and for the level of disaggregation.
- (z) **Share Based Payment:** ASC 718 "Compensation – Stock Compensation", requires the Company to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost is recognized over the period during which an employee is required to provide service in exchange for the award—the requisite service period (usually the vesting period). No compensation cost is recognized for equity instruments for which employees do not render the requisite service. Employee share purchase plans will not result in recognition of compensation cost if certain conditions are met. The Company initially measures the cost of employee services received in exchange for an award or liability instrument based on its current fair value; the fair value of that award or liability instrument is remeasured subsequently at each reporting date through the settlement date. Changes in fair value during the requisite service period are recognized as compensation cost over that period with the exception of awards granted in the form of restricted shares which are measured at their grant date fair value and are not subsequently re measured. The grant-date fair value of employee share options and similar instruments are estimated using option-pricing models adjusted for the unique characteristics of those instruments (unless observable market prices for the same or similar instruments are available). If an equity award is modified after the grant date, incremental compensation cost will be recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately before the modification. As of December 31, 2010 and 2009, the Company had granted 1,559,626 and 1,039,700 restricted shares to senior management and directors (Note 11 (b)).

DIANA SHIPPING INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

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

- (aa) **Derivatives:** The Company is exposed to interest rate fluctuations associated with its variable rate borrowings and its objective is to manage the impact of such fluctuations on earnings and cash flows of its borrowings. In this respect, in May 2009, the Company entered into a five-year zero cost collar agreement with a floor at 1% and a cap at 7.8% of a notional amount of \$100,000 to manage its exposure to interest rate changes related to its borrowings. The collar agreement is considered as an economic hedge agreement as it does not meet the criteria of hedge accounting; therefore, the change in its fair value is recognized in earnings (Note 16).
- (bb) **Subsequent Events:** ASC 855 Subsequent Events establishes general standards of accounting for and disclosing of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The guidance introduces the concept of financial statements being available to be issued. ASC 855 clarifies which entities are required to evaluate subsequent events through the date the financial statements are issued and the scope of the disclosure requirements related to subsequent events. An SEC filer is not required to disclose the date through which management evaluated subsequent events in both issued and revised financial statements. Revised financial statements include financial statements revised as a result of either correction of an error or retrospective application of U.S. GAAP.

3. Transactions with Related Parties

- (a) **Altair Travel Agency S.A. ("Altair"):** The Company uses the services of an affiliated travel agent, Altair, which is controlled by the Company's CEO and Chairman. Travel expenses for 2010, and 2009, and 2008 amounted to \$1,628, \$1,385, and \$1,485, respectively, and are included in Vessels, Vessel operating expenses and General and administrative expenses in the accompanying consolidated financial statements. Until September 30, 2010, the Company was also paying Altair rent for office space, parking space and a warehouse leased by DSS until December 31, 2011, for the monthly rent of Euro 6,330 including stamp duty. Rent expense for 2010, 2009 and 2008 amounted to \$76, \$19, and \$19, respectively, and is included in General and administrative expenses in the accompanying consolidated statements of income. At December 31 2010, and 2009, an amount of \$206 and \$137, respectively, was payable to Altair and is included in Due to related parties in the accompanying consolidated balance sheets. The lease agreement between Altair and DSS was terminated on September 30, 2010, as Altair sold the office space, parking space and the warehouse to Universal Shipping and Real Estates Inc.
- (b) **Universal Shipping and Real Estates Inc. ("Universal"):** Universal was acquired by the Company in October 2010. Until then Universal was a company controlled by the Company's CEO and Chairman from which the DSS was leasing office space, a warehouse and parking spaces for a monthly rent of Euro 24,530 including stamp duty. Rent expense for 2010, 2009, and 2008 amounted to \$304, \$216, and \$231, respectively, which for 2010 and 2009 is included in General and administrative expenses and for 2008 in Interest and finance costs in the accompanying consolidated statement of income. On October 21, 2010, Universal transferred all of its real property to DSS and the company was dissolved in November 2010 (see (e) below and note 6). At December 31, 2010 and 2009, there were no amounts due to or from Universal.

DIANA SHIPPING INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

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

- (c) ***Diana Shipping Agencies S.A. ("DSA")***: DSA was acquired by the Company in October 2010. Until then, DSA was a company controlled by the Company's CEO and Chairman, from which DSS was leasing office space, parking spaces and a warehouse for a monthly rent of Euro 23,788 including stamp duty. Rent expense for 2010, 2009, and 2008 amounted to \$283, \$146, and \$156, and is included in General and administrative expenses in the accompanying consolidated statements of income. On October 21, 2010, DSA transferred all of its property to DSS and the company was dissolved in November 2010 (see Note 3(e) and Note 6). At December 31, 2010 and 2009, there were no amounts due to or from DSA.
- (d) ***Diana Enterprises Inc. ("Diana Enterprises")***: Diana Enterprises is a company controlled by the Company's CEO and Chairman, and has entered into two agreements with DSS to provide brokerage services through DSS to DSI for an annual fee of \$1,652 and to Diana Containerships for an annual fee of \$1,040. The agreement has a term of five years and the fees are paid quarterly in advance. For 2010, brokerage fees amounted to \$1,570 and are included in General and administrative expenses in the accompanying consolidated statements of income. At December 31, 2010, there were no amounts due to or from Diana Enterprises.
- (e) ***Acquisition of affiliated entities***: On October 8, 2010, the Company entered into two transfer agreements with Poinsettia Management Ltd. ("Poinsettia"), an entity affiliated with the Company's CEO and Chairman and with other executives, for the acquisition of 100% of the issued and outstanding shares of Universal and DSA for a total consideration of \$21,500. Universal and DSA were entities controlled by Poinsettia, owning the real estate property which the Company was leasing as its principal executive offices in Athens, Greece. The Company's Board of Directors appointed an independent committee consisting of the independent members of the Board of Directors to address any issues in connection with such acquisition and to evaluate the merits and fairness of the consideration of the transaction. The Independent Committee considered the Company's specific facts and circumstances and the developments in the domestic real estate market, obtained financial, legal and other advice as deemed appropriate and utilized multiple valuation approaches from different sources in its analysis, including but not limited to: i) independent market valuations for the entities' real property based on comparable real estate prices, ii) independent assessment of the physical condition of the real property, its fixtures and other infrastructure included within the real property and iii) discounted cash flow analyses (with reference also to the present value of the future lease outflows based upon the Company's then existing lease agreements for office space). Based upon the various inputs discussed above, the independent committee determined that the transaction was in the best interests of the Company and its stockholders and recommended the transaction to the Board for an aggregate purchase price not to exceed \$21,500. On October 21, 2010, the building and land were transferred to DSS. Universal and DSA were subsequently dissolved (Note 6).

DIANA SHIPPING INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

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

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

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

	December 31, 2010	December 31, 2009
Pre-delivery installments	\$ 34,800	\$ 24,080
Advances for vessel acquisitions	-	3,510
Capitalized interest and finance costs	449	1,829
Other related costs	31	211
Total	\$ 35,280	\$ 29,630

The movement of the account, during December 31, 2010 and December 31, 2009 was as follows:

	December 31, 2010	December 31, 2009
Beginning balance	\$ 29,630	\$ 27,199
- Advances for vessels under construction and other vessel costs	72,111	61,715
- Advances for vessel acquisitions and other vessel costs	31,647	3,510
- Transferred to vessel cost (Note 5)	(98,108)	(62,794)
Ending balance	\$ 35,280	\$ 29,630

In April 2010, the Company, through its newly established subsidiaries, Lae and Namu, entered into a shipbuilding contract with China Shipbuilding Trading Company, Limited and Shanghai Jiangnan-Changxing Shipbuilding Co., Ltd for the construction of one Newcastlemax dry bulk carrier of approximately 206,000 dwt for each subsidiary. Each newbuilding (H1234 to be named "Los Angeles" and H1235 to be named "Philadelphia") has a contract price of \$59,000. According to the shipbuilding contracts, the vessels are expected to be delivered in the second and third quarter of 2012, respectively. However, the shipyard may deliver H1234 in the fourth quarter of 2011 and H1235 in the first quarter of 2012. In April 2010, the Company paid an aggregate amount of \$29,000 representing the first installment of \$14,500 for each newbuilding and in November 2010 the second installment for Hull H1234, amounting to \$5,800.

The balance of the purchase price per newbuilding will be paid in installments of \$5,800 each, and a final installment for the balance of the amount or \$27,100 each.

As at December 31, 2010 and 2009, the Company had \$34,800 and \$27,590, respectively, of construction and acquisition installments, and an aggregate amount of \$480 and \$2,040, respectively, of additional capitalized costs.

5. Vessels

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

	Vessel Cost	Accumulated Depreciation	Net Book Value
Balance, December 31, 2008	\$ 1,060,311	\$ (99,880)	\$ 960,431
- Transfer from advances for vessels under construction and acquisition and other vessel costs (Note 4)	62,794	-	62,794
- Depreciation for the year	-	(43,882)	(43,882)
Balance, December 31, 2009	\$ 1,123,105	\$ (143,762)	\$ 979,343
- Transfer from advances for vessels under construction and acquisition and other vessel costs (Note 4)	98,108	-	98,108
- Acquisition and other vessel costs	134,431	-	134,431
- Depreciation for the year	-	(51,032)	(51,032)
Balance, December 31, 2010	\$ 1,355,644	\$ (194,794)	\$ 1,160,850

DIANA SHIPPING INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

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

In December 2009, the Company, through its wholly owned subsidiary Taka entered into a Memorandum of Agreement with an unrelated third party to acquire the 76,436 dwt panamax dry bulk carrier "Melite" (built 2004) for a total consideration of \$35,100 of which a 10% advance, or \$3,510, was paid in December 2009 and the balance of \$31,590 in January 2010, when it was delivered. The total cost of the vessel was \$35,157 and includes \$57 of capitalized costs.

In March 2010, the Company took delivery of the "New York", a 177,773 dwt capesize dry bulk carrier that was under construction at Shangai Waigaoqiao Shipbuilding Co., Ltd for the price of \$60,200. During the period, the Company paid one installment of \$6,020 and the delivery installment of \$30,100. The total cost of "New York" was \$62,951 of which \$2,751 were capitalized costs.

In June 2010, Likiep and Orangina, the Company's beneficially owned subsidiaries through Diana Containerships entered into memoranda of agreement with a third party company to acquire Hull 558 and Hull 559, named "Sagitta" and "Centaurus" respectively, for the purchase price of Euro 37.3 million, each. On June 11, 2010, Diana Containerships paid Euro 3.73 million, or \$4,528 (by using the exchange rate of Euro/US\$ on the date of payment), for each vessel, representing an advance of 10% of the purchase price as per the relevant agreements. The balance of the acquisition cost of "Sagitta" of Euro 33.57 million, or \$41,123 (by using the exchange rate of Euro/US\$ on the date of payment) was paid on June 29, 2010, when the vessel was delivered. The total cost of "Sagitta" was \$45,973 of which \$322 were capitalized costs. The balance of the acquisition cost of "Centaurus" of Euro 33.57 million, or \$ 42,698 (by using the exchange rate of Euro/US\$ on the date of payment) was paid on July 9, 2010 when the vessel was delivered. The total cost of "Centaurus" was \$47,559 of which \$333 were capitalized costs. Capitalized costs of "Sagitta" and "Centaurus" relate to vessels' permanent equipment, delivery expenses and on-site supervision costs incurred during the construction period.

On September 20, 2010, the Company, through its wholly owned subsidiary, Majuro, entered into a memorandum of agreement to purchase the dry bulk vessel "East Sunrise 88", renamed "Alcmene" for the purchase price of \$40,800. On September 27, 2010, the Company paid 15% of the purchase price, or \$6,120 and the balance of \$34,680 was paid in November 2010, when the vessel was delivered. The total cost of the vessel was \$40,899 and includes \$99 of capitalized costs.

Twelve of the Company's vessels, having a total carrying value of \$235,787 as of December 31, 2010, have been provided as collateral to secure the revolving credit facility with the Royal Bank of Scotland discussed in Note 8. The vessels "Houston" and "New York", having a carrying value of \$60,012 and \$60,977, respectively, as of December 31, 2010 have been provided as collateral to secure the loan facilities with Bremer Landesbank and Deutsche Bank AG, respectively, discussed in Note 8. The vessels "Sagitta" and "Centaurus", having a total carrying value of \$92,077 as of December 31, 2010 have been provided as collateral to secure the loan facility with DnB NOR Bank ASA, discussed in Note 8.

DIANA SHIPPING INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

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

6. Property and equipment

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

	Property and Equipment	Accumulated Depreciation	Net Book Value
Balance, December 31, 2009	\$ 518	\$ (318)	\$ 200
- Land	11,109	-	11,109
- Building acquisition	10,391	(54)	10,337
- Additions in equipment	314	(118)	196
Balance, December 31, 2010	<u>\$ 22,332</u>	<u>\$ (490)</u>	<u>\$ 21,842</u>

On October 21, 2010, the Company's wholly owned subsidiaries Universal and DSA, which were acquired from Poinsettia Management Ltd. ("Poinsettia"), an entity affiliated with the Company's CEO and Chairman and with other executives (Note 3), transferred to DSS their property in land of an aggregate value of \$11,109 and building of an aggregate value of \$10,391.

7. Prepaid charter revenue, current and non-current

The amounts shown in the accompanying consolidated balance sheets reflect the unamortized balance of an asset recognized by the Company pursuant to the acquisition of Gala in May 2009 and the amount paid in excess of the predelivery installments for the construction of the vessel "Houston". Gala has time chartered the "Houston" to Jiangsu Shagang Group Co. ("Shagang") at a gross charter hire rate of \$55 per day for a period of a minimum of 59 months and a maximum of 62 months which commenced in November 2009.

The amount recognized as prepaid charter revenue is amortized in revenues over the duration of the time charter contract beginning on the delivery of the vessel to the time charterers. As of December 31, 2010, the unamortized balance of the account was \$11,459 (\$3,050 of current and \$8,409 of non-current portion) and the amortization for 2010 and 2009 amounted to \$3,048 and \$493, respectively.

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

Period	Amount
January 1, 2011 to December 31, 2011	3,050
January 1, 2012 to December 31, 2012	3,058
January 1, 2013 to December 31, 2013	3,050
January 1, 2014 to October 3, 2014	2,301

DIANA SHIPPING INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

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

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

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

	2010	2009
Royal Bank of Scotland revolving credit facility	\$ 290,700	\$ 218,210
Fortis Bank loan facility	-	24,080
Bremer Landesbank loan facility	36,400	40,000
Deutsche Bank AG loan facility	38,200	-
DnB NOR Bank ASA loan facility	19,670	-
Less related deferred financing costs	(1,347)	(809)
Total	\$ 383,623	\$ 281,481
Current portion of long term debt	\$ (7,320)	\$ (5,400)
Total	\$ 376,303	\$ 276,081

Royal Bank of Scotland ("Royal Bank") revolving credit facility: In February 2005, the Company entered into an agreement with the Royal Bank for a \$230,000 secured revolving credit facility, to finance the acquisition of additional dry bulk carrier vessels or cellular container ships, the acquisition of DSS (Note 1) and for working capital. On May 24, 2006, the Company entered into an amended agreement to extend the facility amount to \$300,000. Pursuant to the amended agreement, the Company is permitted to borrow amounts up to the facility limit, provided that certain pre-conditions are satisfied and that borrowings do not exceed 75% of the aggregate market value of the mortgaged vessels. The maturity of the credit facility is ten years and the interest rate on amounts drawn is at LIBOR plus a margin. The loan bears commitment fees on the undrawn part of the facility of 0.25% per annum.

The amended facility is available in full for six years from May 24, 2006, the new availability date. At the end of the sixth year, it will be reduced by \$15,000 and over the remaining period of four years will be reducing in semiannual amounts of \$15,000 with a final reduction of \$165,000 together with the last semi-annual reduction.

During 2010, the Company drew down an amount of \$72,490 to finance the acquisition cost of the vessels "Melite" and "Alcmene" (Note 5). On December 31, 2010, an amount of \$290,700 was outstanding under the revolving credit facility and the unused portion of the facility amounted to \$9,300. The weighted average interest rate of the revolving credit facility as at December 31, 2010 and 2009 was 1.10% and 1.29%, respectively.

The credit facility is secured by a first priority or preferred ship mortgage on twelve vessels of the Company's fleet, assignment of all freights, earnings, insurances and requisition compensation. The lenders may also require additional security in the future in the event the Company breaches certain covenants under the credit facility, as described below.

The credit facility contains covenants including restrictions as to changes in management and ownership of the vessels, additional indebtedness, as well as minimum requirements regarding hull cover ratio (mortgaged vessels' market values at least 120% of the outstanding balance of the credit facility), minimum liquidity of \$400 per each vessel in the fleet financed through the credit facility unless the available credit facility for working capital exceeds this amount and other financial covenants. At December 31, 2010, the available credit facility for working capital amounted to \$9,300, thus exceeding minimum liquidity required amounting to \$5,200. Furthermore, the Company is not permitted to pay any dividends that would result in a breach of the financial covenants of the facility.

Fortis Bank ("Fortis") loan facility: In November 2006, the Company, acting as the corporate guarantor, through its subsidiaries Eniwetok and Bikini (the "Borrowers"), entered into a facility agreement with Fortis for a loan of up to \$60,200 and a guarantee facility of up to \$36,451 each to be used for the purpose of financing and guaranteeing the payment of part of the construction and acquisition cost of two 177,000 dwt Capesize dry bulk carriers. On April 30, 2009, the Company entered into a supplemental loan agreement with Fortis to amend and restate the existing loan agreement, so as to include in the loan agreement Gala, as a borrower. Pursuant to the supplemental loan agreement and the amended and restated loan agreement, Fortis consented to the termination of the Eniwetok contract, the amendment of the purpose of the loan facility made available under the principal agreement such that its purpose includes the financing of part of the construction and acquisition cost of the vessel "Houston" (Hull H1138) and certain amendments to the terms of the principal agreement and the corporate guarantee. Under the amended and restated agreement, Fortis also agreed to reduce the shareholding required to be beneficially owned by the Company's Chairman and Chief Executive Officer and President (and family members) from 20% to 10%.

DIANA SHIPPING INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

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

In January 2010, the Company drew down \$6,020 under the loan facility to finance part of the construction cost of the vessel "New York" (Hull H1107). In February 2010, the Company repaid the then outstanding loan of \$30,100, and the loan was terminated.

Bremer Landesbank ("Bremer") loan facility: On October 22, 2009, the Company, through Gala, entered into a loan agreement with Bremer to partly finance, or, as the case may be, refinance, the contract price of the vessel "Houston" for an amount of \$40,000. The term of the loan is ten years starting from the delivery of the vessel in October 2009. The loan is repayable in 40 quarterly installments of \$900 plus one balloon installment of \$4,000 to be paid together with the last installment. The loan bears interest at LIBOR plus a margin of 2.15% per annum for the first two years (the "Initial Margin Application Period"). Upon expiration of the Initial Margin Application Period, Bremer will propose a new margin for the remaining security period or part thereof considering the underlying markets at that point of time, for agreement by Gala. An arrangement fee of \$150 was paid upon signing of the loan agreement and has been recorded as a contra to debt. The loan bore commitment fees of 0.20% on the undrawn part of the loan, payable quarterly.

The loan is secured by a first priority or preferred ship mortgage on the vessel, a first priority assignment of all earnings, insurances, and requisition compensation and a corporate guarantee. The lenders may also require additional security in the future in the event the Company breaches certain covenants under the loan agreement and includes restrictions as to changes in management and ownership of the vessel, additional indebtedness, substitute charters in the case the vessel's current charter is prematurely terminated, as well as minimum requirements regarding hull cover ratio (vessel's market value of at least 120% of the outstanding balance of the loan). Furthermore, the Company is not permitted to pay any dividends from the earnings of the vessel following the occurrence of an event of default. Also, Gala is required for the duration of the loan to maintain in its current account with the Bank sufficient funds to meet the next repayment installment and interest due at monthly intervals, any other outstanding indebtedness that becomes due with the bank and sufficient funds to cover the anticipated cost of the next special survey of the vessel accumulated at least 12 months prior to such a survey. As at December 31, 2010, such funds amounted to \$754.

As of December 31, 2010, there was a balance of \$3,600 and \$32,800, included in current and non-current portion of long-term debt, respectively. The weighted average interest rate of the loan facility as at December 31, 2010 and 2009 was 2.48% and 2.39%, respectively.

Deutsche Bank AG ("Deutsche") loan facility: On October 8, 2009, the Company, through Bikini, entered into a loan agreement with Deutsche to partly finance, or, as the case may be, refinance, the contract price of the vessel "New York" (Hull H1107) (Note 5), for an amount of \$40,000 but not exceeding 80% of the fair value of the vessel. The term of the loan is five years commencing at vessel delivery in March 2010 (Note 5). The loan is repayable in 19 quarterly installments of \$600 and a 20th installment equal to remaining outstanding balance of the loan. The loan bears interest at LIBOR plus a margin of 2.40% per annum. An arrangement fee of \$300 was paid on signing the facility agreement. The loan bore commitment fees of 0.50%, on the undrawn part of the loan, payable quarterly in arrears and until the drawdown date.

DIANA SHIPPING INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

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

The loan is secured by a first priority or preferred ship mortgage on the vessel, a first priority assignment of all earnings, insurances, and requisition compensation and a corporate guarantee. The lenders may also require additional security in the future in the event the Company breaches certain covenants including restrictions as to changes in management and ownership of the vessel, additional indebtedness, as well as minimum requirements regarding hull cover ratio (vessel's market value of at least 125% of the outstanding balance of the loan), minimum liquidity of \$400, average cash balance of \$10,000, and other financial covenants. Furthermore, the Company is not permitted to pay any dividends that would result in a breach of the financial covenants.

As at December 31, 2010, there was a balance of \$2,400 and \$35,800 included in current and non-current portion of long-term debt, respectively. The weighted average interest rate of the loan facility as at December 31, 2010 was 2.76%.

DnB NOR Bank ASA ("DnB NOR"): On July 7, 2010, the Company's beneficially owned subsidiaries Likiep and Orangina, entered into a loan agreement with DnB NOR to finance part of the acquisition cost of the vessels Sagitta and Centaurus, for an amount of up to \$40,000. The loan is available until July 31, 2011 in two advances for each vessel with each advance not exceeding the lower of \$10,000 and the 25% of the market value of the ship relevant to it. The repayment of the loan is in 24 quarterly installments of \$165 for each advance, and a balloon of \$6,040 payable together with the last installment. The loan bears interest at LIBOR plus a margin of 2.40% per annum. An arrangement fee of \$400 was paid on signing the facility agreement. The loan bears commitment fees of 0.96%, on the undrawn part of the loan.

On July 9, 2010, an amount of \$20,000, \$10,000 per vessel, was drawn to finance part of the acquisition cost of the vessels "Sagitta" and "Centaurus". As of December 31, 2010, there was a balance of \$1,320 and \$18,350, included in current and non-current portion of long-term debt, respectively. The weighted average interest rate of the loan facility as at December 31, 2010 was 2.82%.

The loan is secured by a first preferred ship mortgage on the vessels, general assignments, charter assignments, operating account assignments, a corporate guarantee from Diana Containerships and manager's undertakings. The lender may also require additional security in the future in the event the Likiep and Orangina or Diana Containerships breaches certain covenants including restrictions as to changes in management, ownership and control, additional indebtedness, a consolidated leverage ratio of not more than 70%, as well as minimum requirements regarding hull cover ratio (vessels' market values at least 125% of the aggregate of the loan) and minimum liquidity of 4% of the funded debt (to be measured semi-annually and at the end of each calendar year), which as at December 31, 2010 was \$787. Furthermore, Diana Containerships is not permitted to pay any dividends that would result to an event of default.

Export-Import Bank of China and DnB NOR Bank ASA (the "Banks" and severally each of them the "Bank"): On October 2, 2010, the Company, through its wholly owned subsidiaries Lae and Namu, entered into a loan agreement with the Export – Import Bank of China and DnB NOR Bank ASA to finance part of the acquisition cost of the newbuildings Hull 1234 to be named "Los Angeles" and H1235 to be named "Philadelphia", for an amount of up to \$82,600. The loan is available until November 30, 2012 in two advances with each advance not exceeding the lower of \$41,300 and the 70% of the market value of the ship relevant to it. The repayment of the loan will be made in 40 quarterly installments of \$692.5 for each advance and a balloon of \$13,600 payable together with the last installment. Each Bank has the right to demand repayment of the outstanding balance of any advance 72 months after the respective advance drawdown. Such demand shall be subject to written notification to be made no earlier than 54 months and not later than 60 months after the respective drawdown date for that advance. The loan will bear interest at LIBOR plus a margin of 2.50% per annum. The loan bears commitment fees of 0.50% per annum, on the undrawn portion of the loan and an agency fee of \$10 to be paid annually until full repayment of the loan. An arrangement and structuring fee of \$619.5 was paid on signing the agreement along with the payment of the annual agency fee.

DIANA SHIPPING INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

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

The loan is secured by a first preferred ship mortgage on the vessels, general assignments, charter assignments, operating account assignments, a corporate guarantee from DSI and manager's undertakings. The lender may also require additional security, if at any time the market value of the ships becomes less than the 125% of the aggregate of (a) the Loan and (b) the Swap Exposure, if any. Additionally, the borrowers upon drawdown of the loan are required to maintain minimum liquidity of \$400 at each operating account, and the guarantor is required to maintain net worth of not less than \$150,000 and at least 25% of the total assets and an average cash balance of \$10,000.

Total interest incurred on long-term debt for 2010, 2009 and 2008 amounted to \$4,982, \$3,307 and \$5,974, respectively. Of the above amounts, \$340, \$363 and \$853, respectively, were capitalized and included in Vessels and in Advances for vessels under construction and acquisitions and other vessel costs in the accompanying consolidated balance sheets. Interest expense on long-term debt, net of interest capitalized, is included in Interest and finance costs in the accompanying consolidated statements of income. The Company pays commitment fees on the undrawn portion of the facilities, which for 2010, 2009 and 2008 amounted to \$251, \$220, and \$388, respectively and are included in Interest and finance costs in the accompanying consolidated statements of income (Note 13).

The maturities of the Company's debt facilities described above, as of December 31, 2010, and throughout their term are as follows:

Period	Principal Repayment
January 1, 2011 to December 31, 2011	\$ 7,320
January 1, 2012 to December 31, 2012	28,020
January 1, 2013 to December 31, 2013	37,320
January 1, 2014 to December 31, 2014	37,320
January 1, 2015 to December 31, 2015	63,520
January 1, 2016 and thereafter	211,470
Total	\$ 384,970
Less: Deferred financing costs	\$ (1,347)
Total	\$ 383,623

9. Deferred revenue, current and non-current

The amounts presented as current and non-current deferred revenue in the accompanying consolidated balance sheets as of December 31, 2010 and December 31, 2009 reflect (a) cash received prior to the balance sheet date for which all criteria to recognize as revenue have not been met, (b) any deferred revenue resulting from charter agreements providing for varying annual charter rates over their term, which have been accounted for on a straight line basis at their average rate and (c) the unamortized balance of the liability associated with the acquisition of the vessel "Salt Lake City" with a charter party attached at a charter rate below market at the date of delivery of the vessel.

	2010	2009
Hires collected in advance	\$ 6,643	\$ 6,865
Charter revenue resulting from varying charter rates	1,901	8,039
Unamortized balance of time charter attached	9,345	14,459
Total	\$ 17,889	\$ 29,363
Less current portion	\$ (13,662)	\$ (18,119)
Non-current portion	\$ 4,227	\$ 11,244

DIANA SHIPPING INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

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

As of December 31, 2010 and 2009, cash received prior to the balance sheet date for which all criteria to recognize as revenue have not been met amounted to \$6,643 and 6,865, respectively, and is included in Deferred revenue, current portion in the accompanying consolidated balance sheets.

In November 2006, the Company entered into a long term time charter agreement with an unrelated third party company to charter the vessel "Sideris GS" for a period of four years at varying rates for each year. In 2007, the Company entered into two similar long term time charter agreements with unrelated third party companies to charter the vessels "Semirio" and "Aliko" for a period of four years each at varying rates. The Company accounts for the revenues deriving from the above agreements on a straight line basis at the average rate of the agreements, and the balance is recorded in deferred revenue. As of December 31, 2010 and 2009, deferred revenue deriving from those agreements amounted to \$1,901 and \$8,039, respectively, and is included in Deferred revenue, current (\$1,901 and \$6,136, respectively) and non-current (nil and \$1,903, respectively) portion in the accompanying consolidated balance sheets.

In December 2007, upon delivery of the "Salt Lake City", the Company assumed the then existing time charter agreement of the vessel. According to the Company's policy, the time charter agreement was valued on the date of the vessel's delivery and resulted in the recognition of a deferred income (liability) of \$25,000. As of December 31, 2010 and 2009, the unamortized balance of the liability amounted to \$9,345 and \$14,459, respectively, and is included in Deferred revenue, current portion (\$5,118 and \$5,118, respectively) and non-current portion (\$4,227 and \$9,341, respectively), in the accompanying consolidated balance sheets. The amortization during 2010, 2009 and 2008 amounted to \$5,114, \$5,115 and \$5,132, respectively, and is included in Time charter revenues in the accompanying consolidated statements of income.

10. Commitments and Contingencies

- a) Various claims, suits, and complaints, including those involving government regulations and product liability, arise in the ordinary course of the shipping business. In addition, losses may arise from disputes with charterers, agents, insurance and other claims with suppliers relating to the operations of the Company's vessels. Currently, management is not aware of any such claims or contingent liabilities, which should be disclosed, or for which a provision should be established in the accompanying consolidated financial statements.

The Company accrues for the cost of environmental liabilities when management becomes aware that a liability is probable and is able to reasonably estimate the probable exposure. Currently, management is not aware of any such claims or contingent liabilities, which should be disclosed, or for which a provision should be established in the accompanying consolidated financial statements.

The Company's vessels are covered for pollution in the amount of \$1 billion per vessel per incident, by the P&I Association in which the Company's vessels are entered. The Company's vessels are subject to calls payable to their P&I Association and may be subject to supplemental calls which are based on estimates of premium income and anticipated and paid claims. Such estimates are adjusted each year by the Board of Directors of the P&I Association until the closing of the relevant policy year, which generally occurs within three years from the end of the policy year. Supplemental calls, if any, are expensed when they are announced and according to the period they relate to. The Company is not aware of any supplemental calls in respect of the 2008/09/10/11 policy years.

DIANA SHIPPING INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

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

- b) The Company has entered into shipbuilding contracts for the construction of two Newcastlemax vessels (Note 4). As at December 31, 2010, the remaining installments under the contract for the construction of Hull H1234, to be named "Los Angeles", amounted to \$38,700 and for the construction of Hull H1235, to be named "Philadelphia", amounted to \$44,500.
- c) As of December 31, 2010, all vessels were operating under time charters, the last of which expires in April 2016 (latest redelivery date), under the following terms:

Vessel Name	Daily time charter gross rate (in U.S. Dollars)	Date delivered to charterer	Charterer redelivery option periods
Nirefs	\$21,000	12-Feb-10	28-Dec-11 - 27-Mar-12
Alcyon	\$34,500	21-Feb-08	21-Nov-12 - 21-Feb-13
Triton	\$19,500	11-Dec-10	11-Nov-13 - 11-Feb-14
Oceanis	\$19,750	17-Sep-10	17-Aug-12 - 1-Nov-12
Dione	\$20,500	26-Sep-10	26-Jul-12 - 26-Nov-12
Danae	\$12,000	7-Apr-09	23-Jan-11 - 22-Apr-11
Protefs	\$59,000	18-Sep-08	18-Aug-11 - 18-Nov-11
Calipso	\$23,000	4-Sep-10	20-Jul-11 - 19-Oct-11
Clio	\$25,000	8-May-10	8-Apr-12 - 8-Jun-12
Erato	\$20,500	4-Mar-10	4-Dec-11 - 4-Mar-12
Thetis	\$23,000	6-Mar-10	6-Feb-11 - 21-May-11
Coronis	\$24,000	6-Apr-10	6-Mar-12 - 21-Jun-12
Naias	\$19,750	24-Sep-10	24-Aug-12 - 24-Oct-12
Sideris	\$30,500	16-Oct-10	16-Feb-13 - 16-Jun-13
Aliki	\$45,000	1-May-09	1-Mar-11 - 1-Jun-11
Aliki	\$26,500	1-Mar-11	1-Feb-16 - 1-Apr-16
Semirio	\$31,000	15-Jun-09	30-Apr-11 - 30-Jul-11
Boston	\$52,000	13-Nov-07	28-Sep-11 - 28-Dec-11
SLC	\$55,800	28-Sep-07	28-Aug-12 - 28-Oct-12
Norfolk	\$74,750	12-Feb-08	12-Jan-13 - 12-Mar-13
New York	\$48,000	3-Mar-10	3-Jan-15 - 3-May-15
Melite	\$24,250	29-Jan-10	29-Dec-10 - 1-Mar-11
Houston	\$55,000	3-Nov-09	3-Oct-14 - 3-Jan-15
Alcmene	\$20,250	20-Nov-10	5-Oct-12 - 4-Jan-13
Sagitta	\$16,000	30-Jun-10	30-Mar-11 - 30-Jun-11
Centaurus	\$20,000	4-Sep-10	21-Jul-12 - 19-Oct-12

DIANA SHIPPING INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

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

11. Capital Stock and Change in Capital Accounts

- (a) **Preferred stock and common stock:** Under the amended articles of incorporation in May 2008 discussed in Note 1, the Company's authorized capital stock consists of 200,000,000 shares (all in registered form) of common stock, par value \$0.01 per share and of 25,000,000 shares (all in registered form) of preferred stock, par value \$0.01 per share. The holders of the common shares are entitled to one vote on all matters submitted to a vote of stockholders and to receive all dividends, if any.
- (b) **Incentive plan:** In February 2005, the Company adopted an equity incentive plan (the "Plan") which entitles the Company's employees, officers and directors to receive options to acquire the Company's common stock. A total of 2,800,000 shares of common stock are reserved for issuance under the plan. The plan is administered by the Company's Board of Directors. Under the terms of the plan, the Company's Board of Directors is able to grant a) incentive stock options, b) non-qualified stock options, c) stock appreciation rights, d) dividend equivalent rights, e) restricted stock, f) unrestricted stock, g) restricted stock units, and h) performance shares. No options, stock appreciation rights or restricted stock units can be exercisable prior to the first anniversary or subsequent to the tenth anniversary of the date on which such award was granted. The plan will expire 10 years from the adoption of the plan by the Board of Directors.

During 2010, the Company's Board of Directors approved the grant of 519,926 shares of restricted common stock to executive management and non-executive directors pursuant to the Company's 2005 equity incentive plan as amended in 2008, and in accordance with terms and conditions of Restricted Shares Award Agreements signed by the grantees. The restricted shares will vest over a period of 3 years by one-third each year, and are subject to forfeiture until they vest. Unless they forfeit, grantees have the right to vote, to receive and retain all dividends paid and to exercise all other rights, powers and privileges of a holder of shares.

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

As of December 31, 2010 and 2009, the Company had granted a total number of restricted stock awards of 1,559,626 and 1,039,700, respectively, of which 371,739 and 125,167 were vested, respectively. The fair value of the restricted shares has been determined with reference to the closing price of the Company's stock on the date the agreements were signed. The aggregate compensation cost is being recognized ratably in the consolidated income statement over the respective vesting periods. During 2010, 2009, and 2008, an amount of \$6,151, \$3,944, and \$1,113, respectively, was recognized in General and administrative expenses. At December 31, 2010 and 2009, the total unrecognized cost relating to restricted share awards was \$13,512 and \$12,233, respectively. At December 31, 2010, the weighted-average period over which the total compensation cost related to non-vested awards not yet recognized is expected to be recognized is 1.37 years.

On October 21, 2008, the Stock Incentive Plan was amended and restated. Under the amended and restated Plan, the Administrator may waive or modify the application of forfeiture of awards of restricted stock and performance shares in connection with cessation of service with the Company. The Company's Board of Directors delegated to the members of the Compensation Committee its authority as Administrator of the Plan to vest restricted stock awards granted under the Plan in the event of the grantee's death.

DIANA SHIPPING INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

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

(c) **Dividend Reinvestment and Direct Stock Purchase Plan ("DRIP"):** In April 2008, the Company entered into a Plan for 2,500,000 shares of common stock to allow existing shareholders to purchase additional common stock by reinvesting all or a portion of the dividends paid on their common stock and by making optional cash investments and new investors to enter into the Plan by making an initial investment. During 2010, 4,191 shares were issued pursuant to the DRIP in addition to the 16,996 shares issued as at December 31, 2009.

(d) **Diana Containerships Inc.** On April 6, 2010, the Company invested \$50,000 in a private offering of 5,892,330 shares of common stock of Diana Containerships pursuant to Rule 144A and Regulation S and Regulation D of the Securities Act of 1933, as amended (the "Offering"), and acquired 3,333,333 common shares of Diana Containerships. The difference between the consideration paid by Diana during the offering and the book value of Diana's share in Diana Containerships's net proceeds from the offering, amounting \$3,438, was recognized directly as an adjustment to additional paid-in capital.

On April 6, 2010, Diana Containerships adopted an equity incentive plan and reserved a total of 392,198 common shares for issuance, of which 213,331 common shares of restricted stock with a grant date fair value of \$3,200 were issued to the Diana Containerships's executive officers, of which 25%, or 53,335 shares, vested on May 6, 2010 and the remaining shares vest ratably over three years by one-third each year. The aggregate compensation cost is being recognized ratably in the consolidated statement of income over the respective vesting periods of the restricted share awards. For 2010, an amount of \$1,331 was recognized in General and administrative expenses, of which \$604 is attributable to non-controlling interests. At December 31, 2010 the total unrecognized cost relating to non vested restricted share awards was \$1,869 and is expected to be recognised over a period of 2.35 years from the balance sheet date.

On August 2, 2010, Diana Containerships entered into a stockholders rights agreement (the "Stockholders Rights Agreement") with Mellon Investor Services LLC as Rights Agent. Pursuant to this Stockholders Rights Agreement, each share of the Diana Containerships's common stock includes one right (the "Right") that will entitle the holder to purchase from a unit consisting of one one-thousandth of a share of the company's preferred stock at an exercise price specified in the Stockholders Rights Agreement, subject to specified adjustments. Until a Right is exercised, the holder of a Right will have no rights to vote or receive dividends or any other stockholder rights.

(e) In December 2010, the Company's BOD resolved to distribute 2,667,015 shares of Diana Containerships, or 80% of its interest, as a stock dividend to all shareholders of the Company on a pro-rata basis. As a result of this decision, an information statement was prepared and filed in January 2011. In December 2010, Diana Containerships applied for its listing in Nasdaq Global Market where its shares started to trade on January 3, 2011 on a "when issued" basis and on January 19, 2011, on a "regular way" basis.

DIANA SHIPPING INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

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

12. Voyage and Vessel Operating Expenses

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

	2010	2009	2008
Voyage Expenses			
Bunkers	(652)	779	(817)
Commissions charged by third parties	12,889	11,273	15,648
Miscellaneous	155	(87)	172
Total	<u>12,392</u>	<u>11,965</u>	<u>15,003</u>
Vessel Operating Expenses			
Crew wages and related costs	28,406	23,922	23,661
Insurance	4,181	3,410	4,695
Spares and consumable stores	12,691	9,149	7,948
Repairs and maintenance	6,257	4,043	2,923
Tonnage taxes (Note 15)	306	273	260
Miscellaneous	744	572	412
Total	<u>52,585</u>	<u>41,369</u>	<u>39,899</u>

13. Interest and Finance Costs

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

	2010	2009	2008
Interest expense	4,642	2,944	5,372
Amortization and write-off of financing costs	263	65	86
Commitment fees (Note 8)	251	220	388
Other	57	55	5
Total	<u>5,213</u>	<u>3,284</u>	<u>5,851</u>

The property owned by Universal consisting of office space, a warehouse and parking spaces (note 3), was initially leased by the Company under a sale and leaseback agreement which was accounted for by the financing method until December 31, 2008, when it expired. Interest expense for 2008 includes an amount of \$251, relating to this transaction.

14. Earnings per Share

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

For 2010, 2009 and 2008, the denominator of the diluted earnings per share calculation includes 125,462, 102,689 and 182,568 shares, being the number of incremental shares assumed issued under the treasury stock method weighted for the periods the non-vested shares were outstanding. For purposes of calculating the numerator of the 2010 diluted Earnings per Share ("EPS"), Diana Containerships's diluted Earnings/Losses per Share is multiplied by the number of shares held by the Company weighted for the period they were outstanding. The result substitutes the Company's share of the actual earnings/ losses of Diana Containerships.

DIANA SHIPPING INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

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

	2010		2009		2008	
	Basic EPS	Diluted EPS	Basic EPS	Diluted EPS	Basic EPS	Diluted EPS
Net income	\$ 128,779	\$ 128,779	\$ 121,498	\$ 121,498	\$ 221,699	\$ 221,699
Less: dividends paid on restricted stock	-	-	-	-	(820)	-
Net income available to common stockholders	128,779	128,779	121,498	121,498	220,879	221,699
Weighted average number of common shares outstanding	80,682,770	80,682,770	78,282,775	78,282,775	74,375,686	74,375,686
Incremental shares	-	125,462	-	102,689	-	182,568
Total shares outstanding	80,682,770	80,808,232	78,282,775	78,385,464	74,375,686	74,558,254
Earnings per share	\$ 1.60	\$ 1.59	\$ 1.55	\$ 1.55	\$ 2.97	\$ 2.97

15. Income Taxes

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

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

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

The Company and each of its subsidiaries expects to qualify for this statutory tax exemption for the 2010, 2009 and 2008 taxable years, and the Company takes this position for United States federal income tax return reporting purposes. However, there are factual circumstances beyond the Company's control that could cause it to lose the benefit of this tax exemption in future years and thereby become subject to United States federal income tax on its United States source income such as if, for a particular taxable year, other shareholders with a five percent or greater interest in the Company's stock were, in combination with the Company's existing 5% shareholders, to own 50% or more of the Company's outstanding shares of its stock on more than half the days during the taxable year.

The Company estimates that since no more than the 50% of its shipping income would be treated as being United States source income, the effective tax rate is expected to be 2% and accordingly it anticipates that the impact on its results of operations will not be material. The Company believes that it satisfies the Publicly-Traded Test and all of its United States source shipping income is exempt from U.S. federal income tax. Based on its U.S. source Shipping Income for 2010, 2009 and 2008, the Company would be subject to U.S. federal income tax of approximately \$0.2 million, \$0.2 million and \$0.5 million, respectively, in the absence of an exemption under Section 883.

DIANA SHIPPING INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

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

Also, the Marshall Islands, the jurisdiction where Diana Containerships and each of its subsidiaries are incorporated, grant an "equivalent exemption" to U.S. corporations. Therefore, Diana Containerships would also be exempt from U.S. federal income taxation with respect to its U.S.-source shipping income if either the 50% Ownership Test or the Publicly-Traded Test is met. As at December 31, 2010, Diana Containerships believes that it satisfied the 50% Ownership Test.

16. Financial Instruments

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

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

As of December 31, 2010 and 2009, the fair value of the floor resulted in losses of \$1,187 and \$973 respectively, and the cap in gains of \$196 and \$786, respectively, resulting to an aggregate loss of \$991 in 2010 and \$187 in 2009, both separately presented in the accompanying consolidated financial statements. During 2010 and 2009 the Company incurred unrealized losses from the swap amounting to \$804 and \$187, respectively, and realized losses of \$673 and \$318, respectively, both included in Loss from derivative instruments in the accompanying consolidated statements of income. The fair value of the collar agreement determined through Level 2 inputs of the fair value hierarchy as defined in 820-10-35-47 Fair Value Measurements and Disclosure, Subsequent Re-measurement of FASB Accounting Standard Codification (ASC), is derived principally from or corroborated by observable market data. Inputs include interest rates, yield curves and other items that allow value to be determined.

17. Segmental information:

The Company has two reportable segments from which it derives its revenues, the dry bulk carrier vessels and the containerships.

The table below presents information about the Company's reportable segments for 2010. The accounting policies followed in the preparation of the reportable segments are the same with those followed in the preparation of the Company's consolidated financial statements.

	<u>Dry bulk vessels</u>	<u>Containerships</u>	<u>Other</u>	<u>Total</u>
Revenues from external customers	269,713	5,735	-	275,448
Voyage expenses	12,125	267	-	12,392
Vessel operating expenses	49,700	2,885	-	52,585
Depreciation and amortization of deferred charges	51,457	1,454	172	53,083
General and administrative expenses	21,823	3,524	-	25,347
Interest and finance costs	4,702	511	-	5,213
Interest income	856	64	-	920
Segment profit / (loss)	129,540	(2,001)	330	127,869
Total assets	1,454,095	105,349	25,945	1,585,389

DIANA SHIPPING INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010

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

18. Subsequent Events

- (a) **Partial spin off of Diana Containerships.** On January 18, 2011, the Company distributed 2,667,015 shares of Diana Containerships to its stockholders of record of the Company on January 3, 2011 and as of that date the Company's share in Diana Containerships was reduced to 11%. As a result of this partial spin-off Diana Containerships, effective January 19, 2011, will no longer be consolidated to the consolidated financial statements of the Company.
- (b) **Annual Incentive Bonus:** On February 15, 2010 the Company's Board of Directors approved a cash bonus of about \$2.6 million to all employees and executive management of the Company and 616,055 shares of restricted common stock awards to executive management and non-executive directors, pursuant to the Company's 2005 equity incentive plan as amended in 2008. The fair value of the restricted shares based on the closing price on the date of the Board of Directors' approval (\$12.64 per share) was \$7,787 and will be recognized in income ratably over the restricted shares vesting period which will be three years.

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F131.003

DATED 8 October 2009

BIKINI SHIPPING COMPANY INC.
(as Borrower)

- and -

DEUTSCHE BANK AKTIENGESELLSCHAFT
FILIALE DEUTSCHLANDGESCHÄFT
(as Lender)

**US\$40,000,000 SECURED
LOAN AGREEMENT**

HULL NO. H1107 (TBN)

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CONTENTS

		Page
1	Definitions and Interpretation	1
2	The Loan and its Purpose	11
3	Conditions of Utilisation	11
4	Advance	12
5	Repayment	12
6	Prepayment	13
7	Interest	14
8	Indemnities	16
9	Fees	20
10	Security and Application of Moneys	21
11	Representations	24
12	Undertakings and Covenants	26
13	Events of Default	43
14	Assignment and Sub-Participation	49
15	Set-Off	49
16	Payments	50
17	Notices	51
18	Partial Invalidity	53
19	Remedies and Waivers	53
20	Miscellaneous	53
21	Law and Jurisdiction	54
	SCHEDULE 1: Conditions Precedent and Subsequent	57
	Part I: Conditions precedent	57
	Part II: Conditions subsequent	62
	SCHEDULE 2: Calculation of Mandatory Cost	63
	SCHEDULE 3: Form of Drawdown Notice	65
	SCHEDULE 4: Form of Compliance Certificate	66

LOAN AGREEMENT

Dated: 8 October 2009

BETWEEN:

- (1) **BIKINI SHIPPING COMPANY INC.**, a company incorporated under the laws of the Republic of the Marshall Islands, whose registered office is at The Trust Company of the Marshall Islands, Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro, Marshall Islands MH 96960 (the "**Borrower**"); and
- (2) **DEUTSCHE BANK AKTIENGESELLSCHAFT FILIALE DEUTSCHLANDGESCHÄFT**, acting as lender through its office at Ludwig-Erhard-Str. 1, 20459 Hamburg, Germany (in that capacity the "**Lender**") and in its capacity as swap provider, acting under the name **DEUTSCHE BANK AKTIENGESELLSCHAFT**, acting through its office at Theodor-Heuss-Allee-70, 60486 Frankfurt-am-Main, Federal Republic of Germany (herein sometimes referred to as the "**Swap Provider**").

WHEREAS:

- (A) The Borrower has agreed to purchase the Vessel from the Builder on the terms of the Building Contract and intends to register the Vessel on delivery under the flag of the Marshall Islands, or any other flag acceptable to the Lender.
- (B) The Lender has agreed to advance to the Borrower an amount not exceeding the lesser of (a) \$40,000,000 and (b) 80% of the Fair Market Value to be determined shortly prior to the Drawdown Date, to assist the Borrower to finance or, as the case may be, refinance part of the Contract Price of the Vessel.

IT IS AGREED as follows:

1 Definitions and Interpretation

1.1 In this Agreement:

"**Administration**" has the meaning given to it in paragraph 1.1.3 of the ISM Code.

"**Annex VI**" means Annex VI (Regulations for the Prevention of Air Pollution from Ships) to the International Convention for the Prevention of Pollution from Ships 1973 (as modified in 1978 and 1997).

"Approved Brokers" means Associated Shipbroking, Monaco; Allied Shipbroking Inc., Piraeus; Simpson, Spence and Young Shipbrokers, London; Clarksons, London; Braemar Seascope, London; Arrow Shipping and Galbraiths, London.

"Assignment" means the deed or deeds of assignment referred to in Clause 10.1.2 (*Security Documents*).

"Availability Termination Date" means 30 April 2010 or such later date as the Lender may in its discretion agree.

"Break Costs" means all sums payable by the Borrower from time to time under Clause 8.3 (*Break Costs*).

"Builder" means Shanghai Waigaoqiao Shipbuilding Co. Ltd., a company organised and existing under the laws of the People's Republic of China, having its principal office at 3001 Zhouhai Road, Pudong New District, Shanghai 200137, the People's Republic of China.

"Building Contract" means the contract dated 30 March 2006 as amended and supplemented by a novation agreement dated 13 September 2006, on the terms and subject to the conditions of which the Builder has agreed to construct the Vessel for, and deliver the Vessel to, the Borrower.

"Business Day" means a day (other than a Saturday or Sunday) on which banks are open for general business in New York, London, Hamburg, Frankfurt am Main and Piraeus and, only in relation to the drawdown and payment to the Builder, Shanghai.

"Charter" means the time charter dated 22 February 2008 on the terms and subject to the conditions of which the Borrower will charter the Vessel to the Charterer, evidencing a minimum unexpired period of duration of 58 months and maximum unexpired period of duration of 62 months commencing on the Delivery Date for a gross daily rate of hire of \$48,000.

"Charterer" means Nippon Yusen Kaisha a company incorporated under the laws of Japan.

"Compliance Certificate" means a certificate substantially in the form set out in Schedule 4 (*Form of Compliance Certificate*).

"Contract Price" means an aggregate amount of sixty million two hundred thousand Dollars (\$60,200,000).

"Credit Support Document" means any document described as such in the Master Agreement and, where the context permits, any other document referred to in any Credit Support Document which has the effect of creating an Encumbrance in favour of the Swap Provider.

"Credit Support Provider" means any person (other than the Borrower) described as such in the Master Agreement.

"Currency of Account" means, in relation to any payment to be made to the Lender under a Finance Document, the currency in which that payment is required to be made by the terms of that Finance Document.

"Default" means an Event of Default or any event or circumstance specified in Clause 13.1 (*Events of Default*) which would (with the expiry of a grace period, the giving of notice, the making of any determination under the Finance Documents or any combination of any of the foregoing) be an Event of Default.

"Delivery Date" means the date of actual delivery of the Vessel to the Borrower by the Builder under the Building Contract, scheduled for 30 April 2010.

"DOC" means, in relation to the ISM Company, a valid Document of Compliance issued for the ISM Company by the Administration under paragraph 13.2 of the ISM Code.

"Dollars" and **"\$"** each means available and freely transferable and convertible funds in lawful currency of the United States of America.

"Drawdown Date" means the date on which the Loan is advanced under Clause 4 (*Advance*).

"Drawdown Notice" means a notice substantially in the form set out in Schedule 3 (*Form of Drawdown Notice*).

"Earnings" means (i) all hires, freights, pool income and other sums payable to or for the account of the Borrower in respect of the Vessel including (without limitation) all remuneration for salvage and towage services, demurrage and detention moneys, contributions in general average, compensation in respect of any requisition for hire, and damages and other payments (whether awarded by any court or arbitral tribunal or by agreement or otherwise) for breach, termination or variation of any contract for the operation, employment or use of the Vessel and (ii) (to the extent not included in (i) above) the benefit of the Charter.

"Earnings Account" means a bank account to be opened in the name of the Borrower with the Lender and designated "Bikini Shipping Company Inc. - Earnings Account".

"Encumbrance" means a mortgage, charge, assignment, pledge, lien, or other security interest securing any obligation of any person or any other agreement or arrangement having a similar effect.

"Event of Default" means any of the events or circumstances set out in Clause 13.1 (*Events of Default*).

"Facility Period" means the period beginning on the date of this Agreement and ending on the date when the whole of the Indebtedness has been paid in full and the Security Parties have ceased to be under any further actual or contingent liability to the Lender under or in connection with the Finance Documents.

"Fair Market Value" means the market value of the Vessel to be conclusively determined by the arithmetic mean of the valuations of two Approved Brokers appointed by the Lender and reporting to the Lender (with a copy to the Borrower) on the basis of a charter-free sale for prompt delivery for cash at arm's length on normal commercial terms as between a willing seller and a willing buyer.

"Final Maturity Date" means the fifth (5th) anniversary of the Drawdown Date.

"Finance Documents" means this Agreement, the Master Agreement, the Security Documents and any other document designated as such by the Lender and the Borrower and **"Finance Document"** means any one of them.

"Financial Indebtedness" means any obligation for the payment or repayment of money, whether present or future, actual or contingent, in respect of:

- (a) moneys borrowed;

- (b) any acceptance credit;
- (c) any bond, note, debenture, loan stock or similar instrument;
- (d) any finance or capital lease;
- (e) receivables sold or discounted (other than on a non-recourse basis);
- (f) deferred payments for assets or services;
- (g) any derivative transaction protecting against or benefiting from fluctuations in any rate or price (and, when calculating the value of any derivative transaction, only the marked to market value shall be taken into account);
- (h) any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing;
- (i) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution; and
- (j) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs (a) to (i) above.

"GAAP" means generally accepted accounting principles in the United States of America.

"Group" means the Guarantor and its Subsidiaries (whether direct or indirect and including, but not limited to, the Borrower) from time to time during the Facility Period and "**member of the Group**" shall be construed accordingly.

"Guarantee" means the guarantee and indemnity referred to in Clause 10.1.3 (*Security Documents*).

"Guarantor" means Diana Shipping Inc. of the Republic of the Marshall Islands and/or (where the context permits) any other person who shall at any time during the Facility Period give to the Lender a guarantee and/or indemnity for the repayment of all or part of the Indebtedness.

"Indebtedness" means the aggregate from time to time of: the amount of the Loan outstanding; all accrued and unpaid interest on the Loan; and all other sums of any nature (together with all accrued and unpaid interest on any of those sums) payable to the Lender under all or any of the Finance Documents.

"Insurances" means all policies and contracts of insurance (including all entries in protection and indemnity or war risks associations) which are from time to time taken out or entered into in respect of or in connection with the Vessel or her increased value or the Earnings and (where the context permits) all benefits under such contracts and policies, including all claims of any nature and returns of premium.

"Interest Payment Date" means each date for the payment of interest in accordance with Clause 7.7 (*Accrual and payment of interest*).

"Interest Period" means each period for the determination and payment of interest selected by the Borrower or agreed or selected by the Lender pursuant to Clause 7 (*Interest*).

"ISM Code" means the International Management Code for the Safe Operation of Ships and for Pollution Prevention.

"ISM Company" means, at any given time, the company responsible for the Vessel's compliance with the ISM Code under paragraph 1.1.2 of the ISM Code.

"ISPS Code" means the International Ship and Port Facility Security Code.

"ISPS Company" means, at any given time, the company responsible for the Vessel's compliance with the ISPS Code.

"ISSC" means a valid international ship security certificate for the Vessel issued under the ISPS Code.

"LIBOR" means:

- (a) the applicable Screen Rate; or
- (b) (if no Screen Rate is available for any Interest Period) the arithmetic mean of the rates (rounded upwards to four decimal places) quoted to the Lender by prime banks acceptable to the Lender in the London interbank market,

at 11.00 a.m. two (2) Business Days before the first day of the relevant Interest Period for the offering of deposits in Dollars in an amount comparable to the Loan (or any relevant part of the Loan) and for a period comparable to the relevant Interest Period.

"Loan" means the aggregate amount advanced or to be advanced by the Lender to the Borrower under Clause 4 (*Advance*) or, where the context permits, the amount advanced and for the time being outstanding.

"Management Agreement" means the agreement(s) for the commercial and/or technical management of the Vessel between the Borrower and the Managers.

"Managers" means Diana Shipping Services S.A. of the Republic of Panama or such other commercial and/or technical managers of the Vessel nominated by the Borrower as the Lender may approve.

"Mandatory Cost" means the percentage rate per annum calculated by the Lender in accordance with Schedule 2 (*Calculation of Mandatory Cost*).

"Margin" means two point forty per cent (2.40%) per annum.

"Master Agreement" means any ISDA Master Agreement (or any other form of master agreement relating to interest or currency exchange transactions) entered into or, as the case may be, to be entered into between the Swap Provider and the Borrower during the Facility Period, including each Schedule to any Master Agreement and each Confirmation exchanged pursuant to any Master Agreement.

"Master Agreement Benefits" means all benefits whatsoever of the Borrower under or in connection with the Master Agreement including, without limitation, all moneys payable to the Borrower under the Master Agreement and all claims for damages in respect of any breach by the Swap Provider of the Master Agreement.

"Master Agreement Charge" means the deed of charge referred to in Clause 10.1.4 (*Security Documents*).

"Maximum Loan Amount" means the lesser of (a) forty million Dollars (\$40,000,000) and (b) 80% of the Fair Market Value of the Vessel evidenced by the valuation received by the Lender under Clause 3.1 (*Conditions precedent*).

"Mortgage" means the preferred mortgage referred to in Clause 10.1.1 (*Security Documents*).

"Mortgagees Insurances" means all policies and contracts of mortgagees interest insurance, mortgagees interest insurance additional perils (pollution) and any other insurance from time to time taken out by the Lender in relation to the Vessel.

"Obligatory Insurances" means the insurances and entries referred to in Clause 12.4.1, 12.4.2, 12.4.3 and, where applicable, those referred to in Clauses 12.4.4 and 12.4.7.

"Original Financial Statements" means the annual audited consolidated financial statements of the Guarantor for the financial year ended 31 December 2008.

"Relevant Documents" means the Finance Documents, the Building Contract, the Charter, the Management Agreement and the Managers' confirmation specified in Part I of Schedule 1 (*Conditions precedent*).

"Repayment Date" means the date for payment of any Repayment Instalment in accordance with Clause 5.1 (*Repayment of Loan*).

"Repayment Instalment" means any instalment of the Loan to be repaid by the Borrower under Clause 5.1 (*Repayment of Loan*).

"Requisition Compensation" means all compensation or other money which may from time to time be payable to the Borrower as a result of the Vessel being requisitioned for title or in any other way compulsorily acquired (other than by way of requisition for hire).

"Screen Rate" means in relation to LIBOR, the British Bankers' Association Interest Settlement Rate for the relevant currency and period displayed on page LIBOR 01 of the Reuters screen (British Bankers' Association Interest Settlement Rates). If the agreed page is replaced or the service ceases to be available, the Lender may specify another page or service displaying the appropriate rate after consultation with the Borrower.

"Security Documents" means the Mortgage, the Assignment, the Guarantee, the Master Agreement Charge, any other Credit Support Documents or (where the context permits) any one or more of them and any other agreement or document which may at any time be executed by any person as security for the payment of all or any part of the Indebtedness and **"Security Document"** means any one of them.

"Security Parties" means the Borrower, the Guarantor, any other Credit Support Provider and any other person who may at any time during the Facility Period be liable for, or provide security for, all or any part of the Indebtedness, and **"Security Party"** means any one of them.

"SMC" means a valid safety management certificate issued for the Vessel by or on behalf of the Administration under paragraph 13.7 of the ISM Code.

"SMS" means a safety management system for the Vessel developed and implemented in accordance with the ISM Code.

"Subsidiaries" means any company or entity directly or indirectly controlled by such person, and for this purpose "control" means either the ownership of more than fifty per cent (50%) of the voting share capital (or equivalent rights of ownership) of such company or entity or the power to direct its policies and management, whether by contract or otherwise and **"Subsidiary"** means any one of them.

"Tax" means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same).

"Total Loss" means:

- (a) an actual, constructive, arranged, agreed or compromised total loss of the Vessel; or
- (b) the requisition for title or compulsory acquisition of the Vessel by any government or other competent authority (other than by way of requisition for hire); or
- (c) the capture, seizure, arrest, detention, confiscation, hijacking, theft or condemnation of the Vessel by any government or by persons acting or purporting to act on behalf of any government or otherwise, unless the Vessel is released and returned to the possession of the Borrower within sixty (60) days after the capture, seizure, arrest, detention, confiscation, hijacking, theft or condemnation in question.

"Threshold Amount" means one million Dollars (\$1,000,000) or its equivalent in any other currency.

"Transaction" means a transaction entered into between the Swap Provider and the Borrower governed by the Master Agreement.

"Vessel" means the capesize bulk carrier of approximately 177,000 dwt and everything now or in the future belonging to her on board and ashore, currently under construction by the Builder with the Builder's hull number H1107 for the Borrower on the terms of the Building Contract and, on delivery to the Borrower, intended to be registered under the flag stated in Recital (A).

1.2 In this Agreement:

- 1.2.1 words denoting the plural number include the singular and vice versa;
- 1.2.2 words denoting persons include corporations, partnerships, associations of persons (whether incorporated or not) or governmental or quasi-governmental bodies or authorities and vice versa;
- 1.2.3 references to Recitals, Clauses and Schedules are references to recitals, clauses and schedules to or of this Agreement;
- 1.2.4 references to this Agreement include the Recitals and the Schedules;
- 1.2.5 the headings and contents page(s) are for the purpose of reference only, have no legal or other significance, and shall be ignored in the interpretation of this Agreement;
- 1.2.6 references to any document (including, without limitation, to all or any of the Relevant Documents) are, unless the context otherwise requires, references to that document as amended, supplemented, novated or replaced from time to time;
- 1.2.7 references to statutes or provisions of statutes are references to those statutes, or those provisions, as from time to time amended, replaced or re-enacted;
- 1.2.8 references to the Lender include its successors, transferees and assignees;
- 1.2.9 a time of day (unless otherwise specified) is a reference to London time; and

1.2.10 words and expressions defined in the Master Agreement, unless the context otherwise requires, have the same meaning.

1.3 Offer letter

This Agreement supersedes the terms and conditions contained in any correspondence relating to the subject matter of this Agreement exchanged between the Lender and the Borrower or their representatives prior to the date of this Agreement.

2 The Loan and its Purpose

2.1 **Amount** Subject to the terms of this Agreement, the Lender agrees to make available to the Borrower a term loan in an aggregate amount not exceeding the Maximum Loan Amount.

2.2 **Purpose** The Borrower shall apply the Loan for the purpose referred to in Recital (B).

2.3 **Monitoring** The Lender shall not be bound to monitor or verify the application of any amount borrowed under this Agreement.

3 Conditions of Utilisation

3.1 **Conditions precedent** The Borrower is not entitled to have the Loan advanced unless the Lender has received all of the documents and other evidence listed in Part I of Schedule 1 (*Conditions precedent*).

3.2 **Further conditions precedent** The Lender will only be obliged to advance the Loan if on the date of the Drawdown Notice and on the proposed Drawdown Date:

3.2.1 no Default is continuing or would result from the advance of the Loan; and

3.2.2 the representations made by the Borrower under Clause 11 (*Representations*) are true in all material respects.

3.3 **Conditions subsequent** The Borrower undertakes to deliver or to cause to be delivered to the Lender on, or as soon as practicable after, the Drawdown Date the additional documents and other evidence listed in Part II of Schedule 1 (*Conditions subsequent*).

- 3.4 **No waiver** If the Lender in its sole discretion agrees to advance all or any part of the Loan to the Borrower before all of the documents and evidence required by Clause 3.1 (*Conditions precedent*) have been delivered to or to the order of the Lender, the Borrower undertakes to deliver all outstanding documents and evidence to or to the order of the Lender no later than thirty (30) days after the Drawdown Date or such other date specified by the Lender.

The advance of all or any part of the Loan under this Clause 3.4 shall not be taken as a waiver of the Lender's right to require production of all the documents and evidence required by Clause 3.1 (*Conditions precedent*).

- 3.5 **Form and content** All documents and evidence delivered to the Lender under this Clause 3 shall:

3.5.1 be in form and substance acceptable to the Lender; and

3.5.2 if required by the Lender, be certified, notarised, legalised or attested in a manner acceptable to the Lender.

4 **Advance**

The Borrower may request the Loan to be advanced in one amount on any Business Day prior to the Availability Termination Date by delivering to the Lender a duly completed Drawdown Notice not more than ten (10) and not fewer than three (3) Business Days before the proposed Drawdown Date.

5 **Repayment**

- 5.1 **Repayment of Loan** The Borrower agrees to repay the Loan to the Lender by twenty (20) consecutive quarterly instalments, the first nineteen (19) such instalments each in the sum of six hundred thousand Dollars (\$600,000) and the twentieth and final such instalment in the sum of twenty eight million six hundred thousand Dollars (\$28,600,000), the first instalment falling due on the date which is three calendar months after the Drawdown Date and subsequent instalments falling due at consecutive intervals of three calendar months thereafter and with the last instalment, together with any other amounts then outstanding under the Indebtedness, falling due on the Final Maturity Date.

5.2 **Reduction of Repayment Instalments** If the aggregate amount advanced to the Borrower is less than \$40,000,000, the amount of the Repayment Instalments shall be reduced pro rata.

5.3 **Reborrowing** The Borrower may not reborrow any part of the Loan which is repaid or prepaid.

6 Prepayment

6.1 **Illegality** If it becomes unlawful in any jurisdiction for the Lender to perform any of its obligations as contemplated by this Agreement or to fund or maintain the Loan:

6.1.1 the Lender shall promptly notify the Borrower of that event; and

6.1.2 the Borrower shall repay the Loan (to the extent already advanced) on the last day of the current Interest Period or, if earlier, the date specified by the Lender in the notice delivered to the Borrower (being no earlier than the last day of any applicable grace period permitted by law).

6.2 **Voluntary prepayment of Loan** The Borrower may prepay the whole or any part of the Loan (but, if in part, being an amount that reduces the Loan by a minimum amount of \$1,000,000 or any integral multiple thereof) subject as follows:

6.2.1 it gives the Lender not less than five (5) Business Days' (or such shorter period as the Lender may agree) prior notice; and

6.2.2 any prepayment under this Clause 6.2 shall satisfy the obligations under Clause 5.1 (*Repayment of Loan*) pro rata.

6.3 **Mandatory prepayment on sale or Total Loss** If the Vessel is sold by the Borrower or becomes a Total Loss, the Borrower shall, simultaneously with any such sale and transfer of title to the prospective buyer or within one hundred and twenty (120) days after any such Total Loss, prepay the whole of the Indebtedness and any part of the Loan not drawn down shall be cancelled.

6.4 **Restrictions** Any notice of prepayment given under this Clause 6 shall be irrevocable and, unless a contrary indication appears in this Agreement, shall specify the date or dates upon which the relevant prepayment is to be made and the amount of that prepayment.

Any prepayment under this Agreement shall be made together with accrued interest on the amount prepaid and, subject to any Break Costs, without premium or penalty.

7 Interest

- 7.1 **Interest Periods** The period during which the Loan shall be outstanding under this Agreement shall be divided into consecutive Interest Periods of three (3) or six (6) months' duration, as selected by the Borrower by written notice to the Lender not later than 11.00 a.m. on the third Business Day before the beginning of the Interest Period in question, or such other duration as may be agreed by the Lender.
- 7.2 **Beginning and end of Interest Periods** Each Interest Period shall start on the Drawdown Date or (if the Loan is already made) on the last day of the preceding Interest Period and end on the date which numerically corresponds to the Drawdown Date or the last day of the preceding Interest Period in the relevant calendar month except that, if there is no numerically corresponding date in that calendar month, the Interest Period shall end on the last Business Day in that month and no Interest Period may exceed the Final Maturity Date.
- 7.3 **Interest Periods to meet Repayment Dates** If an Interest Period will expire after the next Repayment Date, there shall be a separate Interest Period for a part of the Loan equal to the Repayment Instalment due on that next Repayment Date and that separate Interest Period shall expire on that next Repayment Date.
- 7.4 **Non-Business Days** If an Interest Period would otherwise end on a day which is not a Business Day, that Interest Period will instead end on the next Business Day in that calendar month (if there is one) or the preceding Business Day (if there is not).
- 7.5 **Interest rate** During each Interest Period interest shall accrue on the Loan at the rate determined by the Lender to be the aggregate of (a) the Margin, (b) LIBOR and (c) the Mandatory Cost, if any.
- 7.6 **Failure to select Interest Period** If the Borrower at any time fails to select or agree an Interest Period in accordance with Clause 7.1 (*Interest Periods*), the interest rate applicable shall be the rate determined by the Lender in accordance with Clause 7.5 (*Interest rate*) for an Interest Period of three months or such other period as the Lender may select.

- 7.7 **Accrual and payment of interest** Interest shall accrue from day to day, shall be calculated on the basis of a 360 day year and the actual number of days elapsed (or, in any circumstance where market practice differs, in accordance with the prevailing market practice) and shall be paid by the Borrower to the Lender on the last day of each Interest Period and, if the Interest Period is longer than three months, on the dates falling at three monthly intervals after the first day of that Interest Period.
- 7.8 **Default interest** If the Borrower fails to pay any amount payable by it under a Finance Document on its due date, interest shall accrue on the overdue amount from the due date up to the date of actual payment (both before and after judgment) at a rate which is two per cent (2%) higher than the rate which would have been payable if the overdue amount had, during the period of non-payment, constituted the Loan in the currency of the overdue amount for successive Interest Periods, each selected by the Lender (acting reasonably). Any interest accruing under this Clause 7.8 shall be immediately payable by the Borrower on demand by the Lender.
- 7.9 **Alternative interest rate** If either (a) the applicable Screen Rate is not available for any Interest Period and no rates are quoted to the Lender to determine LIBOR for that Interest Period or (b) the Lender determines that the cost to it of obtaining matching deposits for any Interest Period would be in excess of LIBOR and that determination is made no later than close of business in London on the day LIBOR is determined for that Interest Period:
- 7.9.1 the Lender shall give notice to the Borrower of the occurrence of such event; and
- 7.9.2 the rate of interest on the Loan for that Interest Period shall be the rate per annum which is the sum of:
- (a) the Margin; and
 - (b) the rate which expresses as a percentage rate per annum the cost to the Lender of funding the Loan from whatever source it may reasonably select; and

- (c) the Mandatory Cost, if any,

PROVIDED THAT if the resulting rate of interest is not acceptable to the Borrower:

- 7.9.3 the Lender will negotiate with the Borrower in good faith with a view to modifying this Agreement to provide a substitute basis for determining the rate of interest;
 - 7.9.4 any substitute basis agreed pursuant to Clause 7.9.3 shall be binding on the parties to this Agreement; and
 - 7.9.5 if, within thirty (30) days of the giving of the notice referred to in Clause 7.9.1, the Borrower and the Lender fail to agree in writing on a substitute basis for determining the rate of interest, the Borrower will immediately prepay the Loan, together with any Break Costs.
- 7.10 **Determinations conclusive** The Lender shall promptly notify the Borrower of the determination of a rate of interest under this Clause 7 and each such determination shall (save in the case of manifest error) be final and conclusive.

8 Indemnities

- 8.1 **Transaction expenses** The Borrower will, within fourteen (14) days of the Lender's written demand, pay the Lender the amount of all costs and expenses (including legal fees and Value Added Tax or any similar or replacement tax if applicable) incurred by the Lender in connection with:
- 8.1.1 the negotiation, preparation, printing, execution and registration of the Finance Documents (whether or not any Finance Document is actually executed or registered and whether or not all or any part of the Loan is advanced);
 - 8.1.2 any amendment, addendum or supplement to any Finance Document (whether or not completed) (except from those pursuant to Clause 14); and
 - 8.1.3 any other document which may at any time be required by the Lender to give effect to any Finance Document or which the Lender is entitled to call for or obtain under any Finance Document (including, without limitation, any valuation of the Vessel).

- 8.2 **Funding costs** The Borrower shall indemnify the Lender on the Lender's written demand against all losses and costs incurred or sustained by the Lender if, for any reason, the Loan is not advanced to the Borrower after the relevant Drawdown Notice has been given to the Lender, or is advanced on a date other than that requested in the Drawdown Notice (unless, in either case, as a result of any default by the Lender).
- 8.3 **Break Costs** The Borrower shall indemnify the Lender on the Lender's written demand against all costs, losses, premiums or penalties incurred by the Lender as a result of its receiving any prepayment of all or any part of the Loan (whether pursuant to Clause 6 (*Prepayment*) or otherwise) on a day other than the last day of an Interest Period for the Loan or relevant part of the Loan, or any other payment under or in relation to the Finance Documents on a day other than the due date for payment of the sum in question, including (without limitation) any losses or costs incurred in liquidating or re-employing deposits from third parties acquired to effect or maintain all or any part of the Loan, and any liabilities, expenses or losses incurred by the Lender in terminating or reversing, or otherwise in connection with, any Transaction or any other interest rate and/or currency swap, transaction or arrangement entered into by the Lender to hedge any exposure arising under this Agreement, or in terminating or reversing, or otherwise in connection with, any open position arising under this Agreement or the Master Agreement.
- 8.4 **Currency indemnity** In the event of the Lender receiving or recovering any amount payable under a Finance Document in a currency other than the Currency of Account, and if the amount received or recovered is insufficient when converted into the Currency of Account at the date of receipt to satisfy in full the amount due, the Borrower shall, on the Lender's written demand, pay to the Lender such further amount in the Currency of Account as is sufficient to satisfy in full the amount due and that further amount shall be due to the Lender as a separate debt under this Agreement.
- 8.5 **Increased costs (subject to Clause 8.6 (*Exceptions to increased costs*))** If, by reason of the introduction of any law, or any change in any law, or any change in the interpretation or administration of any law, or compliance with any request or requirement from any central bank or any fiscal, monetary or other authority occurring after the date of this Agreement (including the implementation or application of or compliance with the Basel II Accord or any other Basel II Regulation (whether such implementation, application or compliance is by any central bank or any fiscal, monetary or other authority, the Lender or the holding company of the Lender)):

- 8.5.1 the Lender (or the holding company of the Lender) shall be subject to any Tax with respect to payment of all or any part of the Indebtedness (other than Tax on overall net income); or
- 8.5.2 the basis of Taxation of payments to the Lender in respect of all or any part of the Indebtedness shall be changed; or
- 8.5.3 any reserve requirements shall be imposed, modified or deemed applicable against assets held by or deposits in or for the account of or loans by any branch of the Lender; or
- 8.5.4 the manner in which the Lender allocates capital resources to its obligations under this Agreement and/or the Master Agreement or any ratio (whether cash, capital adequacy, liquidity or otherwise) which the Lender is required or requested to maintain shall be affected; or
- 8.5.5 there is imposed on the Lender (or on the holding company of the Lender) any other condition in relation to the Indebtedness or the Finance Documents;

and the result of any of the above shall be to increase the cost to the Lender (or to the holding company of the Lender) of the Lender making or maintaining the Loan, or its obligations under the Master Agreement, or to cause the Lender to suffer (in its opinion) a material reduction in the rate of return on its overall capital below the level which it reasonably anticipated at the date of this Agreement and which it would have been able to achieve but for its entering into this Agreement or the Master Agreement, and/or performing its obligations under this Agreement or the Master Agreement, then, subject to Clause [8.6](#) (*Exceptions to increased costs*), the Lender shall notify the Borrower and the Borrower shall from time to time pay to the Lender on demand the amount which shall compensate the Lender (or the holding company of the Lender) for such additional cost or reduced return. A certificate signed by an authorised signatory of the Lender setting out the amount of that payment and the basis of its calculation shall be submitted to the Borrower and shall be conclusive evidence of such amount save for manifest error or on any question of law.

For the purposes of this Clause 8.5:

"Basel II Accord" means the "International Convergence of Capital Measurement and Capital Standards, a Revised Framework" published by the Basel Committee on Banking Supervision in June 2004 in the form existing on the date of this Agreement;

"Basel II Approach" means, in relation to the Lender, either the Standardised Approach or the relevant Internal Ratings Based Approach (each as defined in the Basel II Accord) adopted by the Lender (or its holding company) for the purpose of implementing or complying with the Basel II Accord;

"Basel II Regulation" means (a) any law or regulation implementing the Basel II Accord or (b) any Basel II Approach adopted by the Lender; and

"holding company" means, in respect of the Lender, the company or entity (if any) within the consolidated supervision of which the Lender is included.

- 8.6 **Exceptions to increased costs** Clause 8.5 (*Increased costs*) does not apply to the extent any additional cost or reduced return referred to in that Clause is:
- 8.6.1 compensated for by a payment made under Clause 8.10 (*Taxes*); or
 - 8.6.2 compensated for by a payment made under Clause 16.3 (*Grossing-up*); or
 - 8.6.3 compensated for by the payment of the Mandatory Cost; or
 - 8.6.4 attributable to the wilful breach by the Lender (or the holding company of the Lender) of any law or regulation.
- 8.7 **Events of Default** The Borrower shall indemnify the Lender from time to time on the Lender's written demand against all losses, costs and liabilities incurred or sustained by the Lender as a consequence of any Event of Default.
- 8.8 **Enforcement costs** The Borrower shall pay to the Lender on the Lender's written demand the amount of all costs and expenses (including legal fees) incurred by the Lender in connection with the enforcement of, or the preservation of any rights under, any Finance Document including (without limitation) any losses, costs and expenses which the Lender may from time to time sustain, incur or become liable for by reason of the Lender being mortgagee of the Vessel and/or a lender to the Borrower, or by reason of the Lender being deemed by any court or authority to be an operator or controller, or in any way concerned in the operation or control, of the Vessel.

- 8.9 **Other costs** The Borrower shall pay to the Lender on the Lender's written demand the amount of all sums which the Lender may pay or become actually or contingently liable for on account of the Borrower in connection with the Vessel (whether alone or jointly or jointly and severally with any other person) including (without limitation) all sums which the Lender may pay or guarantees which it may give in respect of the Insurances, any expenses incurred by the Lender in connection with the maintenance or repair of the Vessel or in discharging any lien, bond or other claim relating in any way to the Vessel, and any sums which the Lender may pay or guarantees which it may give to procure the release of the Vessel from arrest or detention.
- 8.10 **Taxes** The Borrower shall pay all Taxes to which all or any part of the Indebtedness or any Finance Document may be at any time subject (other than Tax on the Lender's overall net income) and shall indemnify the Lender on the Lender's written demand against all liabilities, costs, claims and expenses resulting from any omission to pay or delay in paying any such Taxes.
- 8.11 **Cancellation** The Borrower may cancel the Loan and prepay to the Lender the full amount of the Indebtedness, if the Lender makes a claim under Clauses 8.5 or 8.10.

Any prepayment under this Clause shall be made together with accrued interest on the amount prepaid and Break Costs.

9 Fees

- 9.1 **Commitment fee** The Borrower shall pay to the Lender a fee computed at the rate of zero point fifty per cent (0.50%) per annum on the undrawn amount of the Loan from time to time from the date of this Agreement until the earlier of the Drawdown Date and the Availability Termination Date or the date on which the Borrower cancels the whole of the undrawn amount of the Loan by giving to the Lender relevant notice in writing to that effect. The accrued commitment fee is payable in arrears on the last day of each successive period of three months from the date of this Agreement and on the earlier of the Drawdown Date and the Availability Termination Date.

- 9.2 **Arrangement fee** The Borrower shall pay to the Lender an arrangement fee in the amount of three hundred thousand Dollars (\$300,000) on the date of this Agreement.

10 Security and Application of Moneys

- 10.1 **Security Documents** As security for the payment of the Indebtedness, the Borrower shall execute and deliver to the Lender and/or the Swap Provider or cause to be executed and delivered to the Lender and/or the Swap Provider the following documents in such forms and containing such terms and conditions as the Lender and/or the Swap Provider shall require:
- 10.1.1 a first preferred mortgage over the Vessel;
 - 10.1.2 a first priority deed or deeds of assignment of the Insurances, Earnings and Requisition Compensation of the Vessel;
 - 10.1.3 a guarantee and indemnity from the Guarantor; and
 - 10.1.4 a first priority deed of charge over the Master Agreement Benefits.
- 10.2 **Earnings Account** The Borrower shall maintain the Earnings Account with the Lender for the duration of the Facility Period free of Encumbrances and rights of set off other than those created by or under the Finance Documents.
- 10.3 **Earnings** The Borrower shall procure that all Earnings and any Requisition Compensation are credited to the Earnings Account.
- 10.4 **Application of Earnings Account** The Borrower shall procure that there is transferred from the Earnings Account to the Lender:
- 10.4.1 on each Repayment Date, the amount of the Repayment Instalment then due; and
 - 10.4.2 on each Interest Payment Date, the amount of interest then due,
- and the Borrower irrevocably authorises the Lender to make those transfers.
- 10.5 **Borrower's obligations not affected** If for any reason the amount standing to the credit of the Earnings Account is insufficient to pay any Repayment Instalment or to make any payment of interest when due, the Borrower's obligation to pay that Repayment Instalment or to make that payment of interest shall not be affected.

- 10.6 **Release of surplus** Any amount remaining to the credit of the Earnings Account following the application of the Earnings Account required by Clause 10.4 (*Application of Earnings Account*) shall (unless a Default shall have occurred and be continuing) be released to or to the order of the Borrower.
- 10.7 **Relocation of Earnings Account** At any time following the occurrence and during the continuation of a Default, the Lender may without the consent of the Borrower relocate the Earnings Account to any other branch of the Lender, without prejudice to the continued application of this Clause 10 and the rights of the Lender under the Finance Documents.
- 10.8 **Application after acceleration** From and after the giving of notice to the Borrower by the Lender under Clause 13.2 (*Acceleration*), the Borrower shall procure that all sums from time to time standing to the credit of the Earnings Account are immediately transferred to the Lender for application in accordance with Clause 10.9 (*General application of moneys*) and the Borrower irrevocably authorises the Lender to make those transfers.
- 10.9 **General application of moneys** The Borrower, subject to Clause 10.10 (*Application of moneys on sale or Total Loss*), irrevocably authorises the Lender to apply all sums which the Lender may receive:
- 10.9.1 pursuant to a sale or other disposition of the Vessel or any right, title or interest in the Vessel; or
 - 10.9.2 by way of payment of any sum in respect of the Insurances, Earnings or Requisition Compensation; or
 - 10.9.3 by way of transfer of any sum from the Earning Account; or
 - 10.9.4 otherwise arising under or in connection with any Security Document,
- in or towards satisfaction, or by way of retention on account, of the Indebtedness, in such manner as the Lender may determine PROVIDED THAT any part of the Indebtedness arising out of the Master Agreement shall be satisfied, or retained for, on a pari passu basis with the remainder of the Indebtedness.

- 10.10 **Application of moneys on sale or Total Loss** The Borrower irrevocably authorises the Lender to apply all sums which the Lender may receive pursuant to a sale by the Borrower or a Total Loss in or towards satisfaction of the prepayment due and payable under Clause 6.3 (*Mandatory prepayment on sale or Total Loss*) by virtue of that sale or Total Loss, but the Borrower's obligation to make that prepayment shall not be affected if those sums are insufficient to satisfy that obligation.
- 10.11 **Additional security** If at any time the aggregate of the Fair Market Value of the Vessel and the value of any additional security (such value to be the face amount of the deposit (in the case of cash), determined conclusively by appropriate advisers appointed by the Lender (in the case of other charged assets), and determined by the Lender in its discretion (in all other cases)) for the time being provided to the Lender under this Clause 10.11 is less than one hundred and twenty five per cent (125%) of the aggregate of the amount of the Loan then outstanding and the amount certified by the Lender to be the amount which would be payable by the Borrower to the Lender under the Master Agreement if an Early Termination Date were to occur at that time, the Borrower shall, within thirty (30) days of the Lender's request, at the Borrower's option:
- 10.11.1 pay to the Lender or to its nominee a cash deposit in the amount of the shortfall to be secured in favour of the Lender and the Swap Provider as additional security for the payment of the Indebtedness; or
- 10.11.2 give to the Lender other additional security in amount and form acceptable to the Lender in its discretion; or
- 10.11.3 prepay the Loan in the amount of the shortfall.
- Clauses 5.3 (*Reborrowing*), 6.2.2 (*Voluntary prepayment of Loan*) and 6.4 (*Restrictions*) shall apply, *mutatis mutandis*, to any prepayment made under this Clause 10.11 and the value of any additional security provided shall be determined as stated above.
- 10.12 **Cost of valuations** For the purposes of Clause 10.12, the cost of one set of valuations per annum shall be borne by the Borrower, unless there is an Event of Default which is continuing, in which case the cost of all valuations obtained from time to time upon the request of the Lender shall be borne by the Borrower.

11 Representations

11.1 **Representations** The Borrower makes the representations and warranties set out in this Clause 11.1 to the Lender on the date of this Agreement.

11.1.1 **Status** Each Security Party (which is not an individual) is a corporation, duly incorporated and validly existing under the law of its jurisdiction of incorporation and has the power to own its assets and carry on its business as it is being conducted.

11.1.2 **Binding obligations** The obligations expressed to be assumed by each Security Party in each Finance Document to which it is a party are legal, valid, binding and enforceable obligations.

11.1.3 **Non-conflict with other obligations** The entry into and performance by each Security Party of, and the transactions contemplated by, the Finance Documents do not conflict with:

- (a) any law or regulation applicable to that Security Party;
- (b) the constitutional documents of that Security Party; or
- (c) any document binding on that Security Party or any of its assets,

and in borrowing the Loan, the Borrower is acting for its own account.

11.1.4 **Power and authority** Each Security Party has the power to enter into, perform and deliver, and has taken all necessary action to authorise its entry into, performance and delivery of, the Finance Documents to which it is a party and the transactions contemplated by those Finance Documents.

11.1.5 **Validity and admissibility in evidence** All consents, licences, approvals, authorisations, filings and registrations required or desirable:

- (a) to enable each Security Party lawfully to enter into, exercise its rights and comply with its obligations in the Finance Documents to which it is a party or to enable the Lender to enforce and exercise all its rights under the Finance Documents; and

- (b) to make the Finance Documents to which any Security Party is a party admissible in evidence in its jurisdiction of incorporation,

have been obtained or effected and are in full force and effect, with the exception only of the registrations referred to in Part II of Schedule 1 (*Conditions subsequent*).

- 11.1.6 **Governing law and enforcement** The choice of English law as the governing law of any Finance Document expressed to be governed by English law will be recognised and enforced in the jurisdiction of incorporation of each relevant Security Party, and any judgment obtained in England in relation to any such Finance Document will be recognised and enforced in the jurisdiction of incorporation of each relevant Security Party.
- 11.1.7 **Deduction of Tax** No Security Party is required under the law of its jurisdiction of incorporation to make any deduction for or on account of Tax from any payment it may make under any Finance Document.
- 11.1.8 **No filing or stamp taxes** Under the law of jurisdiction of incorporation of each relevant Security Party it is not necessary that the Finance Documents be filed, recorded or enrolled with any court or other authority in that jurisdiction or that any stamp, registration or similar tax be paid on or in relation to the Finance Documents or the transactions contemplated by the Finance Documents.
- 11.1.9 **No default** No Event of Default is continuing or might reasonably be expected to result from the advance of the Loan.
- 11.1.10 **No misleading information** Any factual information provided by any Security Party to the Lender was true and accurate in all material respects as at the date it was provided.
- 11.1.11 **Pari passu ranking** The payment obligations of each Security Party under the Finance Documents to which it is a party rank at least pari passu with the claims of all its other unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law applying to companies generally.

- 11.1.12 **No proceedings pending or threatened** No litigation, arbitration or administrative proceedings of or before any court, arbitral body or agency have been started or (to the best of the Borrower's knowledge threatened) which, if adversely determined, might reasonably be expected to have a materially adverse effect on the business, assets, financial condition or credit worthiness of any Security Party.
- 11.1.13 **Disclosure of material facts** The Borrower is not aware of any material facts or circumstances which have not been disclosed to the Lender and which might, if disclosed, have adversely affected the decision of a person considering whether or not to make loan facilities of the nature contemplated by this Agreement available to the Borrower.
- 11.1.14 **No established place of business in the UK or US** No Security Party has an established place of business in the United Kingdom or the United States of America.
- 11.1.15 **Completeness of Relevant Documents** The copies of any Relevant Documents provided or to be provided by the Borrower to the Lender in accordance with Clause 3 (*Conditions of Utilisation*) are, or will be, true and accurate copies of the originals and represent, or will represent, the full agreement between the parties to those Relevant Documents in relation to the subject matter of those Relevant Documents and there are no commissions, rebates, premiums or other payments due or to become due in connection with the subject matter of those Relevant Documents other than in the ordinary course of business or as disclosed to, and approved in writing by, the Lender.
- 11.2 **Repetition** Each representation and warranty in Clause 11.1 (*Representations*) is deemed to be repeated by the Borrower by reference to the facts and circumstances then existing on the date of the Drawdown Notice and the first day of each Interest Period.

12 Undertakings and Covenants

The undertakings and covenants in this Clause 12 remain in force for the duration of the Facility Period.

12.1 Information undertakings

12.1.1 **Financial statements** The Borrower shall procure that the Guarantor shall supply to the Lender as soon as the same become available, but in any event within 120 days after the end of each of its financial years, the Guarantor's annual audited consolidated financial statements for that financial year, together with a Compliance Certificate, signed by two directors of the Guarantor, setting out (in reasonable detail) computations as to compliance with Clause 12.2 (*Financial covenants*) as at the date as at which those financial statements were drawn up.

12.1.2 **Requirements as to financial statements** Each set of financial statements delivered by the Borrower or the Guarantor under Clause 12.1.1 (*Financial statements*):

- (a) shall be certified by a director of the Guarantor as fairly representing its financial condition as at the date as at which those financial statements were drawn up; and
- (b) shall be prepared using GAAP, accounting practices and financial reference periods consistent with those applied in the preparation of the Original Financial Statements unless, in relation to any set of financial statements, the Borrower notifies the Lender that there has been a change in GAAP, the accounting practices or reference periods and the Guarantor's auditors deliver to the Lender:
 - (i) a description of any change necessary for those financial statements to reflect the GAAP, accounting practices and reference periods upon which the Original Financial Statements were prepared; and
 - (ii) sufficient information, in form and substance as may be reasonably required by the Lender, to enable the Lender to make an accurate comparison between the financial position indicated in those financial statements and that indicated in the Original Financial Statements.

- 12.1.3 **Interim financial statements** The Borrower shall procure that the Guarantor shall supply to the Lender as soon as the same become available, but in any event within 90 days after the end of each quarter during each of its financial years, the Guarantor's unaudited quarterly consolidated financial statements for that quarter.
- 12.1.4 **Information: miscellaneous** The Borrower shall supply to the Lender:
- (a) all documents dispatched by the Borrower to its shareholders (or any class of them) or its creditors generally at the same time as they are dispatched;
 - (b) promptly upon becoming aware of them, details of any litigation, arbitration or administrative proceedings which are current, threatened or pending against any Security Party, and which might, if adversely determined, have a materially adverse effect on the business, assets, financial condition or credit worthiness of that Security Party; and
 - (c) promptly, such further information regarding the financial condition, business and operations of any Security Party as the Lender may reasonably request including, without limitation, cash flow analyses and details of the operating costs of the Vessel.
- 12.1.5 **Notification of default**
- (a) The Borrower shall notify the Lender of any Default (and the steps, if any, being taken to remedy it) promptly upon becoming aware of its occurrence.
 - (b) Promptly upon a request by the Lender, the Borrower shall supply to the Lender a certificate signed by two of its directors or senior officers on its behalf certifying that no Default is continuing (or if a Default is continuing, specifying the Default and the steps, if any, being taken to remedy it).
- 12.1.6 **"Know your customer" checks** If:

- (a) the introduction of or any change in (or in the interpretation, administration or application of) any law or regulation made after the date of this Agreement;
- (b) any change in the status of the Borrower after the date of this Agreement; or
- (c) a proposed assignment or transfer by the Lender of any of its rights and obligations under this Agreement,

obliges the Lender (or, in the case of (c) above, any prospective new Lender) to comply with "know your customer" or similar identification procedures in circumstances where the necessary information is not already available to it, the Borrower shall promptly upon the request of the Lender supply, or procure the supply of, such documentation and other evidence as is reasonably requested by the Lender (for itself or, in the case of (c) above, on behalf of any prospective new Lender) in order for the Lender (or, in the case of (c) above, any prospective new Lender) to carry out and be satisfied it has complied with all necessary "know your customer" or other similar checks under all applicable laws and regulations pursuant to the transactions contemplated in the Finance Documents.

12.2 **Financial covenants**

- 12.2.1 The Borrower shall maintain from the Drawdown Date throughout the Facility Period minimum Cash of not less than \$400,000.
- 12.2.2 The Borrower shall procure that the Guarantor shall maintain the following financial ratios on a consolidated basis throughout the Facility Period:
 - (a) Adjusted Net Worth shall not be less than \$150,000,000;
 - (b) Adjusted Net Worth shall exceed 25% of the Total Assets;
 - (c) Average Cash Balance shall not be less than \$10,000,000.
- 12.2.3 In the event that after the date of this Agreement, the Guarantor enters into any financial agreement in which it agrees to any further financial covenants or any different covenant ratios in relation to those contained in Clause 12.2.2, the Lender reserves the right to demand that these financial covenants shall become part of this Agreement.

For the purposes of this Clause 12.2:

"Accounting Information" means the quarterly consolidated financial statements and/or the annual consolidated financial statements to be provided by the Guarantor to the Lender in accordance with Clauses 12.1.1 and 12.1.3.

"Accounting Period" means each consecutive period of approximately three months falling during the Facility Period (ending on the last day in March, June, September and December of each year) for which quarterly Accounting Information is required to be delivered pursuant to Clause 12.1.3.

"Adjusted Net Worth" means, in respect of an Accounting Period, the amount of Total Assets less Consolidated Debt.

"Average Cash Balance" means the aggregate amount of Cash on each day during the immediately preceding 12 months period divided by the same number of days.

"Cash" means cash in hand which is not subject to any charge back or other Encumbrance and to which the Borrower or the Guarantor (as the context requires) has free, immediate and direct access.

"Consolidated Debt" means, in respect of an Accounting Period, the aggregate amount of Debt owing by members of the Group (other than any such Debt owing by any member of the Group to another member of the Group) as stated in the then most recent Accounting Information.

"Current Assets" means, in respect of each Accounting Period, the aggregate of the cash and marketable securities, trade and other receivables from persons other than a member of the Group realisable within one year, inventories and prepaid expenses which are to be charged to income within one year less any doubtful debts and any discounts or allowances given as stated in the then most recent Accounting Information.

"Debt" means the aggregate (as of the date of calculation) of all obligations of the Group then outstanding for the payment or repayment of money as stated in the Accounting Information then most recently required to be delivered pursuant to Clause 12.1.1 or 12.1.3 including, without limitation:

- (a) any amounts payable by the Group under leases or similar arrangements over their respective periods;
- (b) any credit to the Group from a supplier of goods or under any instalment purchase or other similar arrangement;
- (c) the aggregate amount then outstanding of liabilities and obligations of third parties to the extent that they are guaranteed by the Group;
- (d) any contingent liabilities (including any taxes or other payments under dispute or arbitration) which have been or, under GAAP, should be recorded in the notes to the Group's financial statements; and
- (e) any deferred tax liabilities.

"Fleet Vessels" means any vessel directly or indirectly owned by members of the Group.

"Tangible Fixed Assets" means, in respect of an Accounting Period, the value (less depreciation computed in accordance with GAAP) on a consolidated basis of all the assets of the Group which would, in accordance with GAAP, be classified as tangible fixed assets, namely items held for ongoing use to the business of the Group including, without limitation, any land, plant, machinery and vessels as such value is stated in the then most recent Accounting Information Provided that, for the purposes of determining compliance with the covenants set forth in Clause 12.2.2, the value of such tangible fixed assets attributable to the Fleet Vessels shall be equal to the aggregate Fair Market Value of such Fleet Vessels rather than the value of such Fleet Vessels as stated in the then most recent Accounting Information.

"Total Assets" means, in respect of an Accounting Period, the aggregate of Current Assets and Tangible Fixed Assets.

12.2.4 **General undertakings**

12.2.5 **Authorisations** The Borrower shall promptly:

(a) obtain, comply with and do all that is necessary to maintain in full force and effect; and

(b) supply certified copies to the Lender of,

any consent, licence, approval or authorisation required under any law or regulation to enable each Security Party to perform its obligations under the Finance Documents to which it is a party and to ensure the legality, validity, enforceability or admissibility in evidence in the jurisdiction of incorporation of each relevant Security Party of any Finance Document.

12.2.6 **Compliance with laws** The Borrower shall comply in all respects with all laws to which it may be subject, if failure so to comply would materially impair its ability to perform its obligations under the Finance Documents.

12.2.7 **Conduct of business** The Borrower shall carry on and conduct its business in a proper and efficient manner, file all requisite tax returns and pay all tax which becomes due and payable (except where contested in good faith).

12.2.8 **Evidence of good standing** The Borrower will from time to time if requested by the Lender provide the Lender with evidence in form and substance satisfactory to the Lender that the Security Parties (other than the Guarantor for as long as it remains listed) and all corporate shareholders of any Security Party remain in good standing.

12.2.9 **Negative pledge and no disposals** The Borrower shall not without the prior written consent of the Lender create nor permit to subsist any Encumbrance or other third party rights over any of its present or future assets or undertaking nor dispose of any of those assets or of all or part of that undertaking.

12.2.10 **Merger** The Borrower shall not enter into any amalgamation, demerger, merger or any form of corporate reconstruction, reorganisation or consolidation.

- 12.2.11 **Change of business** The Borrower shall not make any substantial change to the general nature of its business from that carried on at the date of this Agreement.
- 12.2.12 **No other business** The Borrower shall not engage in any business other than the ownership, operation, chartering and management of the Vessel.
- 12.2.13 **No place of business in UK or US** The Borrower shall not have an established place of business in the United Kingdom or the United States of America at any time during the Facility Period.
- 12.2.14 **No borrowings** The Borrower shall not borrow any money (except for the Loan and unsecured Financial Indebtedness subordinated to the Loan) nor incur any obligations under leases.
- 12.2.15 **No substantial liabilities** Except in the ordinary course of business and/or as may be required for the operation of the Vessel, the Borrower shall not incur any liability to any third party which is in the Lender's opinion of a substantial nature.
- 12.2.16 **No loans or other financial commitments** The Borrower shall not (a) make any loan nor enter into any guarantee or indemnity or otherwise voluntarily assume any actual or contingent liability in respect of any obligation of any other person nor provide any other form of credit or financial assistance to (i) a person who is directly or indirectly interested in the Borrower's share or loan capital, or (ii) any company in or with which such a person is directly or indirectly interested or connected, or (b) enter into any transaction with or involving such a person or company on terms which are, in any respect, less favourable to the Borrower than those which it could obtain in a bargain made at arm's length on normal commercial terms.
- 12.2.17 **No dividends** The Borrower shall not pay any dividends or make any other distributions or effect any form of redemption, purchase or return of share capital which would result in a breach of the financial covenants set out in Clause 12.2 or if an Event of Default has occurred and is continuing, unremedied and unwaived.

- 12.2.18 **Inspection of records** The Borrower will permit the inspection of its financial records and accounts from time to time by the Lender or its nominee.
- 12.2.19 **No change in Relevant Documents** The Borrower shall procure that, without the prior written consent of the Lender such consent not to be unreasonably withheld or unduly delayed, there shall be no termination of, alteration to any (in the Lender's opinion) material term of, or waiver of any (in the Lender's opinion) material term of, any of the Relevant Documents which are not Finance Documents.
- 12.2.20 **No dealings with Master Agreement** The Borrower shall not assign, novate or encumber or in any other way transfer any of its rights or obligations under the Master Agreement.
- 12.2.21 **No change in capital** The Borrower shall not reduce its issued share capital or issue, allot or grant any person a right to any shares in its capital or repurchase or reduce its issued share capital other than pursuant to an IPO.
- 12.2.22 **No securities** The Borrower shall not acquire any shares or other securities other than US or UK Treasury bills, certificates of deposit issued by major North American or European banks and shares in newly established companies, or enter into any transaction in a derivative other than under the Master Agreement.
- 12.2.23 **Directors** The Borrower shall not without the prior written consent of the Lender, permit a majority of the seats (other than vacant seats) on the board of directors of the Borrower to be held by persons other than persons who are either (a) nominated by the Borrower's then current board of directors or (b) appointed by persons as so nominated in accordance with (a) above.
- 12.2.24 **Shareholders** The Borrower shall procure that Diana Shipping Inc. of the Marshall Islands remains 100% shareholder of the Borrower.
- 12.2.25 **Subordination** The Borrower shall subordinate in priority of payment to the Indebtedness any loans made to it by its shareholders or affiliated companies of the Borrower or the Guarantor and any other present or future indebtedness of the Borrower.

12.2.26 **No sharing agreement** The Borrower shall not without the prior written consent of the Lender enter into any agreement or arrangement for sharing or pooling its Earnings.

12.3 **Vessel undertakings**

12.3.1 **No sale of Vessel** The Borrower shall not sell or otherwise dispose of the Vessel or any shares in the Vessel nor agree to do so without the prior written consent of the Lender.

12.3.2 **No chartering after Event of Default** Following the occurrence and during the continuation of an Event of Default the Borrower shall not without the prior written consent of the Lender let the Vessel on charter or renew or extend any charter or other contract of employment of the Vessel (nor agree to do so).

12.3.3 **No change in management** The Borrower shall procure that, without the prior written consent of the Lender, there shall be no termination of, alteration to any (in the Lender's opinion) material term, or waiver of any (in the Lender's opinion) material term of, the Management Agreement and the Borrower shall not without the prior written consent of the Lender permit the Managers to sub-contract or delegate the commercial or technical management of the Vessel to any third party.

12.3.4 **Registration of Vessel** The Borrower undertakes to maintain the registration of the Vessel under the flag stated in Recital (A) for the duration of the Facility Period unless the Lender agrees otherwise in writing.

12.3.5 **Evidence of current COFR** The Borrower will, if and for so long as the Vessel trades in the United States of America and Exclusive Economic Zone (as defined in the United States Oil Pollution Act 1990), obtain and retain a valid Certificate of Financial Responsibility for the Vessel under that Act, and will comply strictly with the requirements of that Act.

12.3.6 **ISM Code compliance** The Borrower will:

- (a) procure that the Vessel remains for the duration of the Facility Period subject to a SMS;
- (b) maintain a valid and current SMC for the Vessel throughout the Facility Period;
- (c) procure that the ISM Company maintains a valid and current DOC throughout the Facility Period; and
- (d) immediately notify the Lender in writing of any actual or threatened withdrawal, suspension, cancellation or modification of the SMC of the Vessel or of the DOC of the ISM Company.

12.3.7 **ISPS Code compliance** The Borrower will:

- (a) for the duration of the Facility Period comply with the ISPS Code in relation to the Vessel and procure that the Vessel and the ISPS Company comply with the ISPS Code;
- (b) maintain a valid and current ISSC for the Vessel throughout the Facility Period; and
- (c) immediately notify the Lender in writing of any actual or threatened withdrawal, suspension, cancellation or modification of the ISSC.

12.3.8 **Annex VI compliance** The Borrower will for the duration of the Facility Period comply with Annex VI in relation to the Vessel and procure that the Vessel's master and crew are familiar with, and that the Vessel complies with, Annex VI.

12.3.9 **No bareboat charter** The Borrower shall not without the prior written consent of the Lender let the Vessel on any bareboat charter.

12.3.10 **Physical inspection** The Lender shall be entitled to physically inspect the Vessel, and the Borrower shall bear the cost of such inspection not more than once every calendar year, provided that the Vessel is found to be in satisfactory condition, according to the reasonable opinion of the Lender. If the Vessel is not found to be in satisfactory condition, according to the reasonable opinion of the Lender, or there is an Event of Default which is continuing, then the Borrower shall bear the cost of all inspections of the Vessel at any time.

12.3.11 **International laws** The Borrower shall at all times comply with all national and international applicable laws and conventions relating to it or to the Vessel, including without limitation the International Convention for the Safety of Life at Sea 1974 (SOLAS) and the International Convention for the Prevention of Pollution from Ships 1973, as modified by the Protocol of 1978 relating thereto and as further amended (MARPOL), and shall procure that there are on board the Vessel valid certificates showing compliance therewith.

12.3.12 **Class** The Vessel shall be classed to the highest notation with a classification society acceptable to the Lender without any overdue recommendations and/or qualifications and/or requirements and the Borrower shall not without the prior written consent of the Lender change the class of the Vessel.

12.3.13 **Trading** The Borrower undertakes to use the Vessel only for civil merchant trading, for the duration of the Facility Period and for as long as any part of the Indebtedness remains outstanding.

12.4 **Insurances**

The Borrower covenants to ensure at its own expense throughout the Facility Period that:

12.4.1 the Vessel remains insured against marine risks and war risks on an agreed value basis for an amount which is the greater from time to time of (a) her full market value and (b) an amount which equals one hundred and twenty per cent (120%) of the amount of the Loan then outstanding; and

12.4.2 the Vessel remains entered in a protection and indemnity association in both protection and indemnity classes, or remains otherwise insured against protection and indemnity risks and liabilities (including, without limitation, protection and indemnity war risks); and

- 12.4.3 the Vessel remains insured against oil pollution caused by the Vessel for such amounts as the Lender may from time to time approve unless that risk is covered to the satisfaction of the Lender by the Vessel's protection and indemnity entry or insurance.
- 12.4.4 The Lender agrees that, if and for so long as the Vessel may be laid up with the approval of the Lender, the Borrower may at its own expense take out port risk insurance on the Vessel in place of hull and machinery insurance.
- 12.4.5 The Borrower undertakes to place the Obligatory Insurances in such markets, in such currency, on such terms and conditions, and with such brokers, underwriters and associations as the Lender shall have previously approved in writing. The Borrower shall not alter the terms of any of the Obligatory Insurances without the prior written consent of the Lender, and will supply the Lender from time to time on request with such information as the Lender may in its discretion require with regard to the Obligatory Insurances and the brokers, underwriters or associations through or with which the Obligatory Insurances are placed. The Borrower shall reimburse the Lender on demand for all costs and expenses incurred by the Lender in obtaining from time to time a report on the adequacy of the Obligatory Insurances from an insurance adviser instructed by the Lender.
- 12.4.6 The Borrower undertakes duly and punctually to pay all premiums, calls and contributions, and all other sums at any time payable in connection with the Obligatory Insurances, and, at its own expense, to arrange and provide any guarantees from time to time required by any protection and indemnity or war risks association. From time to time at the Lender's request, the Borrower will provide the Lender with evidence satisfactory to the Lender that such premiums, calls, contributions and other sums have been duly and punctually paid; that any such guarantees have been duly given; and that all declarations and notices required by the terms of any of the Obligatory Insurances to be made or given by or on behalf of the Borrower to brokers, underwriters or associations have been duly and punctually made or given.
- 12.4.7 The Borrower will comply in all respects with all terms and conditions of the Obligatory Insurances and will make all such declarations to brokers, underwriters and associations as may be required to enable the Vessel to operate in accordance with the terms and conditions of the Obligatory Insurances. The Borrower will not do, nor permit to be done, any act, nor make, nor permit to be made, any omission, as a result of which any of the Obligatory Insurances may become liable to be suspended, cancelled or avoided, or may become unenforceable, or as a result of which any sums payable under or in connection with any of the Obligatory Insurances may be reduced or become liable to be repaid or rescinded in whole or in part. In particular, but without limitation, the Borrower will not permit the Vessel to be employed other than in conformity with the Obligatory Insurances without first taking out additional insurance cover in respect of that employment in all respects to the satisfaction of the Lender, and the Borrower will promptly notify the Lender of any new requirement imposed by any broker, underwriter or association in relation to any of the Obligatory Insurances.

- 12.4.8 The Borrower will, no later than fourteen days (or, in the case of war risks, no later than seven days), before the expiry of any of the Obligatory Insurances renew them and shall immediately give the Lender such details of those renewals as the Lender may require.
- 12.4.9 The Lender shall be at liberty to take out Mortgagees Insurances in relation to the Vessel for such amounts (but not more than 110% of the Loan) and on such terms and conditions as the Lender may from time to time decide, and the Borrower shall from time to time on demand reimburse the Lender for all costs, premiums and expenses paid or incurred by the Borrower in connection with any Mortgagees Insurances.
- 12.4.10 The Borrower shall deliver to the Lender certified copies (and, if required by the Lender, the originals) of all policies, certificates of entry and other documents relating to the Insurances (including, without limitation, receipts for premiums, calls or contributions) and shall procure that letters of undertaking in such form as the Lender may approve shall be issued to the Lender by the brokers through which the Insurances are placed (or, in the case of protection and indemnity or war risks associations, by their managers). If the Vessel is at any time during the Facility Period insured under any form of fleet cover, the Borrower shall procure that those letters of undertaking contain confirmation that the brokers, underwriters or association (as the case may be) will not set off claims relating to the Vessel against premiums, calls or contributions in respect of any other vessel or other insurance, and that the insurance cover of the Vessel will not be cancelled by reason of non-payment of premiums, calls or contributions relating to any other vessel or other insurance. Failing receipt of those confirmations, the Borrower will instruct the brokers, underwriters or association concerned to issue a separate policy or certificate for the Vessel in the sole name of the Borrower or of the Borrower's brokers as agents for the Borrower.

- 12.4.11 The Borrower shall promptly provide the Lender with full information regarding any casualty or other accident or damage to the Vessel exceeding the Threshold Amount.
- 12.4.12 The Borrower agrees that, at any time after the occurrence and during the continuation of an Event of Default, the Lender shall be entitled to collect, sue for, recover and give a good discharge for all claims in respect of any of the Insurances; to pay collecting brokers the customary commission on all sums collected in respect of those claims; to compromise all such claims or refer them to arbitration or any other form of judicial or non-judicial determination; and otherwise to deal with such claims in such manner as the Lender shall in its discretion think fit.
- 12.4.13 Whether or not an Event of Default shall have occurred or be continuing, the proceeds of any claim under any of the Insurances in respect of a Total Loss shall be paid to the Lender and applied by the Lender in accordance with Clause 10.1.
- 12.4.14 The Borrower agrees that, at any time after the occurrence and during the continuation of an Event of Default, the Lender shall be entitled to require payment to itself, if the Borrower shall fail to reach agreement with any of the brokers, underwriters or associations with regard to any claim in respect of any of the Insurances (other than in respect of a Total Loss), or the restoration of the Vessel, according to good commercial maintenance practice, or for payment to third parties, within such time as the Lender may stipulate. In addition, in the event of any dispute arising between the Borrower and any broker, underwriter or association with respect to any obligation to make any payment to the Borrower or to the Lender under or in connection with any of the Insurances, or with respect to the amount of any such payment, the Lender shall be entitled to settle that dispute directly with the broker, underwriter or association concerned. Any such settlement shall be binding on the Borrower.

- 12.4.15 The Lender agrees that any amounts which may become due under any protection and indemnity entry or insurance shall be paid to the Borrower to reimburse the Borrower for, and in discharge of, the loss, damage or expense in respect of which they shall have become due, unless, at the time the amount in question becomes due, an Event of Default shall have occurred and be continuing, in which event the Lender shall be entitled to receive the amounts in question and to apply them either in reduction of the Indebtedness or, at the option of the Lender, to the discharge of the liability in respect of which they were paid.
- 12.4.16 The Borrower shall not settle, compromise or abandon any claim under or in connection with any of the Insurances (other than a claim of less than the Threshold Amount arising other than from a Total Loss) without the prior written consent of the Lender.
- 12.4.17 If the Borrower fails to effect or keep in force the Obligatory Insurances, the Lender may (but shall not be obliged to) effect and/or keep in force such insurances on the Vessel and such entries in protection and indemnity or war risks associations as the Lender in its discretion considers desirable, and the Lender may (but shall not be obliged to) pay any unpaid premiums, calls or contributions. The Borrower will reimburse the Lender from time to time on demand for all such premiums, calls or contributions paid by the Lender, together with interest at the default rate from the date of payment by the Lender until the date of reimbursement.
- 12.4.18 The Borrower shall comply strictly with the requirements of any legislation relating to pollution or protection of the environment which may from time to time be applicable to the Vessel in any jurisdiction in which the Vessel shall trade and in particular (if the Vessel is to trade in the United States of America and Exclusive Economic Zone (as defined in the Act)) the Borrower shall comply strictly with the requirements of the United States Oil Pollution Act 1990 (the "**Act**"). Before any such trade is commenced and during the entire period during which such trade is carried on, the Borrower shall:

- (a) pay any additional premiums required to maintain protection and indemnity cover for oil pollution up to the limit available to the Borrower for the Vessel in the market; and
- (b) make all such quarterly or other voyage declarations as may from time to time be required by the Vessel's protection and indemnity association in order to maintain such cover; and
- (c) submit the Vessel to such additional periodic, classification, structural or other surveys which may be required by the Vessel's protection and indemnity insurers to maintain cover for such trade and at the Lender's request deliver to the Lender copies of reports made in respect of such surveys; and
- (d) implement any recommendations contained in the reports issued following the surveys referred to in Clause 12.4.18(c) within the relevant time limits, and provide evidence satisfactory to the Lender that the protection and indemnity insurers are satisfied that this has been done; and
- (e) in addition to the foregoing (if such trade is in the United States of America and Exclusive Economic Zone):
 - (aa) obtain and retain a certificate of financial responsibility under the Act in form and substance satisfactory to the United States Coast Guard; and
 - (bb) procure that the protection and indemnity insurances do not contain a US Trading Exclusion Clause or any other analogous provision; and

- (cc) comply strictly with any operational or structural regulations issued from time to time by any relevant authorities under the Act so that at all times the Vessel falls within the provisions which limit strict liability under the Act for oil pollution.

13 Events of Default

13.1 **Events of Default** Each of the events or circumstances set out in this Clause 13.1 is an Event of Default.

13.1.1 **Non-payment** The Borrower does not pay on the due date any amount payable by it under a Finance Document at the place at and in the currency in which it is expressed to be payable unless:

- (a) its failure to pay is caused by manifest administrative or technical error; and
- (b) payment is made within two (2) Business Days of its due date.

13.1.2 **Other obligations** A Security Party or any other person (except the Lender) does not comply with any provision of any of the Relevant Documents (other than the Building Contract) to which that Security Party or person is a party (other than as referred to in Clause 13.1.1 (*Non-payment*)).

No Event of Default under this Clause 13.1.2 will occur if the failure to comply is capable of remedy and is remedied within seven (7) Business Days of the Lender giving notice to the Borrower or the Borrower becoming aware of the failure to comply.

No Event of Default under this Clause 13.1.2 will occur if the failure to comply is in relation to the Charter and such failure to comply is not material (in the Lender's sole opinion) and is outside the control of the Borrower.

13.1.3 **Misrepresentation** Any representation, warranty or statement made or deemed to be repeated by a Security Party in any Finance Document or any other document delivered by or on behalf of a Security Party under or in connection with any Finance Document is or proves to have been incorrect or misleading in any material respect when made or deemed to be repeated.

13.1.4 **Cross default** Any Financial Indebtedness of the Borrower in excess of an aggregate amount of \$500,000 or any Financial Indebtedness of any other Security Party or the Group in excess of an aggregate amount of \$10,000,000:

- (a) is not paid when due or within any originally applicable grace period; or
- (b) is declared to be, or otherwise becomes, due and payable before its specified maturity as a result of an event of default (however described); or
- (c) is capable of being declared by a creditor to be due and payable before its specified maturity as a result of such an event.

13.1.5 **Insolvency**

- (a) A Security Party or a member of the Group is unable or admits inability to pay its debts as they fall due, suspends making payments on any of its debts or, by reason of actual or anticipated financial difficulties, commences negotiations with one or more of its creditors with a view to rescheduling any of its Financial Indebtedness.
- (b) The value of the assets of a Security Party or the Group on a consolidated basis is less than its liabilities (taking into account contingent and prospective liabilities).
- (c) A moratorium is declared in respect of any Financial Indebtedness of a Security Party or a member of the Group.

13.1.6 **Insolvency proceedings** Any corporate action, legal proceedings or other procedure or step is taken for:

- (a) the suspension of payments, a moratorium of any Financial Indebtedness, winding-up, dissolution, administration, bankruptcy or reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise) of a Security Party or a member of the Group;

- (b) a composition, compromise, assignment or arrangement with any creditor of a Security Party or a member of the Group;
- (c) the appointment of a liquidator, receiver, administrative receiver, administrator, compulsory manager, or trustee or other similar officer in respect of any Security Party or a member of the Group or any of its (in the Lender's opinion) material assets; or
- (d) enforcement of any Encumbrance over any material (in the Lender's opinion) assets of a Security Party or a member of the Group,

or any analogous procedure or step is taken in any jurisdiction.

13.1.7 **Creditors' process** Any expropriation, attachment, sequestration, distress or execution affects any (in the Lender's opinion) material asset or (in the Lender's opinion) material assets of a Security Party.

13.1.8 **Change in ownership or control of the Borrower** There is any change in the beneficial ownership or control of the Borrower from that advised to the Lender by the Borrower at the date of this Agreement.

13.1.9 **Repudiation** A Security Party or any other person (except the Lender or the Builder) repudiates any of the Relevant Documents (other than the Building Contract) to which that Security Party or person is a party or evidences an intention to do so.

No Event of Default under this Clause 13.1.9 will occur if the repudiation is in relation to the Charter and such repudiation is outside the control of the Borrower and if capable of remedy is remedied within seven (7) Business Days of the Lender giving notice to the Borrower or the Borrower becoming aware of such repudiation.

13.1.10 **Impossibility or illegality** Any event occurs which would, or would with the passage of time, render performance of any of the Relevant Documents by a Security Party or any other party to any such document impossible, unlawful or unenforceable by the Lender or a Security Party.

No Event of Default under this Clause 13.1.10 will occur if the impossibility or illegality is in relation to the Charter and/or the Management Agreement and such impossibility or illegality is outside the control of the Borrower and if capable of remedy is remedied within seven (7) Business Days of the Lender giving notice to the Borrower or the Borrower becoming aware of such impossibility or illegality.

13.1.11 **Conditions subsequent** Any of the conditions referred to in Clause 3.3 (*Conditions subsequent*) is not satisfied within the time reasonably required by the Lender.

13.1.12 **Revocation or modification of authorisation** Any consent, licence, approval, authorisation, filing, registration or other requirement of any governmental, judicial or other public body or authority which is now, or which at any time during the Facility Period becomes, necessary to enable a Security Party or any other person (except the Lender) to comply with any of its obligations under any of the Relevant Documents is not obtained, is revoked, suspended, withdrawn or withheld, or is modified in a manner which the Lender considers is, or may be, prejudicial to the interests of the Lender, or ceases to remain in full force and effect.

No Event of Default under this Clause 13.1.12 will occur if the revocation or modification of authorisation is in relation to the Charter and/or the Management Agreement and such revocation or modification of authorisation is outside the control of the Borrower and if capable of remedy is remedied within seven (7) Business Days of the Lender giving notice to the Borrower or the Borrower becoming aware of such revocation or modification of authorisation.

13.1.13 **Curtailment of business** A Security Party ceases, or threatens to cease, to carry on all or a substantial part of its business or, as a result of intervention by or under the authority of any government, the business of a Security Party is wholly or partially curtailed or suspended, or all or a substantial part of the assets or undertaking of a Security Party is seized, nationalised, expropriated or compulsorily acquired.

- 13.1.14 **Reduction of capital** A Security Party reduces its authorised or issued or subscribed capital.
- 13.1.15 **Loss of Vessel** The Vessel suffers a Total Loss or is otherwise destroyed, abandoned, confiscated, forfeited or condemned as prize, or a similar event occurs in relation to any other vessel which may from time to time be mortgaged to the Lender as security for the payment of all or any part of the Indebtedness, except that a Total Loss, or event similar to a Total Loss in relation to any other vessel, shall not be an Event of Default if:
- (a) the Vessel or other vessel is insured in accordance with the Security Documents; and
 - (b) no insurer has refused to meet or has disputed the claim for Total Loss and it is not apparent to the Lender in its discretion that any such refusal or dispute is likely to occur; and
 - (c) payment of all insurance proceeds in respect of the Total Loss is made in full to the Lender within one hundred and twenty (120) days of the occurrence of the casualty giving rise to the Total Loss in question or such longer period as the Lender may in its discretion agree.
- 13.1.16 **Challenge to registration** The registration of the Vessel or the Mortgage is contested or becomes void or voidable or liable to cancellation or termination, or the validity or priority of the Mortgage is contested.
- 13.1.17 **War** The country of registration of the Vessel becomes involved in war (whether or not declared) or civil war or is occupied by any other power and the Lender in its discretion considers that, as a result, the security conferred by the Security Documents is materially prejudiced.
- 13.1.18 **Master Agreement termination** A notice is given by the Swap Provider under section 6(a) of the Master Agreement, or by any person under section 6(b)(iv) of the Master Agreement, in either case designating an Early Termination Date for the purpose of the Master Agreement, or the Master Agreement is for any other reason terminated, cancelled, suspended, rescinded, revoked or otherwise ceases to remain in full force and effect.
-

- 13.1.19 **Notice of termination** The Guarantor gives notice to the Lender to determine its obligations under the Guarantee.
- 13.1.20 **Material adverse change** Any event or series of events occurs which, in the reasonable opinion of the Lender, is likely to have a materially adverse effect on the business, assets, financial condition or credit worthiness of a Security Party or a member of the Group.
- 13.1.21 **Default under the Charter** Any event or circumstance occurs which in the opinion of the Lender constitutes a material default under the Charter, including without limitation a material amendment to the Charter.
- 13.1.22 **Invalidity** At any time, any (in the Lender's opinion) material provision of a Relevant Document is or becomes illegal, invalid or unenforceable in any respect under any law of any jurisdiction.
- 13.1.23 **Shareholding** Without the Lender's consent, any one person (or associated (in the sole opinion of the Lender) persons) - other than members of the Palios and Margaronis family and one or more underwriters temporarily holding shares of the Guarantor pursuant to an offering of such shares - acquires more than 20% of the Guarantor's issued share capital at any one time.
- 13.2 **Acceleration** If an Event of Default is continuing the Lender may by notice to the Borrower:
- 13.2.1 declare that the Loan, together with accrued interest, and all other amounts accrued or outstanding under the Finance Documents are immediately due and payable, whereupon they shall become immediately due and payable; and/or
- 13.2.2 declare that the Loan is payable on demand, whereupon it shall immediately become payable on demand by the Lender.

14 Assignment and Sub-Participation

- 14.1 **Lender's rights** The Lender may assign any of its rights under this Agreement or transfer by novation any of its rights and obligations under this Agreement to any branch or consolidated subsidiary of Deutsche Bank Aktiengesellschaft or, with the Borrower's prior written consent (unless an Event of Default has occurred and is continuing, in which case no Borrower's consent shall be required) to any other bank or financial institution or (for the purpose of a securitisation of the Lender's rights or obligations under the Finance Documents or a similar transaction of broadly equivalent economic effect) to any special purpose vehicle, and may grant sub-participations in all or any part of the Loan.
- 14.2 **Borrower's co-operation** The Borrower will co-operate fully with the Lender in connection with any assignment, transfer or sub-participation; will execute and procure the execution of such documents as the Lender may require in that connection; and irrevocably authorises the Lender to disclose to any proposed assignee, transferee or sub-participant (whether before or after any assignment, transfer or sub-participation and whether or not any assignment, transfer or sub-participation shall take place) all information relating to the Security Parties, the Loan, the Relevant Documents and the Vessel which the Lender may in its discretion consider necessary or desirable.
- 14.3 **Rights of assignee or transferee** Any assignee or transferee of the Lender shall (unless limited by the express terms of the assignment or novation) take the full benefit of every provision of the Finance Documents benefitting the Lender.
- 14.4 **No assignment or transfer by the Borrower** The Borrower may not assign any of its rights or transfer any of its rights or obligations under the Finance Documents.
- 14.5 **Securitisation** The Lender may disclose the size and term of the Loan and the name of each of the Security Parties to any investor or potential investor in a securitisation (or similar transaction of broadly equivalent economic effect) of the Lender's rights or obligations under the Finance Documents.

15 Set-Off

- 15.1 **Set-off** The Lender and the Swap Provider may set off any matured obligation due from the Borrower under any Finance Document against any matured obligation owed by the Lender or the Swap Provider to the Borrower, regardless of the place of payment, booking branch or currency of either obligation. If the obligations are in different currencies, the Lender or the Swap Provider may convert either obligation at a market rate of exchange in its usual course of business for the purpose of the set-off.

- 15.2 **Master Agreement rights** The rights conferred on the Swap Provider by this Clause 15 shall be in addition to, and without prejudice to or limitation of, the rights of netting and set off conferred on the Swap Provider by the Master Agreement.

16 Payments

- 16.1 **Payments** Each amount payable by the Borrower under a Finance Document shall be paid to such account at such bank as the Lender may from time to time direct to the Borrower in the Currency of Account and in such funds as are customary at the time for settlement of transactions in the relevant currency in the place of payment. Payment shall be deemed to have been received by the Lender on the date on which the Lender receives authenticated advice of receipt, unless that advice is received by the Lender on a day other than a Business Day or at a time of day (whether on a Business Day or not) when the Lender in its discretion considers that it is impossible or impracticable for the Lender to utilise the amount received for value that same day, in which event the payment in question shall be deemed to have been received by the Lender on the Business Day next following the date of receipt of advice by the Lender.
- 16.2 **No deductions or withholdings** Each payment (whether of principal or interest or otherwise) to be made by the Borrower under a Finance Document shall, subject only to Clause 16.3 (*Grossing-up*), be made free and clear of and without deduction for or on account of any Taxes or other deductions, withholdings, restrictions, conditions or counterclaims of any nature.
- 16.3 **Grossing-up** If at any time any law requires (or is interpreted to require) the Borrower to make any deduction or withholding from any payment, or to change the rate or manner in which any required deduction or withholding is made, the Borrower will promptly notify the Lender and, simultaneously with making that payment, will pay to the Lender whatever additional amount (after taking into account any additional Taxes on, or deductions or withholdings from, or restrictions or conditions on, that additional amount) is necessary to ensure that, after making the deduction or withholding, the Lender receives a net sum equal to the sum which the Lender would have received had no deduction or withholding been made.

- 16.4 **Evidence of deductions** If at any time the Borrower is required by law to make any deduction or withholding from any payment to be made by it under a Finance Document, the Borrower will pay the amount required to be deducted or withheld to the relevant authority within the time allowed under the applicable law and will, no later than thirty (30) days after making that payment, deliver to the Lender an original receipt issued by the relevant authority, or other evidence acceptable to the Lender, evidencing the payment to that authority of all amounts required to be deducted or withheld.
- 16.5 **Adjustment of due dates** If any payment or transfer of funds to be made under a Finance Document, other than a payment of interest on the Loan or a payment under the Master Agreement, shall be due on a day which is not a Business Day, that payment shall be made on the next succeeding Business Day (unless the next succeeding Business Day falls in the next calendar month in which event the payment shall be made on the next preceding Business Day). Any such variation of time shall be taken into account in computing any interest in respect of that payment.
- 16.6 **Control Account** The Lender shall open and maintain on its books a control account in the name of the Borrower showing the advance of the Loan and the computation and payment of interest and all other sums due under this Agreement and the Master Agreement. The Borrower's obligations to repay the Loan and to pay interest and all other sums due under this Agreement and the Master Agreement shall be evidenced by the entries from time to time made in the control account opened and maintained under this Clause 16.6 and those entries will, in the absence of manifest error, be conclusive and binding.

17 Notices

- 17.1 **Communications in writing** Any communication to be made under or in connection with this Agreement shall be made in writing and, unless otherwise stated, may be made by fax or letter.

- 17.2 **Addresses** The address and fax number (and the department or officer, if any, for whose attention the communication is to be made) of each party to this Agreement for any communication or document to be made or delivered under or in connection with this Agreement are:
- 17.2.1 in the case of the Borrower, to Gala Properties Inc., c/o Diana Shipping Services S.A., Pendelis 16, 175 64 Palaio Faliro, Athens, Greece (fax no: +30 210 9470101) marked for the attention of Mr Andreas Michalopoulos; and
- 17.2.2 in the case of the Lender, Deutsche Bank Aktiengesellschaft Filiale Deutschlandgeschäft, Ludwig-Erhard-Str. 1, 20459 Hamburg, Germany (fax no: +49 (0)40 3701 4649) marked for the attention of Jörg Zickermann;
- or any substitute address, fax number, department or officer as either party may notify to the other by not less than five (5) Business Days' notice.
- 17.3 **Delivery** Any communication or document made or delivered by one party to this Agreement to the other under or in connection this Agreement will only be effective:
- 17.3.1 if by way of fax, when received in legible form; or
- 17.3.2 if by way of letter, when it has been left at the relevant address or five (5) Business Days after being deposited in the post postage prepaid in an envelope addressed to it at that address;
- and, if a particular department or officer is specified as part of its address details provided under Clause 17.2 (*Addresses*), if addressed to that department or officer.
- Any communication or document to be made or delivered to the Lender will be effective only when actually received by the Lender.
- 17.4 **English language** Any notice given under or in connection with this Agreement must be in English. All other documents provided under or in connection with this Agreement must be:
- 17.4.1 in English; or

17.4.2 if not in English, and if so required by the Lender, accompanied by a certified English translation and, in this case, the English translation will prevail unless the document is a constitutional, statutory or other official document.

18 Partial Invalidity

If, at any time, any provision of a Finance Document is or becomes illegal, invalid or unenforceable in any respect under any law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions nor the legality, validity or enforceability of such provision under the law of any other jurisdiction will in any way be affected or impaired.

19 Remedies and Waivers

No failure to exercise, nor any delay in exercising, on the part of the Lender, any right or remedy under a Finance Document shall operate as a waiver, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise or the exercise of any other right or remedy. The rights and remedies provided in this Agreement are cumulative and not exclusive of any rights or remedies provided by law.

20 Miscellaneous

- 20.1 **No oral variations** No variation or amendment of a Finance Document shall be valid unless in writing and signed on behalf of the Lender.
- 20.2 **Further assurance** If any provision of a Finance Document shall be invalid or unenforceable in whole or in part by reason of any present or future law or any decision of any court, or if the documents at any time held by or on behalf of the Lender are considered by the Lender for any reason insufficient to carry out the terms of this Agreement, then from time to time the Borrower will promptly, on demand by the Lender, execute or procure the execution of such further documents as in the opinion of the Lender are necessary to provide adequate security for the repayment of the Indebtedness.
- 20.3 **Rescission of payments etc.** Any discharge, release or reassignment by the Lender of any of the security constituted by, or any of the obligations of a Security Party contained in, a Finance Document shall be (and be deemed always to have been) void if any act (including, without limitation, any payment) as a result of which such discharge, release or reassignment was given or made is subsequently wholly or partially rescinded or avoided by operation of any law.

- 20.4 **Certificates** Any certificate or statement signed by an authorised signatory of the Lender purporting to show the amount of the Indebtedness (or any part of the Indebtedness) or any other amount referred to in any Finance Document shall, save for manifest error or on any question of law, be conclusive evidence as against the Borrower of that amount.
- 20.5 **Counterparts** This Agreement may be executed in any number of counterparts each of which shall be original but which shall together constitute the same instrument.
- 20.6 **Contracts (Rights of Third Parties) Act 1999** A person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce or to enjoy the benefit of any term of this Agreement.
- 20.7 **Ancillary Business** Provided such terms are competitive, the Swap Provider shall have the right of first refusal to quote for any derivative transaction to be entered into between the Swap Provider and the Borrower or the Guarantor in relation to this Agreement and/or the Vessel, including without limitation, any interest rate hedging contracts in respect of the Borrower's exposure to interest rate fluctuations in connection with the Loan and shall be secured by the Security Documents.

21 Law and Jurisdiction

- 21.1 **Governing law** This Agreement and any non-contractual obligations arising from or in connection with it shall in all respects be governed by and interpreted in accordance with English law.
- 21.2 **Jurisdiction** For the exclusive benefit of the Lender, the parties to this Agreement irrevocably agree that the courts of England are to have jurisdiction to settle any dispute (a) arising from or in connection with this Agreement or (b) relating to any non-contractual obligations arising from or in connection with this Agreement and that any proceedings may be brought in those courts.
- 21.3 **Alternative jurisdictions** Nothing contained in this Clause 21 shall limit the right of the Lender to commence any proceedings against the Borrower in any other court of competent jurisdiction nor shall the commencement of any proceedings against the Borrower in one or more jurisdictions preclude the commencement of any proceedings in any other jurisdiction, whether concurrently or not.

- 21.4 **Waiver of objections** The Borrower irrevocably waives any objection which it may now or in the future have to the laying of the venue of any proceedings in any court referred to in this Clause 21, and any claim that those proceedings have been brought in an inconvenient or inappropriate forum, and irrevocably agrees that a judgment in any proceedings commenced in any such court shall be conclusive and binding on it and may be enforced in the courts of any other jurisdiction.
- 21.5 **Service of process** Without prejudice to any other mode of service allowed under any relevant law, the Borrower:
- 21.5.1 irrevocably appoints Nikolaou & Co., Chartered Accountants, 25 Heath Drive, Potters Bar, Herts, EN6 1EN, England (tel +44 17 0765 2193, Fax +44 17 0766 4340) (for the attention of: Mr. Antonis Nicolaou) as its agent for service of process in relation to any proceedings before the English courts in connection with this Agreement; and
- 21.5.2 agrees that failure by a process agent to notify the Borrower of the process will not invalidate the proceedings concerned.

IN WITNESS of which the parties to this Agreement have executed this Agreement the day and year first before written.

SIGNED
by Andre-Nikos Michalopoulos) /s/ Andre-Nikos Michalopoulos
duly authorised for and on behalf)
of **BIKINI SHIPPING COMPANY**)
INC.)

SIGNED by Ralf Bedranowsky) /s/ Ralf Bedranowsky
duly authorised for and on behalf)
of **DEUTSCHE BANK**)
AKTIENGESELLSCHAFT)
FILIALE)
DEUTSCHLANDGESCHÄFT)

SK 23159 0002 1182852

DATED 22 OCTOBER 2009

BREMER LANDESBANK KREDITANSTALT OLDENBURG -GLROZENTRALE -

As Lender

- a n d -

GALA PROPERTIES INC.

As Borrower

**LOAN AGREEMENT
for a Secured Loan Facility of up to
US\$ 40,000,000.00**

**Law Offices
G. E. BAIRACTARIS & PARTNERS
130, Kolokotroni str., Piraeus, Greece**

INDEX

1.	PURPOSE AND DEFINITIONS	3
2.	THE LOAN	13
3.	INTEREST AND MARGIN	14
4.	ALTERNATIVE INTEREST RATES - CURRENCY	16
5.	REPAYMENT, PREPAYMENT, AND APPLICATION OF FUNDS	17
6.	PAYMENTS	21
7.	FEES	22
8.	REPRESENTATIONS AND WARRANTIES	22
9.	CONDITIONS PRECEDENT AND SUBSEQUENT	26
10.	SECURITY	29
11.	INSURANCES	30
12.	COVENANTS	37
13.	EVENTS OF DEFAULT	44
14.	INDEMNITIES	49
15.	ASSIGNMENT AND PARTICIPATION	51
16.	CHANGE IN CIRCUMSTANCES - INCREASED COST	52
17.	WAIVER AND REMEDIES	54
18.	INVALIDITY OF PROVISIONS	54
19.	NOTICES	54
20.	LAW AND JURISDICTION	55
21.	MISCELLANEOUS	56

THIS AGREEMENT is made the 22nd day of October Two Thousand and Nine (2009)

BY AND BETWEEN

1. **BREMER LANDESBANK KREDITANSTALT OLDENBURG-GIHOZENTRALE**-, a company duly incorporated and existing under the laws of the Federal Republic of Germany, having its registered office at Domshof 26, 28195 Bremen, Federal Republic of Germany (hereinafter called the "Bank"), and

2. **GALA PROPERTIES INC.** a corporation duly incorporated and existing under the laws of the Republic of the Marshall Islands, having its registered office at Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro, Marshall Islands MH 96960 (hereinafter called the "Borrower")

IT IS AGREED AS FOLLOWS:

1. PURPOSE AND DEFINITIONS

1.01. This Agreement sets out the terms and conditions upon and subject to which the Bank agrees to make available to the Borrower a loan of up to Dollars Forty Million (\$ 40,000,000.00), for the purpose of assisting the Borrower in financing or, as the case may be, refinancing part of the acquisition cost of the Vessel (as such term is defined herein below) in accordance with the terms of a shipbuilding contract dated 30 March 2006 as same was novated by a novation agreement dated 24th July 2008 and amended by an Addendum no.1 dated 30 March 2006 and an Addendum no.2 dated as of 3 April 2009, pursuant to which the Borrower will purchase the Vessel and will register it in its ownership under an Approved Flag.

1.02. In this Agreement, unless the context otherwise requires, the following expressions shall have the following meanings:

"Agreement" means this agreement and the Bank's General Terms of Business and General Loan Conditions attached as Exhibits 1 and 2, which form an integral part of this Agreement;

"Approved Flag" means any of the Maltese, Cypriot, Panamanian, Bahamas, Liberian, Greek, Singapore, Gibraltar, or German, or Marshall Islands flag, or any other flag as the Bank may, in its absolute discretion, approve as the flag on which the Vessel may be registered;

"Approved Brokers" means Clarksons, London, and Braemar Seascope, London, and Arrow Shipbroking (Arrow Research), London, and Fearnleys, Oslo, and Weselmann GMBH, Hamburg, or any other reputable independent sale and purchase broker as the Bank may, in its absolute discretion, approve;

"Bank" means the Bank as specified in the beginning of this Agreement and the successors and assigns of the Bank;

"Banking Day" means any day on which banks and foreign exchange markets in New York, United States of America, in Frankfurt, Federal Republic of Germany, and in Athens, Greece, and in each country or place in or at which an act is required to be done under this Agreement in accordance with the usual practice of the Bank, are open for the transaction of business of the nature contemplated in this Agreement;

"Borrower" means the Borrower as specified at the beginning of this Agreement and the successors and permitted assigns of the Borrower;

"Break Costs" means all costs, losses, premiums or penalties incurred by the Bank as a result of it receiving any prepayment of all or any part of the Loan or any other payment under or in relation to the Security Documents on a day other than the due date for payment of the sum in question, and includes (without limitation) any losses or costs incurred in liquidating or re-employing deposits from third parties acquired to effect or maintain the Loan and interest on the amount of the Loan being prepaid at a rate equivalent to the Margin on the Loan from the date of commencement of the then current Interest Period to the last day thereof;

"Builder" means Shanghai Jiangnan-Changxing Shipbuilding Co. Ltd., a company organized and existing under the laws of the People's Republic of China, having its registered office at No. 2468 Changxing Jiangnan Avenue, Changxing Town, Chongming County, Shanghai, the People's Republic of China, and includes the successors and assigns of the Builder;

"Charter" means the time charter agreement with respect to the Vessel entered or, as the case may be, to be entered into prior to the Drawdown Date between the Borrower and Jiangsu Shagang Group Corp. or any other first class charterer acceptable to the Bank, of a duration of minimum fifty nine (59) to a maximum sixty two (62) months and a daily charter hire of minimum \$ 55,000.00, in form and substance satisfactory to the Bank;

"Charter Assignment" means, the first priority assignment in favour of the Bank of the rights of the Borrower under the Charter and any guarantee of such charter (if such a guarantee is provided to the Borrower), and notice thereof, in such form as the Bank may approve or require;

"Commitment" means the amount which the Bank agreed to lend to the Borrower under Clause 2.01, as modified by any relevant term of this Agreement;

"Contract" means the shipbuilding contract dated 30 March 2006 as same was novated by a novation agreement dated 24th July 2008, as amended by an Addendum no. 1 dated 30 March 2006 and an Addendum no. 2 dated as of 3 April 2009, and as same may be further amended and supplemented from time to time, between the Borrower, the Builder, and the Seller relating to the construction of the Vessel and purchase thereof by the Borrower;

"Contract Price" means the price payable by the Borrower to the Seller for the Vessel pursuant to the terms of the Contract being Dollars Sixty Million Two Hundred Thousand (\$ 60,200,000.00) or such other sum as is determined in accordance with the terms and conditions of the Contract;

"Corporate Guarantee" means the unconditional and irrevocable guarantee to be given by the Corporate Guarantor in form and substance satisfactory to the Bank as security for the obligations of the Borrower under the Agreement;

"Corporate Guarantor" means Diana Shipping Inc., a corporation duly organized and existing under the laws of the Republic of the Marshall Islands, having its registered office at Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro, Marshall Islands MI I 96960 and includes its successors in title;

"Credit Support Document" has the meaning given in Section 14 of the ISDA Master Agreement

"Current Account" means the account or accounts in the name of the Borrower with the Bank, as the Bank in its sole discretion may require, to which (inter alia) all Earnings of the Vessel are to be paid in accordance with Clauses 5.04 and 12.09.02;

"Deed of Covenant" means, in relation to the Vessel if registered on the Maltese, Cyprus or Bahamas or any other applicable flag, a deed of covenant collateral to the Mortgage on the Vessel, to be in such form as the Bank may approve or require;

"Default Rate" means that rate of interest per annum which is determined in accordance with the provisions of Clause 3.04;

"Designated Transaction" means a Transaction which is entered into by the Borrower pursuant to the ISDA Agreement with the Bank;

"Dollars" and the sign "\$" means (available and transferable funds in) the lawful currency of the United States of America and in respect of all payments to be made under any of the Security Documents funds which are for same day settlement in the New York Clearing House Interbank Payments System (or such other U.S. Dollar funds as may at the relevant time be customary for the settlement of international banking transactions denominated in U.S. Dollars);

"Drawdown Date" means the date upon which the Borrower has requested that the Loan be advanced to it pursuant to Clause 2, or (as the context requires) the date on which the Loan is actually advanced to the Borrower hereunder;

"Drawdown Notice" means a notice substantially in the terms of Schedule 1;

"Earnings" means all moneys whatsoever due or to become due to or for the account of the Borrower at any time during the Security Period arising out of the use or operation of the Vessel including (but not limited to) all freight, hire and passage moneys, compensation payable to the Borrower in the event of requisition of the Vessel for hire, remuneration for salvage and towage services, demurrage and detention moneys, contributions of any nature whatsoever in respect of General Average and damages for breach (or payments for variation or termination) of any charterparty, or other contract for the employment of the Vessel and all sums recoverable under insurances in respect of loss of Earnings (and including, if and whenever the Vessel is employed on terms whereby any or all such moneys as aforesaid are pooled or shared with any other person, that proportion of the net receipts of the relevant pooling or sharing arrangement which is attributable to the Vessel) and all rights, claims and proceeds resulting therefrom;

"Encumbrance" means any mortgage, charge (whether fixed or floating), pledge, lien, hypothecation, assignment, security interest, title retention, arrest, seizure, garnishee order (whether nisi or absolute) or any other order or judgment having similar effect or other encumbrance of any kind securing or any right conferring a priority of payment in respect of any obligation of any person;

"Environmental Affiliate" means any agent or employee of the Borrower or any other Relevant Party or any person having a contractual relationship with the Borrower or any other Relevant Party in connection with any Relevant Ship or its operation or the carriage of cargo thereon;

"Environmental Approval" means any consent, authorization, license or approval of any governmental or public body or authorities or courts applicable to any Relevant Ship or its operation or the carriage of cargo thereon required under any Environmental Law;

"Environmental Claim" means any and all enforcement, clean up, removal or other governmental or regulatory actions or orders instituted or completed pursuant to any Environmental Law or any Environmental Approval together with claims made by any third party relating to damage, contribution, loss or injury, resulting from any actual or threatened emission, spill, release or discharge of a Material of Environmental Concern;

"Environmental Laws" means all national, international and state laws, rules, regulations, treaties and conventions applicable to any Relevant Ship pertaining to the pollution or protection of human health or the environment including, without limitation, the carriage of Materials of Environmental Concern and actual or threatened emissions, spills, releases or discharges of Materials of Environmental Concern;

"Euro" and the sign "€" means (available and transferable funds in) the single currency of member states of the European Union introduced in accordance with the provisions of Article 109(1) of the Treaty of Rome of 25 March 1957 as amended by the Single European Act 1986 and the Maastricht Treaty (which was signed on 7 February 1992 and came into force on 1 November 1993 as amended, varied or supplemented from time to time);

"Event of Default" means any one of those events set out in Clause 13 or described as such in any other of the Security Documents;

"Expenses" means the aggregate at any relevant time (to the extent that the same have not been received or recovered by the Bank) of:

(a) all losses, liabilities, costs, charges, expenses, damages and outgoings of whatever nature (including, without limitation, taxes, repair costs, registration fees, insurance premiums, crew wages, repatriation expenses and Pension Fund dues) suffered, reasonably incurred, charged to, paid or committed to be paid by the Bank in connection with the exercise of the powers referred to in or granted by any of the Security Documents or otherwise payable by the Borrower in accordance with the terms of any of the Security Documents; and

(b) the expenses referred to in Clause 14.02 and

(c) interest on all such losses, liabilities, costs, charges, expenses, damages and outgoings from the date on which the same were suffered, incurred or paid by the Bank until the date of receipt or recovery thereof (whether before or after judgment) at a rate per annum calculated in accordance with Clause 3.04 (as conclusively certified by the Bank);

"Fees" means the fees set out in Clause 7;

"Final Availability Date" means the 31st day of March 2010, or such other later date as the Bank at its free and absolute discretion may agree to;

"Final Maturity Date" means the date falling one hundred twenty (120) months from the Drawdown Date, or such other later date as the Bank at its free and absolute discretion may agree to;

"Financial Indebtedness" means, in relation to a person (the **"debtor"**), a liability of the debtor:

- (a) for principal, interest or any other sum payable in respect of any moneys borrowed or raised by the debtor;
- (b) under any loan stock, bond, note or other security issued by the debtor;
- (c) under any acceptance credit, guarantee or letter of credit facility made available to the debtor;
- (d) under a financial lease, a deferred purchase consideration arrangement or any other agreement having the commercial effect of a borrowing or raising of money by the debtor;
- (e) under any interest or currency swap or any other kind of derivative transaction entered into by the debtor or, if the agreement under which any such transaction is entered into requires netting of mutual liabilities, the liability of the debtor for the net amount; or
- (f) under a guarantee, indemnity or similar obligation entered into by the debtor in respect of a liability of another person which would fall within (a) to (e) if the references to the debtor referred to the other person;

"GAAP" means accounting principles, concepts, bases and policies generally adopted and accepted in the United States of America;

"Group" means the Security Parties and the subsidiaries (whether direct or indirect) of the Security Parties from time to time during the Security Period and **"member of the Group"** shall be construed accordingly;

"Indebtedness" means, in relation to any person, any obligation (whether present or future, actual or contingent, secured or unsecured, as principal or surety or otherwise) for the payment or repayment of money;

"Initial Margin Application Period" means the time period of twenty four (24) months commencing on the Drawdown Date during which the Margin of two point fifteen per cent (2.15%) per annum shall be applicable;

"Initial Margin" means two point fifteen per cent (2.15%) per annum;

"Insurances" means all policies and contracts of insurance (including all entries of the Vessel in a protection and indemnity association and a war risks association) which are from time to time in place, taken out or entered into by or for the benefit of the Borrower and/or the Manager in respect of the Vessel or its Earnings or otherwise howsoever (as specified in detail in Clause 11 and in the other Security Documents) and all benefits of such policies and contracts, including all claims of whatsoever nature and return of premiums;

"Interest Payment Date" means in respect of the Loan or any part thereof in respect of which a separate Interest Period is fixed, the last day of the relevant Interest Period and in case of any Interest Period which overruns one or more Repayment Dates, each such Repayment Date;

"Interest Period" means in relation to the Loan or any part thereof, each period for the calculation of interest in respect of the Loan or such part ascertained in accordance with Clauses 3.02 and 3.03;

"Interest Rate" means the rate of interest determined in accordance with Clause 3.01 and 4.01;

"ISDA Agreement" means the ISDA Master Agreement including the Schedule and any Credit Support Document thereto made or to be made between the Borrower and the Bank and includes all Designated Transactions from time to time entered into and confirmations from time to time exchanged thereunder;

"ISDA Agreement Liabilities" means any and all obligations arising out of or in connection with the ISDA Agreement, including all Designated Transactions entered into thereunder, and particularly any claim and obligation due to an event of default or termination event pursuant to Section 6 (e) of the ISDA Agreement, costs and expenses (including, without limitation, legal expenses) incurred or sustained by the Bank as a consequence of or in relation to the ISDA Agreement;

"ISM Code" means, in relation to its application to the Manager, the Borrower, the Vessel and its operation:

(a) the International Management Code for the Safe Operation of Ships and for Pollution Prevention', currently known or referred to as the 'ISM Code', adopted by the Assembly of the International Maritime Organisation by Resolution A.741(18) on 4 November 1993 and incorporated on 19 May 1994 into chapter IX of the International Convention for the Safety of Life at Sea 1974 (SOLAS 1974); and

(b) all further resolutions, circulars, codes, guidelines, regulations and recommendations which are now or in the future issued by or on behalf of the International Maritime Organisation or any other entity with responsibility for implementing the ISM Code, including without limitation, the 'Guidelines on implementation or administering of the International Safety Management (ISM) Code by Administrations' produced by the International Maritime Organisation pursuant to Resolution A.788(19) adopted on 25 November 1995,

as the same may be amended, supplemented or replaced from time to time;

"ISM Code Documentation" includes, in relation to the Vessel:

(a) the document of compliance (DOC) and safety management certificate (SMC) issued pursuant to the ISM Code in relation to that the Vessel within the periods specified by the ISM Code; and

(b) all other documents and data which are relevant to the ISM SMS and its implementation and verification which the Bank may require; and

(c) any other documents which are prepared or which are otherwise relevant to establish and maintain that the Vessel's compliance or the compliance of the Borrower with the ISM Code which the Bank may require;

"ISM SMS" means, in relation to the Vessel, the safety management system for the Vessel which is required to be developed, implemented and maintained by the Borrower under the ISM Code;

"ISPS Code" means the International Ship and Port Facility Security Code constituted pursuant to resolution A.924(22) of the International Maritime Organisation ("IMO") now set out in Chapter XI-2 of the Safety of Life at Sea Convention (SOLAS) 1974 (as amended) and the mandatory ISPS Code as adopted by a Diplomatic Conference of the IMO on Maritime Security in December 2002 and includes any amendments or extensions to it and any regulation issued pursuant to it but shall only apply insofar as it is applicable law in the Vessel's flag state and any jurisdiction on which the Vessel is operated;

"ISPS Code Documentation" includes:

(a) the International Ship Security Certificate issued pursuant to the ISPS Code in relation to the Vessel within the period specified in the ISPS Code; and

(b) all other documents and data which are relevant to the ISPS Code and its implementation and verification which the Bank may require;

"LIBOR" means, in relation to a particular period the rate per cent per annum at which the Bank is able in accordance with its normal practices to acquire deposits in Dollars in amounts comparable with the amount in relation to which LIBOR is to be determined and for a period equal to the relevant period, in the London Interbank Market at or about 11 a.m. (London time) on the second Banking Day (provided that in this context "Banking Day" shall only include Banking Days in Frankfurt) before the first day of such period;

"Loan" means the principal amount of the borrowing by the Borrower, under this Agreement or (as the context requires) the principal amount thereof at any time being advanced and outstanding under this Agreement;

"Management Agreement" means in relation to the Vessel a management agreement entered into or to be entered into between the Borrower and the Manager and in such form as the Bank may approve and as the same may from time to time be supplemented and/or amended with the prior written approval of the Bank;

"Manager" means Diana Shipping Services S.A., a company duly incorporated under the laws of Panama, acting through its established office in Greece, at Pendelis 16, 17564 Palaio Faliro, Athens, Greece, which will manage the Vessel during the Security Period and which will provide the Manager's Agreement to the Bank;

"Manager's Agreement" means an agreement whereby the Manager (i) confirms and undertakes with the Bank that it accepts and agrees to act as manager of the Vessel during the Security Period and to subordinate in all respects all claims that the Manager has or may have against or in connection with the Vessel to Bank's rights and claims under or in respect of the Loan Agreement, and/or the ISDA Agreement, and/or the other Security Documents, and (ii) assigns to the Bank all the Insurances in which the Manager is named as co-assured

"Margin" means Initial Margin and any new Margin agreed upon in accordance with Clause 3.01.02;

"Material of Environmental Concern" means and includes pollutants, contaminants, toxic substances, oil as defined in the United States Oil Pollution Act of 1990 and all hazardous Substances as defined in the United States Comprehensive Environmental Response, Compensation and Liability Act 1988;

"Mortgage" means, in relation to the Vessel, a first priority or preferred mortgage on the Vessel executed or to be executed by the Borrower in favour of the Bank, in each case to be in such form as the Bank may approve or require;

"Outstanding Indebtedness" means at any time the aggregate of the Loan, the ISDA Agreement Liabilities, and all unpaid interest accrued thereon, the Expenses and all other sums of money whatsoever from time to time due and owing from the Borrower to the Bank hereunder or pursuant to the other Security Documents, including any damages payable as a result of any breach under the Security Documents, and all interest accrued thereon;

"Relevant Jurisdiction" means any jurisdiction in which or where any Security Party is incorporated resident domiciled, has permanent establishment, carries on, or has a place of business or is otherwise effectively connected;

"Relevant Party" means the Borrower, any other Security Party, and each member of the Group;

"Relevant Ship" means the Vessel and any other vessel owned (whether of record or beneficially) by, controlled by, managed by, or chartered to any Relevant Party;

"Repayment Date" means each of the dates specified in Clause 5.01 on which the Repayment Installments shall be payable to the Bank by the Borrower;

"Repayment Installment" means each of the payments in respect of the Loan becoming due on each Repayment Date in accordance with Clause 5.01;

"Requisition Compensation" means all moneys or other compensation payable to the Borrower by reason of requisition for title or other compulsory acquisition of the Vessel otherwise than by requisition for hire;

"Security Documents" means this Agreement, the documents referred to in Clause 10.01 and any and every other document from time to time executed to secure the obligations of the Borrower and/or any other Security Party to the Bank under this Agreement;

"Security Party" means the Borrower, and any person (other than the Bank) which is or will become a party to any of the Security Documents;

"Security Period" means the period commencing on the date of this Agreement and ending on the date on which the Bank notifies the Borrower, and the other Security Parties (which notice the Bank shall give when the conditions set out below are satisfied) that:

- (a) all amounts which have become due for payment by the Borrower or any other Security Party under the Agreement, the ISDA Agreement, and any other Security Document have been paid;
- (b) no amount is owing or has accrued (without yet having become due for payment) under the Agreement, the ISDA Agreement, and any other Security Document;
- (c) neither the Borrower nor any other Security Party has any future or contingent liability under any provision of this Agreement, the ISDA Agreement, or any other Security Document; and
- (d) the Bank does not consider that there is a significant risk that any payment or transaction under the Agreement, or the ISDA Agreement, or any other Security Document would be set aside, or would have to be reversed or adjusted, in any present or possible future bankruptcy of a Borrower or any other Security Party or in any present or possible future proceeding relating to the Agreement, the ISDA Agreement, or any other Security Document or any asset of the Borrower or any other Security Party;

"Seller" means jointly the Builder and China Shipbuilding Trading Company Limited, a corporation organized and existing under the Laws of the People's Republic of China, having its registered office at 22nd floor Fangyuan Mansion 56 (Yi) Zhongguancun Nan Da Jie, Beijing 100044, the People's Republic of China;

"Subsequent Charter" means the time charter agreement with respect to the Vessel to be entered into between the Borrower and a first class charterer acceptable to the Bank in the event of expiration or termination of the Charter during the first fifty nine (59) months following the Drawdown Date, within twenty one (21) days from such expiration or termination of the Charter, of a minimum duration sufficient to cover any remaining period from the date of expiration or termination of the Charter up to fifty nine (59) months from the Drawdown Date, and a daily charter hire of minimum \$55,000.00, in form and substance satisfactory to the Bank;

"Swap Exposure" means, as at any relevant time, the amount certified by the Bank to be the aggregate net amount in Dollars which would be payable by the Borrower to the Bank under (and calculated in accordance with) section 6(e) (Payments on Early Termination) of the ISDA Agreement if an early termination date had occurred at the relevant time in relation to all continuing Designated Transactions;

"Transaction" has the meaning given in the ISDA Agreement;

"Total Loss" means (a) actual, constructive, compromised or arranged total loss of the Vessel; or (b) requisition for title or other compulsory acquisition of the Vessel otherwise than by requisition for hire; or (c) capture, seizure, detention, arrest or confiscation of the Vessel, unless the Vessel is released within sixty (60) days thereafter;

"Vessel" means the newbuilding bulk carrier motor vessel designated as Builder's hull no. H1138 of approx. 177,000 tons dwt built by the Builder in accordance with the terms and conditions of the Contract, purchased by and taken over by the Borrower pursuant to the terms of the Contract;

"Vessel's Market Value" means the market value of the Vessel as determined in accordance with Clause 12.05.02;

1.03.01. Each of the terms defined in Clause 1.02 when used in plural means all of them collectively and/or each of them and/or anyone of them (even if not expressly is so spelled out) as the context may require or permit;

1.03.02. Subject to Clause 15, references to each of the parties hereto and to the other Security Documents shall be deemed to be references to or to include, as appropriate, their respective successors and permitted assigns;

1.03.03. Reference to:

"asset" includes every kind of property, asset, interest or right, including any present, future or contingent right to any revenues or other payment;

"company" includes any partnership, joint venture and unincorporated association;

"contingent liability" means a liability which is not certain to arise and/or the amount of which remains unascertained;

"law" includes any form of delegated legislation, any order or decree, any treaty or international convention and any regulation or resolution of the Council of the European Union, the European Commission, the United Nations or its Security Council;

"liability" includes every kind of debt or liability (present or future, certain or contingent), whether incurred as principal or surety or otherwise;

"month" means a period beginning in one calendar month and ending in the next calendar month on the day numerically corresponding to the day of the calendar month on which it started provided that (i) if there is no such numerically corresponding day, it shall end on the last Banking Day in such next calendar month and (ii) if such numerically corresponding day is not a Banking Day, the period shall end on the next following Banking Day in the same calendar month but if there is no such Banking Day in the same calendar month, it shall end on the preceding Banking Day and "months" and "monthly" shall be construed accordingly;

"person" shall be construed as including reference to an individual, firm, company, corporation, unincorporated body of persons or any State or any agency thereof;

"policy", in relation to any insurance, includes a slip, cover note, certificate of entry or other document evidencing the contract of insurance or its terms;

"regulation" includes any regulation, rule, official directive, request or guideline whether or not having the force of law of any governmental, intergovernmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organization;

"subsidiary": company (S) is a subsidiary of another company (P) if:

-a majority of the issued shares in S (or a majority of the issued shares in S which carry unlimited rights to capital and income distributions) are directly owned by P or are indirectly attributable to P;

or

- P has direct or indirect control over a majority of the voting rights attached to the issued shares of S; or

- P has the direct or indirect power to appoint or remove a majority of the directors of S; or

- P otherwise has the direct or indirect power to ensure that the affairs of S are conducted in accordance with the wishes of P,

and any company of which S is a subsidiary is a parent company of S.

"successor" includes any person who is entitled (by assignment, novation, merger or otherwise) to any other person's rights under this Agreement or any other Security Document (or any interest in those rights) or who, as administrator, liquidator or otherwise, is entitled to exercise those rights; and in particular references to a successor include a person to whom those rights (or any interest in those rights) are transferred or pass as a result of a merger, division, reconstruction or other reorganization of it or any other person;

"taxes" includes all present and future taxes, levies, imposts, duties, fees or charges of relevant nature together with interest thereon and penalties in respect thereof (except taxes concerning the Bank and imposed on the net income of the Bank) and **"taxation"** shall be construed accordingly.

1.03.04. The expression "Current Account" shall include such account or any sub-accounts or call accounts opened from time to time under the same designation and shall include any substitute account(s) or revised designation or number whatsoever.

1.03.05. In case of any contradiction between this Agreement and the Bank's General Terms of Business or the Bank's General Loan Conditions, this Agreement shall prevail.

1.04. Where the context so admits, words in the singular include the plural and vice versa.

1.05. All documents referred to in this Agreement include the same as varied or supplemented or amended from time to time.

1.06. Headings are for convenience of reference only and are not to be taken into account in construction.

1.07. References to Clauses, Sub-Clauses and Schedules are to Clauses, Sub-Clauses and Schedules in this Agreement.

1.08. Unless as otherwise specifically stated in the Agreement, any determination, requirement, consent, or permission to be made or given by the Bank under the terms of this Agreement, shall be made or given in the sole discretion of the Bank, even if not so specifically stated.

2. THE LOAN

2.01. **(Total Amount).** The Bank relying upon each of the representations and warranties set out in Clause 8, agrees subject to the terms of this Agreement to advance by way of a loan to the Borrower the Commitment in the principal amount of up to Dollars Forty Million (\$ 40,000,000.00) in aggregate;

2.02. **(Drawdown Notice).** Subject to the terms and conditions of this Agreement, the Commitment shall be advanced to the Borrower following receipt by the Bank from the Borrower of a Drawdown Notice and payment instructions not later than 10:00 a.m. (Bremen time) on the third Banking Day before the date on which the drawdown is intended to be made. The Drawdown Notice shall be effective on actual receipt by the Bank and, once, given, shall be irrevocable.

2.03. **(Number of Advances).** The Loan shall be advanced to the Borrower in one advance;

2.03.01. The Loan to be advanced to the Borrower shall not exceed the lesser of (i) Dollars Forty Million (\$ 40,000,000.00) or, (ii) eighty per cent (80%) of Vessel's Market Value as ascertained by the Bank on the Drawdown Date;

2.03.02. The Bank reserves its right to reduce the amount of the Loan due to a lower estimation of the Vessel's Market Value.

2.04. **(Application of proceeds)** Without prejudice to the Borrower's obligations under Clause 12.08.01, the Bank shall have no responsibility for the application of the proceeds of the Loan or any part thereof by the Borrower.

2.05. Upon receipt of the Drawdown Notice complying with the terms of this Agreement the Bank shall, subject to the **provisions** of Clause 9, on the date specified in the Drawdown Notice, make the Commitment available to the Borrower.

2.06. **(Cancellation).** The Borrower shall be entitled to cancel the whole or any undrawn part of the Commitment under this Agreement upon giving the Bank not less than three (3) Banking Days' notice in writing to that effect provided that no Drawdown Notice has been given to the Bank under Clause 2.02. Any such notice of cancellation, once given, shall be irrevocable. Any amount cancelled may not be drawn. Any part of the Commitment undrawn and not cancelled shall be automatically cancelled on the Final Availability Date. In the event of a cancellation, the Borrower shall pay a Cancellation Fee as provided in Clause 7, in addition to the Arrangement Fee and the Commitment Fee under Clause 7;

Notwithstanding any such cancellation pursuant to this Clause 2.06, the Borrower shall continue to be liable for any and all amounts due to the Bank under this Agreement including without limitation any amounts due to the Bank under Clauses 7 and 14.

2.07. **(Loan Account).** All sums advanced by the Bank to the Borrower under this Agreement and all interest accrued thereon and all other amounts due under this Agreement and/or the ISDA Agreement from time to time and all repayments and/or payments thereof shall be debited and credited respectively to a separate loan account in the name of the Borrower. The Bank may, however, in accordance with its usual practices or for its accounting needs, maintain more than one account, consolidate or separate them but all such accounts shall be considered parts of one single loan account maintained under this Agreement. In case that a ship mortgage in the form of "Account Current" is granted as a security under this Agreement, the loan account(s) referred to in this clause shall be the "Account Current" referred to in such mortgage and, as the case may be, the accompanying deed of covenants.

2.08. **(Evidence).** It is hereby expressly agreed and admitted by the Borrower that abstracts or photocopies of the books of the Bank as well as statements of accounts or certificates signed by an officer of the Bank shall (save for manifest error) be conclusive and binding on the Borrower as to the existence and/or the amount at any time of the Outstanding Indebtedness, of any other amount due under this Agreement and/or the ISDA Agreement, of the applicable Interest Rate or Default Rate or any other rate provided for or referred to in this Agreement, the Interest Period, the value of additional securities under Clause 12.05.03., the payment or non payment of any amount and the occurrence of any other Event of Default. In all the above cases, the Borrower shall be entitled to rebut the above evidence by any evidence (documentary or other) admissible by applicable law, except witnesses.

2.09.01. If the Borrower requests from the Bank to remit the Loan to any other bank on a date prior to the scheduled delivery date of the Vessel, the Borrower hereby unconditionally and irrevocably authorizes and instructs the Bank to debit the Loan Account with the amount to be remitted to such bank, and to transfer such amount and any additional funds of the Borrower to be utilized for the purchase of the Vessel to any other bank to be held in a suspense account in the name and to the order of the Bank (hereinafter called the "**Suspense Account**") under terms at the discretion of the Bank until the release of such amount to the Seller. The date on which the Bank will debit the Loan Account with such amount will for all purposes be the Drawdown Date of the Loan.

2.09.02. The Borrower hereby agrees that the moneys remitted to the Suspense Account in accordance with sub-Clause 2.09.01, may not be withdrawn without the prior written consent of the Bank, and the Borrower hereby irrevocably and unconditionally authorizes and instructs the Bank to release the amount standing in the Suspense Account to the Seller or any other party entitled thereto simultaneously with the execution, delivery and if required registration of the Security Documents and the satisfaction of the Conditions Precedent listed in Clause 9.

2.10. **(ISDA Clauses).** The Bank may, at its absolute discretion establish a facility with the Borrower in order to enable the Borrower to enter into Designated Transactions. The obligations of the Borrower under the ISDA Agreement will be secured the securities created pursuant to this Agreement and the Security Documents.

3. INTEREST AND MARGIN

3.01.01. **(Interest Rate).** Interest shall accrue on the Loan:

- (A) During the Initial Margin Application Period at the rate as determined by the Bank to be the aggregate of (i) the Initial Margin, plus (ii) LIBOR, or any Substitute Basis as certified according to Clause 4.01.02. for the respective period agreed upon;

(B) Upon expiration of the Initial Margin Application Period at the rate as determined by the Bank to be the aggregate of (i) the Margin, plus (ii) LIBOR, or any Substitute Basis as certified according to Clause 4.01.02. for the respective period agreed upon;

3.01.02. At least fifteen (15) days prior to the expiration of the Initial Margin Application Period, the Bank will propose a new Margin for the remaining Security Period or part thereof, for agreement by the Borrower. In proposing such new Margin and negotiating it with the Borrower in view of reaching an agreement the Bank will act reasonably and having taken into account the underlying markets, the annual internal rating of the Borrower and/or the Corporate Guarantor, and any other relevant factor applicable at the Bank's discretion at that time;

3.01.03. If the Borrower does not agree with the Margin proposed by the Bank, and no new Margin is agreed prior to the date of expiration of the Initial Margin Application Period, then the Loan and all other Outstanding Indebtedness will become due and payable by the Borrower to the Bank in accordance with Clause 5.08;

3.01.04. The Borrower hereby agrees and undertakes that it will sign any necessary amendments to this Agreement and the rest of the Security Documents under this Clause as required by the Bank, and will undertake relevant costs.

3.02. **(Interest Period).** Unless the Borrower shall prior to the Drawdown Date have agreed with the Bank a fixed interest period for the Loan, the Borrower may by notice received by the Bank not later than 10:00 a.m. (Bremen time) on the second Banking Day before the beginning of each Interest Period specify whether such Interest Period shall have a duration of three (3) months, or six (6) months, or twelve (12) months at Borrower's option (or such other period up to five (5) years as may be requested by the Borrower and as the Bank, in its sole discretion, may agree).

3.03. **(Duration of Interest Period).** Every Interest Period shall, subject to availability to be conclusively determined by the Bank, be of the duration specified by the Borrower pursuant to Clause 3.02 but so that:

3.03.01. the initial Interest Period in respect of the Loan will commence on the Drawdown Date and each subsequent Interest Period will commence forthwith upon the expiry of the previous Interest Period;

3.03.02. interest shall be calculated on the Loan or the balance thereof from time to time outstanding as and from the commencement date of each applicable Interest Period to the last day of each such Interest Period and shall be paid on the last day of each such Interest Period, provided that in the case of an Interest Period of more than three (3) months' duration, such interest shall be payable quarterly;

3.03.03. in the event of an Interest Period as defined in Clauses 3.02 and 3.03 of this Agreement being fixed for such duration that a part of the Loan is to be repaid within such Interest Period, the Interest Rate will be fixed as provided in this Agreement for the amount of that part of the Loan so to be repaid for the period running from the beginning of such Interest Period to the date upon which the said repayment is to be made and interest will be payable on such date and for the balance of the Loan (less the amount to be repaid within such Interest Period) the interest will be fixed as aforesaid for the agreed period;

3.03.04. in case of failure of the Borrower to specify the duration of an Interest Period in accordance with the provisions of Clause 3.02 and this Clause 3.03, such Interest Period shall have a duration of three (3) months unless another period shall be agreed between the Bank and the Borrower provided always that such period (whether of three (3) months or of different duration) shall comply with this Clause 3.03;

3.03.05. if the Bank determines that the duration of an Interest Period specified by the Borrower in accordance with Clause 3.02 is not readily available, then that Interest Period shall have such duration as the Bank, in consultation with the Borrower, may determine.

3.04. **(Default Interest).** In case of failure of the Borrower to pay any sum due and payable on its due date for payment under any of the Security Documents, the Borrower shall pay interest on such sum, excluding on interest, from the due date up to the date of actual payment (both before and after judgment) at the rate determined by the Bank pursuant to this Clause 3.04. Interest at the default rate shall be compounded at such intervals as the Bank shall in its discretion determine and shall be payable from time to time by the Borrower to the Bank on demand. The rate of interest applicable shall be the rate, as conclusively determined by the Bank save for manifest error, of two per cent (2%) per annum above the rate which is the higher of (i) the Interest Rate and (ii) the aggregate of the Margin and the cost to the Bank of obtaining funds in the amount equal to the amount or amounts unpaid for such period or periods, as shall be conclusively determined by the Bank. The Bank reserves all its rights to claim damages from the Borrower for any other amount not paid when due.

3.05. **(Notification of Interest).** The Bank shall notify the Borrower promptly of the duration of each Interest Period and of each Interest Rate determined by it under this Clause 3.

In case that the Bank fails to notify the Borrower as above, such failure will not affect the validity of the determination of the Interest Period and the Interest Rate. Each determination of an Interest Rate made by the Bank in accordance with Clause 3 of this Agreement shall be final and conclusive.

4. ALTERNATIVE INTEREST RATES - CURRENCY

4.01.01. If and whenever, at any time prior to the commencement of or during any Interest Period, the Bank shall have determined (which determination shall be conclusive) (i) that adequate and fair means do not exist for ascertaining LIBOR during said Interest Period or (ii) that deposits in Dollars are not available to the Bank in the London Interbank Market in the ordinary course of business in sufficient amounts for any Interest Period or (iii) that by reason of circumstances affecting the London Interbank Market generally, it is impracticable for the Bank to advance the Commitment or fund or continue to fund the Loan during any Interest Period or (iv) that LIBOR for that interest Period will not adequately reflect the cost of funding of the Loan for that Interest Period, the Bank shall forthwith give notice (a "**Determination Notice**") thereof to the Borrower. A Determination Notice shall contain particulars of the relevant circumstances giving rise to its issue. After the giving of any Determination Notice the undrawn amount of the Commitment shall not be borrowed until notice to the contrary is given to the Borrower by the Bank;

4.01.02. During the period of fifteen (15) days after any Determination Notice has been given by the Bank under Clause 4.01.01 the Bank and the Borrower shall negotiate in good faith (but without incurring any legal obligations) with a view to arriving at an acceptable alternative basis (the "**Substitute Basis**"), for maintaining the Loan, failing which the Borrower shall, within thirty (30) days following the date of expiry of the above fifteen (15) day negotiation period following the giving of the Determination Notice, prepay the Loan together with accrued interest thereon from the date of the Determination Notice to the date of prepayment (calculated at the rate of (i) the Margin and (ii) the cost to the Bank of obtaining funds in the amount equal to the Loan for the respective Interest Period) and all other sums payable by the Borrower under the Security Documents, and the Commitment shall be reduced to zero. In case the Bank agrees to a Substitute Basis for funding the Loan the Bank shall certify such Substitute Basis to the Borrower. The Substitute Basis may (without limitation) include alternative interest period(s), alternative

currencies or alternative rates of interest but shall include the Margin above the cost of funds to the Bank. Each Substitute Basis so certified shall be binding upon the Borrower and shall take effect in accordance with its terms from the date specified in the Determination Notice until such time as the Bank notifies the Borrower that none of the circumstances specified in Clause 4.01.01. continues to exist whereupon the normal interest rate fixing provisions of this Agreement shall apply. The Borrower hereby agrees and undertakes that upon the occurrence of such circumstances, it will sign all necessary amendments to this Agreement and the rest of the Security Documents as required by the Bank.

4.02. In the event that on running-out of any Interest Period, the Bank (as per the Bank's conclusive determination) is not able to fix a corresponding Dollar amount on acceptable terms to the Bank for lending to the Borrower as per conditions of this Agreement, the Bank is entitled to disengage itself from the obligation to provide a Dollar financing by granting to the Borrower a Euro loan as applicable at such time or a loan in any other currency requested by the Borrower and agreed by the Bank at its sole discretion in an equivalent amount calculated at the official buying rate of exchange prevailing on that date. Alternatively, the Borrower is entitled to effect the repayment of the Loan at that date. The Borrower hereby agrees and undertakes that upon the occurrence of such an event, it will sign all necessary amendments to this Agreement and the rest of the Security Documents.

5. REPAYMENT, PREPAYMENT, AND APPLICATION OF FUNDS

5.01.01. **(Repayment)** the Borrower shall and it is expressly undertaken by the Borrower to repay the Loan in full to the Bank by the Final Maturity Date, by forty (40) consecutive quarterly principal Repayment Installments of Dollars Nine Hundred Thousand (\$ 900,000.00) each, and a balloon Repayment Installment of Dollars Four Million (\$ 4,000,000.00) (hereinafter called the "Balloon Installment") payable together with the final fortieth (40th) Repayment Installment;

5.01.02. The first Repayment Date for the Loan will be the date falling three (3) months after the Drawdown Date, and each subsequent Repayment Date will be at consecutive intervals of three months thereafter;

5.01.03. In the event that Loan will not be advanced in full by the Bank to the Borrower under this Agreement, then the amount of each of the Repayment Installments shall be reduced pro-rata as shall be conclusively certified by the Bank in writing to the Borrower;

5.01.04. on the Final Maturity Date the Borrower shall also pay to the Bank any and all other monies then due and payable under this Agreement and the other Security Documents.

5.02. **(Voluntary Prepayment).** The Borrower shall have the right, upon giving the Bank not less than ten (10) Banking Days' prior notice in writing, to prepay part or all of the Loan in each case together with all unpaid interest accrued thereon, plus any Break Costs, plus all other sums of money whatsoever due and owing from the Borrower to the Bank hereunder or pursuant to the other Security Documents and all interest accrued thereon, provided that:

5.02.01. the giving of such notice by the Borrower will irrevocably commit the Borrower to prepay such amount as stated in such notice;

5.02.02. such prepayment may take place only on the last day of an Interest Period relating to the part of the Loan to be prepaid, provided, however, that if the Borrower shall request consent to make such prepayment on another day and the Bank shall accede to such request (it being in the sole discretion of the Bank to decide whether or not so to do) the Borrower will pay in addition to the amount to be prepaid as per this Clause 5.02, any sum as may be payable to the Bank pursuant to Clause 14;

5.02.03. the Borrower shall in addition pay to the Bank a Prepayment Fee of one point fifty per cent (1.50%) of the amount prepaid (the **"Prepayment Fee"**). The Borrower shall not pay the Prepayment Fee if prepayment is effected after the first twenty four (24) months from the second day prior to the Drawdown Date , or in the event of a Total Loss of the Vessel, or if the Vessel is sold to a member of the Group, and the purchase is financed by the Bank;

5.02.04. any partial prepayment shall be equal to the Repayment Installment next due, or in multiples thereof;

5.02.05. any prepayment of less than the whole of the Loan will be applied first towards reduction of the Balloon Installment and upon such Balloon Installment being reduced to zero, towards reduction of the remaining Repayment Installments pro rata;

5.02.06. In case the Borrower requests the prepayment of the full amount of the Loan and at the relevant time there are any Transaction(s) outstanding under the ISDA Agreement, the Borrower shall pay in addition to the above any and all amounts then outstanding under such Transactions, including without limitation, in case of outstanding Designated Transactions the Swap Exposure.

5.03. Every notice of prepayment shall be effective only on actual receipt by the Bank, shall be irrevocable and shall oblige the Borrower to make such prepayment on the date specified. No amount prepaid may be re-borrowed. The Borrower may not prepay the Loan or any part thereof save as expressly provided in this Agreement.

5.04. (Current Account)

5.04.01. The Borrower shall open and maintain with the Bank an interest bearing Current Account, which will be pledged in favour of the Bank;

5.04.02. The Borrower shall procure that until all moneys payable to the Bank (whether actually or contingently) under this Agreement and the other Security Documents have been paid in full all Earnings and Requisition Compensation of the Vessel shall be paid to the Current Account unless and until the Bank shall require any of the Earnings or Requisition Compensation of the Vessel to be paid to it in accordance with the Earnings Assignment;

5.04.03. The Borrower shall procure that for the duration of the Security Period, there shall be standing to the credit of the Current Account sufficient funds to meet (i) the next Repayment Installment and interest due, i.e. at monthly intervals the Current Account shall be credited with the aggregate of one third (1/3) of the amount of the Repayment Installment due on the next Repayment Date and one third (1/3) of the amount of interest due on the next Interest Payment Date, and (ii) any other Outstanding Indebtedness which has become due and payable at any relevant time. Additionally, the Borrower shall ensure that the Current Account shall have sufficient funds to cover the anticipated cost of the next special survey of the Vessel, such funds to start accumulating in the Current Account twelve (12) months prior to the date of the next special survey of the Vessel;

5.04.04. The Borrower irrevocably and unconditionally authorizes and instructs the Bank to apply any amount from time to time standing to the credit of the Current Account in or towards reduction of the Outstanding Indebtedness due and payable at such time;

5.04.05. If at any time the amount standing to the credit of the Current Account shall be insufficient to repay any part of the Outstanding Indebtedness when due, the Borrower's obligation to repay the Outstanding Indebtedness under this Agreement shall not be affected;

5.04.06. Until the occurrence of an Event of Default, subject only to compliance with the requirements of Clause 5.04.03, Earnings for the time being credited to the Current Account shall be freely available to the Borrower and (subject as aforesaid) may be withdrawn from the Current Account to be used for any purpose not inconsistent with the Borrower's other obligations under this Agreement.

5.05. **(Application of Funds).** All moneys received by the Bank under or pursuant to any of the Security Documents shall be applied by the Bank in the following manner:

- (a) firstly in or towards payment of all sums other than principal or interest which may be due to the Bank under this Agreement and the Security Documents or any of them;
- (b) secondly in or towards any arrears of interest, including Default Interest due in respect of the Loan or any part thereof;
- (c) thirdly in or towards interest due at the time of such payment;
- (d) fourthly in or towards repayment of the Loan;
- (e) fifthly in or towards sums owing to the Bank under the ISDA Agreement;
- (f) sixthly in or towards payment to the Bank for any loss (excluding loss of profit) suffered by reason of any such payment in respect of principal not being effected on the last day of an Interest Period relating to the part of the Loan repaid; and
- (g) seventhly the surplus (if any) shall be paid to the Borrower.

5.06. **(Set Off).** The Bank is hereby authorized by the Borrower without prejudice to any of the Bank's rights at law, in equity or otherwise, at any time after all or any part of the Outstanding Indebtedness shall have become due and without notice to the Borrower:

5.06.01. to apply any credit balance standing upon any account of the Borrower with any branch of the Bank and in whatever currency in or towards satisfaction of any sum due to the Bank from the Borrower under this Agreement and/or any of the Security Documents;

5.06.02. in the name of the Borrower and/or the Bank to do all such acts and execute all such documents as may be necessary or expedient to effect such application; and

5.06.03. to combine and/or consolidate all or any accounts in the name of the Borrower with the Bank.

For all or any of the above purposes the Bank is authorized to purchase with the moneys standing to the credit of any such account or accounts such other currencies as may be necessary to effect such application. The Bank shall not be obliged to exercise any right given to it by this Clause.

5.07. (Compulsory Prepayment in case of Total Loss or sale of the Vessel).

5.07.01. Before drawdown

On the Vessel becoming (i) a Total Loss or suffering damage or being involved in an incident which in the reasonable opinion of the Bank may result in the Vessel being subsequently determined to be a Total Loss, or (ii) the Vessel being sold before the Commitment has been drawn down, the obligation of the Bank to advance the Commitment or any part thereof shall immediately cease, and all obligations of the Bank under this Agreement with respect to the Commitment shall immediately cease;

5.07.02. In case of Total Loss of the Vessel, after drawdown and during the Security Period

On the Vessel becoming a Total Loss or suffering damage or being involved in an incident which in the reasonable opinion of the Bank may result in the Vessel being subsequently determined to be a Total Loss after the Loan or part thereof has been drawn down and during the Security Period:

- (1) the obligation of the Bank to advance any remaining part of the Loan not already drawn down shall immediately cease, and
- (2) the Borrower shall within ninety days (90) of the Vessel becoming a Total Loss, or immediately upon payment of any insurance claim with respect to Total Loss, whichever is the earlier, prepay an amount equal to the Outstanding Indebtedness, and in case of outstanding Designated Transactions, the Swap Exposure.

For the purposes of this Clause 5.07:

- (a) an actual total loss of a Vessel shall be deemed to have occurred at the actual date and time the Vessel was lost, but in the event of the date of the loss being unknown then the actual total loss shall be deemed to have occurred on the date on which the Vessel was last reported;
- (b) a constructive total loss shall be deemed to have occurred at the date and time notice of abandonment of the Vessel is given to the insurers of the Vessel for the time being (provided a claim for total loss is admitted by such insurers) or, if such insurers do not admit such a claim, at the date and time at which a total loss is subsequently adjudged by a competent court of law to have occurred;
- (c) a compromised or arranged total loss shall be deemed to have occurred on the date on which a binding agreement as to such compromised or arranged total loss has been entered into by the insurers of the Vessel;
- (d) requisition for title or other compulsory acquisition of the Vessel shall be deemed to have occurred on the date upon which the relevant requisition for title or other compulsory acquisition occurs; and
- (e) capture, seizure, detention, arrest, or confiscation of the Vessel shall be deemed to occur upon the expiry of the period of thirty (30) days after the date upon which the relevant capture, seizure, detention, arrest or confiscation occurred.

5.07.03. In case of sale of the Vessel after drawdown and during the Security Period

On the Vessel being sold (subject to the prior consent of the Bank and subject to the conditions of such consent) after the Loan or part thereof has been drawn down and during the Security Period, the Borrower shall latest on the date of transfer of the Vessel prepay an amount equal to the Outstanding Indebtedness and in case of outstanding Designated Transactions, the Swap Exposure.

5.08. (Compulsory Prepayment in case of no agreement by the Borrower of the new Margin). If the Borrower does not agree with the new Margin proposed by the Bank in accordance with Clause 3.01.02 within fifteen (15) days from the Bank's notification to the Borrower, then the Borrower shall on the expiration date of the Initial Margin Application Period, or within the time limit which may be determined and notified by the Bank, prepay the Loan together with all unpaid interest accrued thereon, plus any Break Costs, plus all other sums of money whatsoever due and owing from the Borrower to the Bank hereunder or pursuant to the ISDA Agreement and the other Security Documents, including, without limitation, in case of outstanding Designated Transactions the Swap Exposure.

The Borrower shall not pay any Prepayment Fee for payment under this Clause 5.08.

6. PAYMENTS

6.01. (Payments). All moneys to be paid by the Borrower under this Agreement and the other Security Documents shall be paid to the Bank on their due date in date in Dollars in immediately available funds.

The Bank shall have the right to change the place of account for payment, upon eight (8) Banking Days' prior written notice to the Borrower.

6.02. (Payments on Banking Days). All payments due shall be made on a Banking Day. If the due date for payment falls on a day which is not a Banking Day, the payment or payments due shall be made on the next first Banking Day. If the next first Banking Day falls in the next succeeding calendar month, then payment or payments shall be made on the immediately preceding Banking Day.

6.03. (No Withholdings). All payments to be made by the Borrower under this Agreement shall be made without set-off or counterclaim whatsoever, and free and clear of, and without withholding or deduction for or on account of, any present or future taxes, charges, levies, imposts, duties or withholdings and any restrictions or conditions resulting in any charge whatsoever imposed, either now or hereafter, by any sovereign state or by any political sub-division or taxing authority of any sovereign state or authority including the European Union, other than taxes from time to time on the net income of the Bank imposed in the Federal Republic of Germany.

For the avoidance of doubt, this Clause 6.03 does not apply in respect of sums due from the Borrower to the Bank under or in connection with the ISDA Agreement as to which sums the provisions of Section 2(d) (Deduction or Withholding Tax) of the ISDA Agreement shall apply.

6.04. (Gross Up). If at any time any law, regulation, regulatory requirement or requirement of any governmental authority, monetary agency, central bank or the like compels the Borrower to make payment subject to taxes, or any other deduction or withholding, the Borrower shall pay to the Bank such additional amounts as may be necessary to ensure that the Bank receives a net amount equal to the full amount which would have been received had payment not been made subject to such taxes deduction or withholding. The Borrower shall indemnify the Bank against any losses or costs incurred by it by reason of any failure of the Borrower to make any such deduction or withholding or by reason of any increased payment not being made on the due date for such payment. The Borrower shall, not later than 30 days after each deduction, withholding or payment of any taxes, forward to the Bank official receipts and any other documentary receipts and any other documentary evidence reasonably required by the Bank in respect of the payment of any taxes. The obligations of the Borrower under this provision shall, subject to applicable law, remain in force notwithstanding the repayment of the Loan and the payment of all interest due thereon pursuant to the provisions of this Agreement.

6.05. **(Computation).** All interest and other payments payable by reference to a rate per annum under this Agreement shall accrue from day to day and be calculated on the basis of actual days elapsed in a 360 day year.

7. FEES

7.01. For the purposes of this Agreement:

7.01.01. **"Arrangement Fee"** means Dollars One Hundred Fifty Thousand (\$ 150,000.00) payable on the date of this Agreement;

7.01.02. **"Commitment Fee"** means zero point twenty per cent (0.20%) per annum accruing from the 20th day of May 2009 on the undrawn amounts of the Commitment, payable quarterly in arrears until full drawdown or cancellation, as the case may be;

7.01.03 **"Prepayment Fee"** means one point fifty per cent (1.50%) of the amount prepaid payable to the Bank at the end of any interest period in case of partial or total prepayment of the Loan in accordance with Clause 5.02.03;

7.01.04 **"Cancellation Fee"** means zero point fifty per cent (0.50%) of the whole of the Commitment or unused portion thereof (as the case may be) payable to the Bank in the event the Loan is cancelled in whole or in part in accordance with Clause 2.06;

7.02. The Borrower shall pay the Arrangement Fee, and the Commitment Fee even if the Commitment or part thereof is cancelled pursuant to this Agreement.

8. REPRESENTATIONS AND WARRANTIES

The Bank enters into this Agreement in reliance upon the following representations and warranties made by the Borrower and it is hereby represented and warranted by the Borrower that the following matters are true at the date of this Agreement, and that they shall remain true so long as there is any Outstanding Indebtedness:

8.01. Representations Concerning the Security Parties:

8.01.01. **(Due Incorporation/Valid Existence)** the Borrower and the other Security Parties are incorporated and duly organised and validly existing and in good standing under the laws of their respective country of incorporation, with power to own their property and assets, to carry on their business as the same is now being lawfully conducted and to purchase, own, finance and operate vessels, or manage vessels as the case may be;

8.01.02. **(Due Authority)** the entry into and performance of this Agreement, the ISDA Agreement, and all the other Security Documents are within the corporate powers of the Borrower and the other Security Parties and have been duly authorized by the appropriate corporate bodies including all shareholders, and any other necessary action for the authorization has been undertaken, and do not and would not contravene or result in breach of any applicable law, regulation rule, judgment, decree or permit or contractual restriction which does, or may, bind any one or more of them or their shareholders or their subsidiaries, or the documents defining the respective constitutions of any of them and do not and will not result in the creation or imposition of any security interest, lien, charge, or Encumbrance on any of their assets or those of any of their subsidiaries in favour of any party other than the Bank;

8.01.03. **(No Default/No Litigation)** neither the Borrower nor any of the other Security Parties is in default under any agreement to which it is a party or by which it may be bound and no litigation, arbitration, tax claim or administrative proceeding is current or pending or (to its or its officers' knowledge) threatened, which, if adversely determined, would have a materially detrimental effect on the business assets or the financial condition of any of them;

8.01.04. **(Financial Information)** all information, accounts, statements of financial position, exhibits and reports furnished by or on behalf of any Security Party to the Bank in connection with the negotiation and preparation of this Agreement and each of the other Security Documents are true and accurate in all material respects and not misleading, do not omit material facts and all reasonable enquiries have been made to verify the facts and statements contained therein; there are no other facts the omission of which would make any fact or statement therein misleading and, in the case of accounts and statements of financial position, have been prepared in accordance with all applicable laws and GAAP which have been consistently applied;

8.01.05. **(Financial Condition)** the financial condition of the Borrower and of any other Security Party has not suffered any material deterioration since that condition was last disclosed to the Bank;

8.01.06. **(No Immunity)** neither the Borrower nor any of the other Security Parties nor any of their respective assets are entitled to immunity on the grounds of sovereignty or otherwise from any legal action or proceeding (which shall include, without limitation, suit, attachment prior to judgment, execution or other enforcement);

8.01.07. **(Shipping Company)** the Borrower and the Manager are shipping companies involved in the owning or managing of ships engaged in international voyages and earning profits in free foreign currency;

8.01.08. **(Commercial benefit of the Corporate Guarantor)** the giving of the Corporate Guarantee guaranteeing the obligations of the Borrower under the Agreement by the Corporate Guarantor, is to the commercial benefit of the Corporate Guarantor in that the Corporate Guarantor holds 100% of all the issued and outstanding share capital of the Borrower and has close financial cooperation and mutual assistance with the Borrower and that by lending its support to the Borrower through such agreements it furthers its own business interests within the scope of its constitutional documents;

8.02. Representations Concerning the Security Documents:

8.02.01. **(Licenses/Authorization)** all licenses, authorizations, consents or approvals necessary for the execution, validity, enforceability or admissibility in evidence of the Security Documents and all other documents executed or to be executed in connection therewith, have been obtained and complied with by the Borrower and each of the other Security Parties as it is or will be a party thereto;

8.02.02. **(Perfectured Securities)** when duly executed, the Security Documents will create a perfected security interest in favour of the Bank, with the intended priority, in the assets and revenues intended to be covered, valid and enforceable against the Borrower, and each of the other Security Party as it is or will be a party thereto in any Relevant Jurisdiction;

8.02.03. **(No Notarization/Filing/Records)** save for the registration of the Mortgage in the appropriate shipping registry and any other registration necessary for any Security Document, it is not necessary to ensure the legality, validity, enforceability or admissibility in evidence of this Agreement or any of the other Security Documents that it or they or any other instrument be notarized, filed, recorded, registered or enrolled in any court, public office or elsewhere in any Relevant Jurisdiction or that any stamp, registration or similar tax or charge be paid on or in relation to the Agreement or the Security Documents;

8.02.04. **(No Taxes)** no taxes are imposed by deduction, withholding or otherwise on any payment to be made by any Security Party under this Agreement and/or any other of the Security Documents or are imposed on or by virtue of the execution or delivery of this Agreement and/or any other of the Security Documents or any document or instrument to be executed or delivered hereunder or thereunder;

8.02.05. **(Validity and Binding Effect)** the Security Documents are (or upon their execution - and in the case of any mortgage upon its registration with the appropriate registry - will be) valid and binding and enforceable against the Borrower and all the other Security Parties in accordance with their respective terms and conditions, and that there are no other agreements or arrangements which may adversely affect or conflict with the Security Documents or the security they create;

8.02.06. **(Direct Obligations)** the obligations imposed on the Borrower and the other Security Parties by the Security Documents do and will constitute direct obligations on them;

8.02.07. **(Valid Choice of Law)** the choice of law agreed to govern this Agreement and the other Security Documents and the submission to the non-exclusive jurisdiction of the courts agreed in each of the Security Documents are or will be on execution of the respective Security Documents, valid and binding on the Borrower and each of the other Security Parties which is or will be a party thereto.

8.03. Environmental Representations.

8.03.01. Except as may already have been disclosed by the Borrower in writing to, and acknowledged in writing by the Bank:

- (i) the provisions of all Environmental Laws have been complied with by the Borrower and the other Relevant Parties and (to the best knowledge and belief of the Borrower) by their respective Environmental Affiliates;
- (ii) all Environmental Approvals have been obtained and are complied with by the Borrower and the other Relevant Parties and (to the best knowledge and belief of the Borrower) by their respective Environmental Affiliates;
- (iii) neither the Borrower nor any other Relevant Party nor (to the best knowledge and belief of the Borrower) any of their Environmental Affiliates has received notice of any Environmental Claim that any Relevant Party or any such Environmental Affiliate is not in compliance with any Environmental Law or any Environmental Approval;

8.03.02. Except as may already have been disclosed by the Borrower in writing to, and acknowledged in writing by, the Bank there is no Environmental Claim pending or, (to the best knowledge and belief of the Borrower) threatened against the Borrower or the Vessel or any other Relevant Party or any other Relevant Ship or (to the best of knowledge and belief of the Borrower) any of their respective Environmental Affiliates; and

8.03.03. Except as may already have been disclosed by the Borrower in writing to, and acknowledged in writing by the Bank, there has been no emission, spill, release or discharge of a Material of Environmental Concern from the Vessel or any other Relevant Ship owned by, managed by or chartered to the Borrower or any other Relevant Party which could give rise to any Environmental Claim.

8.04. Representations Concerning the Vessel:

8.04.01. **(Ownership / Flag / Seaworthiness / Class / Insurance)** the Vessel is and/or on the Drawdown Date will be:

- a) in the absolute and unencumbered (otherwise than as contemplated in this Agreement) ownership of the Borrower;
- b) registered with a registry and under an Approved Flag in the name of the Borrower;
- c) operationally seaworthy and in every way fit for service in compliance with the ISM Code and the ISPS Code;
- d) classed with a classification society which has been approved by the Bank in writing and such classification is and will be free of all requirements, recommendations or notations;
- e) insured in accordance with the provisions of this Agreement; and
- d) chartered with charterers and under terms acceptable to the Bank.

8.04.02. **(No Encumbrances)** neither the Vessel nor its Earnings, Insurances or Requisition Compensation nor any part thereof will, on the Drawdown Date, be subject to any Encumbrances other than Encumbrances in favour of the Bank, or permitted by the Bank;

8.04.03. **(No Money Laundering)** The Borrower confirms (i) that it is acting for its own account, (ii) that it will use the proceeds of the Loan (or any part thereof) for its own benefit, under its full responsibility and exclusively for the purpose specified in this Agreement and (iii) that the transactions and other arrangements effected or contemplated by this Agreement and the Security Documents to which the Borrower is a party, will not involve or lead to contravention of any law, official requirement or other regulatory measure or procedure implemented to combat "money laundering" (as defined in Article 1 of the Directive (91/308/ECB) of the Council of the European Communities);

8.04.04 **(Sufficient Funds)** The Borrower on the date hereof has secured or on the relevant date will have secured sufficient funds to cover its obligations under the Contract.

8.05. **Representations Correct.** At the time of entering this Agreement all above representations and warranties and/or any other information given by the Borrower or any other Security Party to the Bank are true and accurate and will remain so throughout the Security Period and there has not occurred and/or is continuing any Event of Default or any event which would constitute an Event of Default with the passage of time or the giving of notice or both.

9. CONDITIONS PRECEDENT AND SUBSEQUENT

9.01. **(Conditions Concerning Corporate Authorizations).** The obligation of the Bank to make the Commitment or any part thereof available to the Borrower shall be subject to the conditions that the Bank, shall have received, no later than two (2) Banking Days before the day on which the Drawdown Notice in respect of the Commitment is given, the following documents and evidence in form and substance satisfactory to the Bank:

9.01.01. a duly certified true copy of the Memorandum and Articles of Association, or the Articles of Incorporation and By-Laws as the case may be, or of any other constitutional documents, as the case may be, of each corporate Security Party together, where appropriate, with certified translations of the same into English;

9.01.02. a recent certificate of incumbency of each corporate Security Party issued by the appropriate authority and/or at the discretion of the Bank signed by the secretary or a director of each of them respectively, stating the officers and/or the directors of each of them;

9.01.03. a recent certificate as to shareholding of any corporate Security Party (other than the Corporate Guarantor) issued by an appropriate authority or, at the discretion of the Bank, signed by the secretary or a director of each of them as the case may be, stating respectively the full details of the person or persons beneficially entitled as shareholders/stockholders of the entire issued and outstanding shares/stock of each of them;

9.01.04. minutes of meetings of the directors of any corporate Security Party and of the shareholders of any corporate Security Party (other than the Corporate Guarantor) at which there was approved the entry into execution, delivery and performance of this Agreement, the other Security Documents and any other documents executed or to be executed pursuant hereto or thereto to which the relevant corporate Security Party is or will be a party;

9.01.05. evidence of the due authority of any person signing this Agreement, the other Security Documents and any other documents executed or to be executed pursuant hereto or thereto on behalf of any corporate person;

9.01.06. evidence that all necessary licenses, consents, permits and authorizations (including those in respect of exchange control) have been obtained by any Security Party for execution, delivery, validity, enforceability, admissibility in evidence and the due performance of the respective obligations under or pursuant to this Agreement and the other Security Documents;

9.01.07. in case that the Bank at its sole discretion has accepted that any shares of any corporate Security Party may be owned by a corporate shareholder, the conditions set out in this Clause 9.01 will apply to such corporate shareholder in relation to its participation in any meeting of shareholders of any of the Security Parties and the granting of any security hereunder;

9.01.08. any other documents or recent certificates or other evidence satisfactory to the Bank in its sole discretion, which would be required by the Bank in relation to any corporate Security Party proving that the relevant Security Party has been properly established, continues to exist validly and to be in good standing, listing present board of directors and shareholders, that the execution and performance of the Security Documents has been duly authorized, and generally that the representations in Clause 8 are correct in all respects.

9.02. (Conditions Concerning the Securities and Fees). The obligation of the Bank to advance the Commitment or any part thereof is subject to the further conditions that the Bank at the time of receiving the Drawdown Notice in respect of the Commitment shall have received and in respect of condition in Clause 9.02.01 herein below simultaneously with the drawdown of the Loan shall receive in form and substance satisfactory to the Bank:

9.02.01. each of the Security Documents duly executed and where appropriate duly registered with the appropriate registry;

9.02.02. evidence that the Current Account has been duly opened and all mandate forms, signature cards and authorities duly delivered;

9.02.03. payment to the Bank of the fees payable pursuant to Clause 7, if they have not been previously paid.

9.03. (Conditions Concerning the Vessel). The obligation of the Bank to advance the Commitment or any part thereof is subject to the further conditions that the Bank shall have received two days prior to the Drawdown Date in form and substance satisfactory to the Bank, unless as otherwise agreed by the Bank:

9.03.01. evidence that on the Drawdown Date the Vessel is duly registered in the ownership of the Borrower with an Approved Flag, free from any Encumbrances save for those in favour of or permitted by the Bank and otherwise as contemplated herein, including a Certificate of Ownership and Encumbrances issued by the flag state of the Vessel;

9.03.02. evidence in form and substance satisfactory to the Bank that the Vessel has been insured in accordance with the insurance requirements provided for in this Agreement and the other Security Documents to be followed by full copies of cover notes, policies, certificates of entry or other contracts of insurance;

9.03.03. an undertaking from the Borrower and the Master of the Vessel that the Vessel will remain in port until the Bank confirms it has received satisfactory confirmation that cover is in full effect, if requested by the Bank;

9.03.04. copy of the Management Agreement in form and substance satisfactory to the Bank between the Borrower and the Manager, and of the DOC of the Manager;

9.03.05. all necessary confirmations by insurers of the Vessel that they will issue letters of undertaking and endorse notice of assignment and loss payable clauses on the insurances, in form and substance satisfactory to the Bank in its sole discretion;

9.03.06. evidence that the Vessel is classed + 100 AI with Bureau Veritas, or to a similar standard with another classification society of like standing to be specifically approved by the Bank, and remains free from recommendations, conditions or average damage affecting class;

9.03.07. evidence that the trading and safety certificates of the Vessel are valid and in force and that the Vessel complies with all ISM Code and ISPS Code requirements and copies of the ISM Code Documentation and of the ISPS Code Documentation;

9.03.08. due authorization in form and substance satisfactory to the Bank authorizing the Bank to have access and/or obtain any copies of class records or other information at its discretion from the classification society of the Vessel;

9.03.10. valuation of the Vessel as at the date determined by the Bank - but in any event before the drawdown of the Commitment - prepared by major shipbrokers approved and/or appointed by the Bank in form and substance satisfactory to the Bank in its sole discretion, if required by the Bank.

9.04. **(No Change of Circumstances).** The obligation of the Bank to advance the Commitment to the Borrower is subject to the further conditions that at the time of the giving of the Drawdown Notice and on advancing the Commitment:

9.04.01. the representations and warranties set out in Clause 8 and in each of the Security Documents are true and correct on and as of each such time as if each was made with respect to the facts and circumstances existing at such time;

9.04.02. no Event of Default shall have occurred and be continuing or would result from the drawdown; and

9.04.03. the Bank shall be satisfied that there has been no change in the ultimate ownership, management, operations or financial condition of any Security Party which change might, in the sole opinion of the Bank, be detrimental to the interests of the Bank.

9.05. **(Other Conditions).** The obligation of the Bank to make available the Commitment to the Borrower is subject to the further conditions that the Bank, prior to or simultaneously with the drawdown, shall have received in form and substance satisfactory to the Bank:

9.05.01. opinions from legal counsel as to all the matters and all such aspects of law as the Bank shall deem relevant to this Agreement and the other Security Documents and any other documents executed pursuant hereto or thereto, and any further legal or other expert opinion as the Bank at its sole discretion may require;

9.05.02. confirmation from any agents nominated in this Agreement and elsewhere in the other Security Documents and accepted by the Bank for the acceptance of any notice or service of process, that they consent to such nomination;

9.05.03. a receipt in writing in form and substance satisfactory to the Bank including an acknowledgment and admission of the Borrower and/or any other Security Party to the effect that the Commitment was drawn down by the Borrower and a declaration by the Borrower that all conditions precedent have been fulfilled, that there is no Event of Default and that all the representations and warranties are true and correct;

9.05.04. (a) the duly signed by the Board of Directors unaudited financial statements (internal figures, including balance sheets and profit and loss accounts) of the Borrower, and (b) the duly signed by auditors audited financial statements (including balance sheets and profit and loss accounts) prepared in accordance with all applicable laws and GAAP of the Group, all in form and substance satisfactory to the Bank, as described in Clause 12.01.01;

9.05.05. copy of the Charter in form and substance satisfactory to the Bank;

9.05.06. evidence of no default under the Contract, including of payment of all the installments payable under the Contract;

9.05.07. a duly issued invoice from the Builder showing the amount of the final installment payable under the Contract for the Vessel;

9.05.08. evidence that the Loan will be utilized for the purpose stated in Clause 1.01 of this Agreement;

9.05.09. copies of the duly executed Builder's Certificate, the Bill of Sale and the other sale and purchase documents of the Builder and the Borrower in form and substance satisfactory to the Bank for the passing of title of the Vessel to the Borrower free and clear of any Encumbrances.

9.06. Any copies of documents delivered to the Bank shall be duly certified as true, complete and accurate copies by appropriate authorities or legal counsel practicing in Greece or otherwise as it will be acceptable to the Bank at its sole discretion.

9.07. Signatures of Board of Directors or Shareholders' resolutions, Secretary's certificates and any other documents are, at the discretion of the Bank, to be verified for their genuineness by appropriate Consul or other authority.

9.08. The conditions specified in this Clause are inserted solely for the benefit of the Bank and may be waived in whole or in part and with or without conditions by the Bank without prejudicing the right of the Bank to require fulfillment of such conditions at such time and manner as specified by the Bank.

9.09. **(Further documents).** The Bank may from time to time request and the Borrower shall, within the period specified by the Bank, deliver to the Bank such further documents certificates and/or opinions as the Bank may reasonably ask.

10. SECURITY

10.01. As security for the obligations of the Borrower under this Agreement and the due and punctual repayment of the Loan and payment of interest thereon and of all other Outstanding Indebtedness as provided in this Agreement and any and all obligations arising out of or in connection with the ISDA Agreement, including all single transactions entered into thereunder, and particularly any claim and obligation due to an event of default or termination event pursuant to Section 6(e) ISDA Agreement, the Borrower shall ensure and procure that the Bank is provided with the following Security Documents in form and substance satisfactory to the Bank at the time specified herein or otherwise as required by the Bank, and ensure that such security consists of:

10.01.01. the Mortgage together, if applicable, with the Deed of Covenant;

- 10.01.02. a first priority assignment of all the Insurances of the Vessel in favour of the Bank and respective notices of assignment to the insurers;
- 10.01.03. a first priority assignment of the Earnings and Requisition Compensation of the Vessel in favour of the Bank and respective notices of assignment;
- 10.01.04. the Corporate Guarantee;
- 10.01.05. the Manager's Agreement;
- 10.01.06. a first priority pledge and charge executed by the Borrower on the Current Account in favour of the Bank;
- 10.01.07. the Charter Assignment;
- 10.01.08. any and all other Security Documents that the Bank may reasonably require.

10.02. **(Maintenance of Securities).** It is hereby undertaken by the Borrower that the Security Documents shall both at the date of execution and delivery thereof and so long as any moneys are due under this Agreement or thereunder be valid and binding obligations of the respective Security Parties thereto and rights of the Bank enforceable in accordance with their respective terms and that the Borrower will, at its own expense, execute, sign, perfect and do any and every such further assurance, document, act, omission or thing as in the opinion of the Bank may be necessary or desirable for perfecting the security contemplated or constituted by the Security Documents.

11. INSURANCES

11.01. Words and expressions used in this Clause shall, unless otherwise defined in this Clause, have the meanings given thereto in Clause 1.02 of this Agreement and the following expressions shall have the meanings listed below:

"Approved Brokers" means such insurance brokers, appointed by the Borrower, as may from time to time be approved by the Bank in writing for the purposes of this Clause;

"Excess Risks" means, in relation to the Vessel, (i) the proportion of claims for general average, salvage and salvage charges which are not recoverable as a result of the value at which the Vessel is assessed for the purpose of such claims exceeding its hull and machinery insured value and (ii) collision liabilities not recoverable in full under the applicable hull and machinery insurance by reason of such liabilities exceeding such proportion of the insured value of the Vessel as is covered thereunder;

"Loss Payable Clauses" means the provisions regulating the manner of payment of sums receivable under the Insurances which are to be incorporated in the relevant insurance document, such Loss Payable Clauses to be in the forms set out in Clause 11.04, or such other form as the Bank may from time to time agree in writing;

"Protection and Indemnity Risks" means the usual risks covered by a protection and indemnity association managed in a major international marine insurance market, including, but not limited to, pollution, freight, demurrage and detention risks and the proportion (if any) of any sums payable to any other person or persons in case of collision which are not recoverable under the hull and machinery policies by reason of the incorporation therein of Clause 1 of the Institute Time Clauses (Hulls)(1/10/83) or Clause 8 of the Institute Time Clauses (Hulls)(1/11/1995) or the Institute Amended Running Down Clause (1/10/71) or any equivalent provision; and

"War Risks" includes all risks referred to in the Institute War and Strike Clauses (Hulls) (1/10/83) and (1/11/95) including, but not limited to, the risk of mines, blocking and trapping, missing vessel, political risks, deprivation, confiscation and all risks excluded by Clause 23 of the Institute Time Clauses (Hulls) (1/10/83) or Clause 24 of the Institute Time Clauses (Hulls) (1/11/1995).

11.02. It is hereby undertaken by the Borrower, that until all moneys payable to the Bank (whether actually or contingently) under this Agreement and the other Security Documents have been paid in full, the Borrower will comply with the following undertakings in relation to the Vessel:

- i) to effect the insurances referred to in (ii) below in Dollars or in other such currency as the Bank may approve through the Approved Brokers (other than the said Mortgagee's Interest Insurance and MAP which shall be effected through brokers nominated by the Bank) and with such insurance companies and/or underwriters as shall from time to time be approved in writing by the Bank, provided, however, that the insurances so effected shall from time to time be approved in writing by the Bank if the Bank so requires;
- ii) to insure and keep the Vessel insured free of cost and expense to the Bank and in the sole name of the Borrower or, if so required by the Bank, in the joint names of the Borrower and the Bank (but without liability on the part of the Bank for premiums or calls):
 - 1) against fire and usual marine risks (including Excess Risks) on an agreed value basis, in such amounts (but not in any event less than whichever shall be the greater of the Vessel's Market Value for the time being, and 120% of the aggregate of the Outstanding Indebtedness and in case of outstanding Designated Transactions, of the Swap Exposure, and of any claim, lien, or encumbrance having priority over the Bank's security) on a full cover/all risks basis with such reasonable deductible and upon such terms as shall from time to time be approved in writing by the Bank; and
 - 2) against War Risks including claims and/or liabilities related to terrorism and including War P&I cover, either with Lloyd's or other insurance companies and/or underwriters and/or war risk associations acceptable to the Bank according to London Institute War Clauses, on an agreed value basis, in such amounts (but not in any event less than whichever shall be the greater of the Vessel's Market Value for the time being, and 120% of the aggregate of the Outstanding Indebtedness, and in case of outstanding Designated Transactions, of the Swap Exposure, and of any claim, lien, or encumbrance having priority over the Bank's security) with reasonable deductibles and terms as shall from time to time be approved in writing by the Bank attaching also the so called war protection clauses. If not fully covered by these insurances, crew war liabilities insurance shall have to be effected separately; and
 - 3) against Protection and Indemnity Risks for the full value and tonnage of the Vessel (as approved in writing by the Bank) according to the relevant rules and deductibles provided thereof for all risks insured by protection and indemnity associations or clubs including Pollution, and including excess War P&I cover and at the highest limits of cover equivalent to limits of the IGA Group . If any risks are excluded or the deductibles as provided by the rules have been altered, the consent of the Bank shall have to be previously obtained. In case that crew liabilities (loss of life, injury or illness) have been entirely excluded from the association cover or insured on a deductible excess basis, such liabilities shall have to be further insured separately with other underwriters acceptable to the Bank and upon such terms as shall from time to time be approved in writing by the Bank; and

- 4) in respect of such other matters of whatsoever nature and howsoever arising in respect of which insurance would be maintained by a prudent owner of a vessel; and
- 5) port risks insurance, (in the event of the Vessel being laid up for an extended period) may be effected with prior written consent of the Bank in lieu of the insurances required under the provisions of sub-clauses (1), (2), (3) and (4) above against fire and usual marine risks and Protection and Indemnity Risks subject to the conditions of "Institute Time Clauses Hulls, Port Risks" including War Risks subject to the conditions of "Institute War and Strikes Clauses, Hulls, Time" extended to include War Protection and Indemnity risks or other such similar insurance clauses or contract the terms of which shall be acceptable to the Bank;

iii) if any of the Insurances referred to in Clause 11.02 (ii) form part of a fleet cover, to procure that the Approved Brokers shall undertake to the Bank that they shall neither set off against any claims in respect of the Vessel any premiums due in respect of other vessels under such fleet cover or any premiums due for other insurances, nor cancel the insurance of the Vessel for reason of non-payment of premiums for other vessel under such fleet cover or of premiums for such other insurances, and shall undertake to issue a separate policy in respect of the Vessel if and when so requested by the Bank;

iv) punctually to pay all premiums, calls, contributions or other sums payable in respect of all such insurances and to produce all relevant receipts or other evidence of payment when so required by the Bank;

v) at least fourteen (14) days before the relevant policies, contracts or entries expire, to notify the Bank of the names of the brokers and/or the War Risks and Protection and Indemnity Risks associations proposed to be employed by the Borrower for the purposes of the renewal of such insurances and of the amounts in which such insurances are proposed to be renewed and the risks to be covered and, subject to compliance with any requirements of the Bank pursuant to this Clause 11.02, to procure that appropriate instructions for the renewal of such insurances on the terms so specified are given and necessary payments are made to the Approved Brokers and/or to the approved War Risks and Protection and Indemnity Risks associations at least fourteen (14) days before the relevant policies, contracts or entries expire and furnish proof thereof, and that the Approved Brokers and/or the approved War Risks and Protection and Indemnity Risks associations will at least fourteen (14) days before such expiry (or within such shorter period as the Bank may from time to time agree) confirm in writing to the Bank as and when such renewals have been effected in accordance with the instructions so given and to procure that a Cancellation Clause shall be endorsed on the relevant policies, contracts or entries for a Notice of Cancellation to the Bank on the terms set out in Clause 11.04;

vi) to arrange for the execution and delivery of such guarantees or indemnities as may from time to time be required by any protection and indemnity or war risks association;

vii) to assign to the Bank all its present and future claims under the Insurances and to notify such assignment by a Notice of Assignment and deliver all insurance policies to the Bank together with the Letter of Undertaking by the insurers or the Approved Brokers. The Borrower also undertakes that it will not otherwise assign, pledge or dispose of any Insurance claim to any third party without the prior consent of the Bank;

viii) to deposit with the Approved Brokers (or procure the deposit of) all slips, cover notes, policies, certificates of entry or other instruments of insurance from time to time issued in connection with such of the Insurances referred to in Clause 11.02 as are effected through the Approved Brokers and procure that the interest of the Bank shall be endorsed thereon by incorporation of the relevant Loss Payable Clause and by means of a notice of assignment (signed by the Borrower) in the form set out in Clause 11.04 or in such other form as may from time to time be agreed in writing by the Bank, and that the Bank shall be furnished with pro forma copies thereof and a letter or letters of undertaking from the Approved Brokers in such form as shall from time to time be required by the Bank;

ix) to procure that any Protection and Indemnity and/or War Risks associations in which the Vessel is for the time being entered shall endorse the relevant Loss Payable Clause on the relevant certificate of entry or policy and shall furnish the Bank with a copy of such certificate of entry or policy and a letter or letters of undertaking in such form as shall from time to time be required by the Bank;

x) if so requested by the Bank, but at the cost of the Borrower, to furnish the Bank from time to time with a detailed report signed by an independent consultant or marine insurance broker appointed by the Bank dealing with the Insurances maintained on the Vessel and stating the opinion of such consultant or broker as to the adequacy thereof;

xi) to do all things necessary and provide all documents, evidence and information to enable the Bank to collect or recover any moneys which shall at any time become due in respect of the Insurances;

xii) not to employ the Vessel or suffer the Vessel to be employed otherwise than in conformity with the terms of the Insurances (including any warranties express or implied therein) without first obtaining the consent of the insurers and the Bank to such employment and complying with such requirements as to extra insurances or premiums or otherwise as the insurers may prescribe;

xiii) to apply all sums receivable under the Insurances which are paid to the Borrower in accordance with the Loss Payable Clauses in repairing all damage and/or in discharging the liability in respect of which such sums shall have been received; and

xiv) to accept and be bound by the Bank's settlement of any dispute with the insurers in connection with the insurers' liability or the sums receivable under the Insurances.

11.03. Further, the Borrower agrees and authorises the Bank to effect in the name of the Bank but at the expense of the Borrower:

- (a) a Mortgagee's Interest Insurance for at least 120% of the Outstanding indebtedness and any Swap Exposure; and
- (b) a Mortgagee's Additional Perils Insurance (MAP) (oil pollution) for at least 120% of the Outstanding Indebtedness and any Swap Exposure. Condition for this kind of insurance is that the cover for oil pollution by the protection and indemnity association or club is increased to \$ 1,000,000,000.00, such insurance to be effected at the sole discretion of the Bank.

The Borrower herewith irrevocably authorizes the Bank to disclose to the insurance brokers and insurers all relevant information which is required or desirable to effect and maintain Mortgagee's Interest Insurance, and Mortgagee's Additional Perils Insurance, including without limitation, information on the Vessel, the Owner, and the finance under this Agreement.

11.04. The Loss Payable Clause and the Cancellation Clause shall be substantially in the following form:

LOSS PAYABLE CLAUSE (HULL & MACHINERY RISKS/WAR RISKS)

It is noted that, by an Assignment in writing dated the day of (the "Assignment") over the vessel described below, _____, ("the Owner"), owner of the vessel " _____ " (the "Vessel"), assigned absolutely to BREMER LANDESBANK KREDITANSTALT OLDENBURG -GIROZENTRALE - BREMEN, ("the Bank") this policy and all benefits thereof, including all claims of whatsoever nature (including return of premiums) hereunder.

Claims hereunder payable in respect of a total or constructive or an arranged or agreed or compromised total loss or unrepaired damage and all claims which (in the opinion of the Bank) are analogous thereto shall be payable to the Bank.

Subject thereto, all other claims, unless and until underwriters have received notice from the Bank of a default under the Assignment, in which event all claims hereunder shall be payable directly to the Bank, shall be payable as follows:

- (i) a claim in respect of any one casualty where the aggregate claim against all insurers does not exceed UNITED STATES DOLLARS FOUR HUNDRED THOUSAND (\$ 400,000.00) or the equivalent in any other currency, prior to adjustment for any franchise or deductible under the terms of the policy, shall be paid directly to the Owner for the repair, salvage or other charges involved or as a reimbursement if they have fully repaired the damage and paid all of the salvage or other charges;
- (ii) a claim in respect of any one casualty where the aggregate claim against all insurers exceeds UNITED STATES DOLLARS FOUR HUNDRED THOUSAND (\$ 400,000.00) or the equivalent in any other currency prior to adjustment for any franchise or deductible under the terms of the policy, shall subject to the prior written consent of the Bank, be paid to the Owner as and when the Vessel is restored to its former state and condition and the liability in respect of which the insurance loss is payable is discharged, and provided that the insurers may with such consent as aforesaid make payment on account of repairs in the course of being effected.

Notwithstanding the terms of the said Loss Payable Clause and Notice of Assignment, unless and until Brokers receive notice from the Bank to the contrary, Brokers shall be empowered to arrange their proportion of any collision and/or salvage guarantee to be given in the event of bail being required in order to prevent the arrest of the Vessel or to secure the release of the Vessel from arrest following a casualty. Where a guarantee has been given as aforesaid and the guarantor has paid any sum under the guarantee in respect of such claim, there shall be payable directly to the guarantor out of the proceeds of said policies a sum equal to the sum so paid.

All collections are to be made through the brokers approved by the Bank.

NOTICE OF CANCELLATION

Notice is to be given to BREMER LANDESBANK KREDITANSTALT OLDENBURG -GIROZENTRALE - Domshof 26, 28195 Bremen, Germany, (tel.: +49 421 332.2573, FAX: +49 421 332.3636, e-mail: michael.titzmann@bremerlandesbank.de, (the "Bank") in any of the following cases:

- (1) immediately of any material changes which are proposed to be made in the terms of the insurances or if the underwriters cease to be underwriters for any purposes connected with the insurances;
- (2) not later than fourteen (14) days prior to the expiry of any of the insurances if instructions have not been received for the renewal thereof and, in the event of instructions being received to renew, of the details thereof;
- (3) immediately of any instructions or notices received by underwriters with regard to the cancellation or invalidity of any of the insurances aforesaid; and
- (4) immediately if the underwriters give notice of their intention to cancel the insurances, provided that the underwriters will not exercise any rights of cancellation by reason of unpaid premiums without giving the Bank fourteen (14) days, from the receipt of such notice, in which to remit the sums due.

LOSS PAYABLE CLAUSE PROTECTION & INDEMNITY RISKS INSURANCE

Payment of any recovery which _____ (the "Owner") is entitled to make out of the funds of the Association in respect of any liability, costs or expenses incurred by the Owner, shall be made to the Owner or to its order, unless and until the Association receives notice to the contrary from BREMER LANDESBANK KREDITANSTALT OLDENBURG — GIROZENTRALE — of Domshof 26, 28195 Bremen, Federal Republic of Germany (the "Bank") in which event all recoveries shall thereafter be paid to the Bank or their order; provided that no liability whatsoever shall attach to the Association, its managers or their agents for failure to comply with the latter obligation until the expiry of two clear business days from the receipt of such notice.

NOTICE OF CANCELLATION

Notice to be given to BREMER LANDESBANK KREDITANSTALT OLDENBLTRG— GIROZENTRALE — Domshof 26, 28195 Bremen, Federal Republic of Germany, (tel.: +49 421 332.2573, FAX: +49 421 332.3636, e-mail: michael.titzmann@bremerlandesbank.de, (the "Bank") in any of the following cases:

- (1) immediately of any material changes which are proposed to be made in the terms of the Insurances or if the underwriters cease to be underwriters for any purposes connected with the Insurances;
- (2) not later than fourteen (14) days prior to the expiry of any of the Insurances if instructions have not been received for the renewal thereof and, in the event of instructions being received to renew, of the details thereof;
- (3) immediately of any instructions or notices received by underwriters with regard to the cancellation or invalidity of any of the Insurances aforesaid; and

(4) immediately if the underwriters give notice of their intention to cancel the Insurances, provided that the underwriters will not exercise any rights of cancellation by reason of unpaid premiums without giving the Bank fourteen (14) days, from the receipt of such notice, in which to remit the sums due.

11.05. The Notice of Assignment shall be substantially in the following form:

NOTICE OF ASSIGNMENT

(for attachment by way of endorsement to the Policy)

We the undersigned _____

the owner of m.v. " _____ " (the "Vessel") hereby give notice that by an assignment dated . _____ 200x, and entered into by us with Bremer Landesbank Kreditanstalt Oldenburg - Girozentrale - (the "Bank") there have been assigned by us to the Bank all benefits arising under all insurances taken out and to be taken out for the Vessel including but not limited to the insurances constituted by the policy whereon this notice is endorsed or shall be endorsed.

Signed this..... day of
for and on behalf of

To : [Managers of protection and indemnity or war risks association or club]

We, _____, the owners of the MN " _____ " (the "Vessel") irrevocably authorize you to disclose to BREMER LANDESBANK KREDITANSTALT OLDENBURG -GIROZENTRALE- ("the Bank") or its agents all information and documents relating to the entry of the Vessel with you as the Bank or its agents may from time to time require.

Please note that this authority may not be varied or revoked without the prior written consent of the Bank.

Signed this..... day of
for and on behalf of

12. COVENANTS

It is hereby undertaken by the Borrower that, from the date of this Agreement and so long as any moneys are due and/or owing and/or outstanding under this Agreement, the ISDA Agreement, or any of the other Security Documents the Borrower will:

12.01. Information Covenants

12.01.01. **(Annual Financial Statements)** furnish the Bank every 30th June or latest by every 30th September, in form and substance satisfactory to the Bank, with (i) annual unaudited financial statements (internal figures, including balance sheets, profit and loss accounts) of the Borrower signed by the Board of Directors of the Borrower, and (ii) annual, audited, consolidating and consolidated financial statements of the Group commencing on 31st December 2008 (including balance sheets, profit and loss accounts) audited by auditors acceptable to the Bank and prepared in accordance with all applicable laws and GAAP consistently applied;

12.01.02. **(Financial Information)** provide the Bank annually and in any event within two (2) weeks after the Bank's request with information in form and substance satisfactory to the Bank on the financial condition, Financial Indebtedness, cash flow position, commitments and operations of the Group including cash flow analysis and voyage accounts of the Relevant Ships with a breakdown of income and running expenses showing net trading profit, trade payables and trade receivables, such financial details to be certified by the CFO or any other officer of the Corporate Guarantor as to their correctness. In addition, the Borrower hereby undertakes to keep the Bank promptly advised of all major financial developments of the Security Parties such as sales or purchases of vessels, new loans, refinancing/restructuring of existing loans, contracts for term employment of vessels;

12.01.03. **(Information on the Financial Indebtedness of the Security Parties other than the Borrower)** promptly inform the Bank of any proposed arrangements of any of the Security Parties other than the Borrower in respect of Financial Indebtedness together with the payment or repayment terms in respect of such Financial Indebtedness;

12.01.04. **(Information on Adverse Change or Default)** inform the Bank in writing of any occurrence of which the Borrower becomes aware which might adversely affect the ability of any Security Party to perform its respective obligation under this Agreement and/or any of the Security Documents and of any default forthwith upon becoming aware thereof; and

12.01.05. **(Information on Events concerning the Vessel)** notify the Bank forthwith and in any event within 48 hours after such event becomes known to the Borrower or any other Security Party by fax or e-mail confirmed by letter addressed to the Bank of:

- (a) any accident to the Vessel the anticipated repair cost or liability amount of which exceeds \$ 400,000.00, or any event which may result in an Environmental Claim;
- (b) any occurrence resulting in the Vessel becoming or being likely to become a Total Loss;
- (c) any requirement or recommendation made by any insurer or classification society or by any competent authority which is not complied with, within any time limit imposed by any insurer or classification society or authority;
- (d) any arrest of the Vessel or the exercise or purported exercise of any lien of the Vessel or its Earnings or Insurances and of its release;

- (e) any petition or notice of meeting to consider any resolution to wind-up the Borrower or any other corporate Security Party;
- (f) any intended dry docking of the Vessel;
- (g) any event affecting the Vessel's class, its compliance with the ISM Code or the ISPS Code, any seizure of the Vessel, bottomry, general average, salvage as well as of any assistance whatsoever rendered by third parties and of all legal proceedings against the Vessel;
- (h) any claim for breach of the ISM Code or the ISPS Code;
- (i) any event affecting the due performance of any charter of the Vessel by either the Borrower or the charterer.

12.02. Banking Arrangements

12.02.01. **(Banking Operations)** ensure that whenever possible all banking operations in connection with the Vessel are carried out through the Bank.

12.03. No Further Financial Exposure

12.03.01. **(No Further Indebtedness)** incur no further Indebtedness, including any Financial Indebtedness, nor authorize or accept any capital commitments (other than those normally associated with the day to day operation of the Vessel) nor enter into any agreement for payment on deferred terms or hire agreement, in each case in excess of Dollars Five Hundred Thousand (\$500,000), without the prior written consent of the Bank;

12.03.02. **(No Guarantees)** not issue or agree to issue any guarantee in favour of any person or legal entity other than in connection with the ordinary trading and operation of the Vessel;

12.03.03. **(No Loans)** not make any loans or loan advances to, or any investments in, any person, firm, corporation, joint venture or other entity including (without limitation) any loan or advances to any officer, director, stockholder or employee directly or through any other Security Party;

12.03.04. **(No Dividends)** following the occurrence of an Event of Default which is continuing, not declare or pay any dividends or other distribution from the Earnings of the Vessel upon any of the issued shares and throughout the term of the Loan not otherwise dispose of any assets to any of the shareholders of the Borrower, without the prior written consent of the Bank;

12.03.05. **(No Payments)** except pursuant to this Agreement and the Security Documents (or as expressly permitted by the same) not pay out any funds to any company or person except in connection with the administration of the Borrower and the operation and/or repair of the Vessel;

12.03.06. **(No dealings with ISDA Agreement)** not assign, novate or in any other way transfer any of its rights or obligations under or pursuant to the ISDA Agreement, nor enter into any interest rate exchange or hedging agreement for the purpose of hedging Borrower's exposure under this Agreement to fluctuations of LIBOR arising from the funding of the Loan (or any part thereof) with anyone other than the Bank, nor any other agreement or commitment the effect of which is, in the opinion of the Bank, materially to prejudice the hedging of the Borrower's interest rate risk under this Agreement effected by the Designated Transactions from time to time entered into between the Borrower and the Bank, without the prior written consent of the Bank;

12.04. Maintenance of Corporate and Business Structure

12.04.01. **(Maintain Business Structure)** not change the nature, organization and conduct of the business of the Borrower and of any other Security Party, or carry on any business other than the business carried on at the date of this Agreement;

12.04.02. **(Maintain Legal Structure)** ensure that none of the documents defining the constitution of the Borrower or of any other corporate Security Party (including the Corporate Guarantor) shall be altered in any manner whatsoever, nor any shareholder changed (except with respect to the Corporate Guarantor), without the Bank's prior written consent, and promptly inform the Bank of any change of a Director of the Borrower or any other corporate Security Party;

12.04.03. **(Ownership)** ensure that no change shall be made in the ownership, control or management of the Borrower or of any other Security Party (other than the Corporate Guarantor), or of the Vessel without the prior written consent of the Bank. With respect to the Corporate Guarantor, the Borrower will ensure that no change shall be made in the control or the management of the Corporate Guarantor without the prior written consent of the Bank;

12.04.04. **(No Merger)** not merge or consolidate with any other company or person;

12.05. No Subordination/Value of Security

12.05.01. **(No Subordination)** ensure that the Indebtedness of the Borrower to the Bank hereunder or under the other Security Documents will not be subordinated in priority of payment to any other present or future Indebtedness;

12.05.02. **(Valuation of the Vessel)** (a) as and when and as often as may be reasonably required by the Bank but at least annually, provide the Bank at the Borrower's expense with a valuation certificate addressed to the Bank and dated not more than seven (7) days prior to its delivery to the Bank from an Approved Broker certifying the Vessel's Market Value. Such valuation may be made with or without physical inspection of the Vessel (as the Bank may require) on the basis of a sale for prompt delivery for cash at arm's length on normal commercial terms as between a willing seller and a willing buyer and free of any existing charter or other contract of employment. All costs arising in connection with the obtaining of any such valuation (including, but not limited to, the fees of the relevant Approved Brokers appointed to give such valuations) shall be borne by the Borrower;

(b) if the Borrower fails to provide the valuation certificate required by Clause 12.05.02 (a) within seven (7) days of being required to do so by the Bank, or if the Bank does not agree with such valuation in its discretion, the Borrower irrevocably authorizes the Bank at the expense of the Borrower to appoint an Approved Broker as the Bank in its discretion may consider appropriate for the purpose of providing such valuation certificate and undertakes promptly on request to supply to the Bank and to any such Approved Broker such information concerning the Vessel, its condition and its employment as the Bank and the Approved Broker appointed by the Bank may reasonably require, and such valuation shall constitute the Vessel's Market Value for the purposes of Clause 12.05.03;

The Vessel's Market Value as determined pursuant to this Clause 12.05.02(b) shall be notified by the Bank to the Borrower;

(c) In the event that by written notice to the Bank, within two (2) Banking Days as of the date of the delivery from the Borrower to the Bank of the valuation certificate pursuant to Clause 12.05.02(a) or, as the case may be, the delivery from the Bank to the Borrower of the valuation certificate pursuant to Clause 12.05.02(b), such valuation is not accepted by the Borrower, the value of the Vessel shall be determined by an Approved Broker appointed by the Bank and two Approved Brokers appointed by the Borrower who will value the Vessel on the basis set out in Clause 12.05.02 (a).

The average of the two (2) lowest valuations out of the three valuations of such Approved Brokers shall constitute the Vessel's Market Value for the purposes of Clause 12.05.03, provided however that the valuation obtained by the Bank shall constitute the Vessel's Market Value if (i) no Approved Broker is appointed by the Borrower within two (2) Banking Days of delivery of the original valuation obtained by the Bank or (ii) the Approved Brokers appointed by the Borrower fail to submit the valuation to the Bank within seven (7) days of delivery of the valuation obtained by the Bank. All costs in connection with such valuations shall be borne by the Borrower;

12.05.03. **(Vessel's Market Value to Debt Ratio Additional Security)** ensure and procure that at all times, while the Loan is outstanding, the Vessel's Market Value shall be in excess of 120% of the aggregate of the Outstanding Indebtedness and of any claim, lien, or encumbrance having priority to the Bank's security, less any moneys standing to the credit of the Current Account and if at any relevant time the Vessel's Market Value (together with the value in Dollars of any additional security given under this Clause as accepted by the Bank at its sole discretion) is less than 120% of the aggregate of the Outstanding Indebtedness, and in case of outstanding Designated Transactions the Swap Exposure, and of any claim, lien, or encumbrance over the Vessel having priority to the Bank's security, the Borrower will within thirty (30) days of being advised by the Bank of such an event, either repay such amount which is required to reduce the Outstanding Indebtedness to the required level, or provide additional security in an amount, form, and substance in all respects acceptable to the Bank. Such additional security shall be constituted by:

- a) pledged cash deposits in favour of the Bank in an amount equal to such shortfall at the Bank's discretion; and/or
- b) additional first preferred mortgage(s) on collateral vessel(s) (to be valued in accordance with Clause 12.05.02), acceptable to the Bank, the value of which covers the relevant shortfall; and/or
- c) any other security acceptable to the Bank in its discretion to be provided in a manner determined by the Bank at the Bank's discretion;

If the Borrower does not fulfill the obligations provided for in this Clause within thirty (30) days, then the Loan with all accrued interest, Expenses, and all other Outstanding Indebtedness will become due for immediate repayment.

12.06. Maintenance of Assets

12.06.01. **(No Transfer of Assets)** not convey, assign, transfer, sell or otherwise dispose of or deal with any of its real or personal property, assets including without limitation the Vessel, or rights, whether present or future, without the Bank's prior written consent; and

12.06.02. **(No Encumbrance of Assets)** not allow any part of its undertaking, property, assets, including without limitation the Vessel, or rights (including, without limitation, any of its rights under or in connection with the ISDA Agreement and any amount at any time payable to the Bank under or pursuant to the ISDA Agreement), whether present or future, to be mortgaged, charged, pledged, used as a lien or otherwise encumbered without the Bank's prior written consent;

12.07. Covenants Concerning the Vessel

12.07.01. **(Ownership/Management/Control)** ensure that the Vessel upon its delivery will maintain its ownership by the Borrower, its management by the Manager and its control and ultimate beneficial ownership;

12.07.02. **(Condition and Class)** ensure that the Vessel will be kept in good and safe condition and state of repair (a) so as to comply with all laws and regulations applicable to vessels registered on the Vessel's flag or to vessels trading to any jurisdiction to which the Vessel may trade from time to time including, but not limited to, the ISM Code, the ISPS Code, the ISM Code Documentation and the ISPS Code Documentation, (b) so as to remain in class with a first class classification society, which may not be changed without the Bank's prior written consent, free of recommendations, notations or average damage affecting class and provide the Bank on demand with copies of all class and trading certificates of the Vessel within 14 days after issuance thereof;

12.07.03. **(Inspection)** ensure that the authorized expert of the Bank is at any time - even when the repairs are being carried out - allowed to enter the Vessel and to ask for inspection of the Vessel's certificates and journals at the Borrower's cost. Furthermore, after termination of each voyage, at least, once a year, the Bank is entitled to arrange for inspection of the Vessel by its authorized expert at the Borrower's cost;

12.07.04. **(Repairs-Works)** (i) not without the prior written consent of the Bank (and then only subject to such conditions as the Bank may impose), purchase, acquire or otherwise agree to purchase or acquire on credit terms or with a reservation of ownership any item used to substitute any part of the Vessel having a value in excess of Dollars Four Hundred Thousand (\$ 400,000.00) or the equivalent in any other currency, (ii) not without the previous consent in writing of the Bank, to put the Vessel in possession of any person for the purpose of alterations or repairs or other work being done thereon in an amount exceeding or likely to exceed Dollars Four Hundred Thousand (\$ 400,000.00) or the equivalent in any other currency unless such person shall first have given to the Bank, and in terms satisfactory to it, a written undertaking not to exercise any lien or special privilege on the Vessel or its Earnings for the cost of such work or otherwise, and (ii) upon the Bank's request, promptly and in an event within seven (7) days from request, provide the Bank with receipts evidencing payment or settlement of all repair costs of the Vessel;

12.07.05. **(Insurances)** maintain all Insurances of the Vessel as specified in this Agreement, and in case of failure to maintain the Vessel insured as provided for in this Agreement authorize the Bank (and the Bank is hereby authorized) to have the right but not the obligation to effect such Insurances on behalf of their respective owner and in case that the Vessel remains in port for an extended period to effect port risks insurances at the cost of the Borrower and all amounts paid by the Bank in connection herewith shall be Expenses;

12.07.06. **(Transfer/Encumbrances)** not without the prior written consent of the Bank sell or otherwise dispose of the Vessel or any share therein or mortgage, charge or otherwise assign the Vessel or any part thereof or suffer the creation of any such mortgage, charge or assignment in favour of any person other than the Bank;

12.07.07. **(Not Change or Imperil Flag, Ownership, Insurance)** ensure that no change of the flag, ownership, or insurances of the Vessel is effected without the Bank's prior consent and that the Vessel is maintained and trades in conformity with international law, the laws of its flag, the laws of the country of incorporation of its owning companies and the requirements of the Insurances and the ISM Code and the ISPS Code and nothing is done or permitted to be done which could endanger the flag of the Vessel or its free ownership or its Insurances;

12.07.08. **(Mortgage Covenants)** always comply with all the covenants provided for in the Mortgage;

12.07.09. **(Compliance with Charter)** always comply with all obligations under any charterparty, or contract of affreightment, ensuring that nothing shall be done or omitted to be done with respect to any charter which would cause any default under and/or premature termination of such charterparty or contract of affreightment;

12.07.10. **(Charter)** enter into the Charter, and upon expiration or termination of the Charter into the Subsequent Charter, and procure and ensure throughout the Security Period that the Vessel is or remains chartered with charterers and on terms acceptable to the Bank provided that the Borrower will not without the prior written consent of the Bank enter into a charterparty, contract of affreightment, agreement or related document for a period of twelve (12) or more months or allow the Vessel to be otherwise employed below the market rate prevailing at the time when the Vessel is fixed or on terms which are not in accordance with the commercial practice prevailing at the relevant time or to enter into a demise charterparty;

12.07.11. **(Charter Assignment)** upon request of the Bank, execute and deliver to the Bank within fifteen (15) days of signing of any charter the duration of which is agreed to be for a period, directly or by extension of twelve (12) or more months, (a) a specific assignment in form and substance satisfactory to the Bank of such charter and (b) a notice of any such assignment addressed to the relevant charterer and endorsed with an acknowledgement of receipt by the relevant charterer all in form and substance satisfactory to the Bank or (c) alternatively at the discretion of the Bank, a copy of irrevocable instructions to the charterer for the payment of the hire to the Bank;

12.07.12. **(Compliance with Environmental Laws)** to comply with, and procure that all Environmental Affiliates comply with, all Environmental Laws including without limitation, requirements relating to manning and establishment of financial responsibility and to obtain and comply with, and procure that all Environmental Affiliates obtain and comply with, all Environmental Approvals and to notify the Bank forthwith:

(aa) of any Environmental Claim for an amount or amounts exceeding Three Hundred Fifty Thousand Dollars (\$350,000.00); and

(bb) upon becoming aware of any incident which may give rise to an Environmental Claim to advise and to keep the Bank advised in writing of the Borrower's or any other Relevant Party's response to such Environmental Claim on such regular basis and in such detail as the Bank shall require;

12.07.13. **(Compliance with ISM Code and ISPS Code requirements)** ensure and arrange that the Manager and/or the Borrower and/or any other persons responsible for the operation of the Vessel obtain certification for themselves and the Vessel as and when required by the ISM Code and ISPS Code and maintain such certifications so that they are not withdrawn or cancelled and notify the Bank in writing in the event that any ISM Code Documentation or ISPS Code Documentation is withdrawn, cancelled or suspended;

12.07.14. Upon the occurrence of an Event of Default or an event resulting in a compulsory prepayment of the Loan, accept and act in accordance with any instructions of the Bank to sail the Vessel, at the Borrower's expense and risk, to any designated port chosen by the Bank. In such a case the Bank will be entitled to instruct the Vessel's master and crew and issue and accept on behalf of the Borrower all necessary declarations to any authorities or third parties.

12.08. Observance of Covenants

12.08.01. **(Use of the Loan)** use the Loan exclusively for the purposes specified in this Agreement;

12.08.02. **(Comply with Covenants)** duly and punctually perform all obligations under this Agreement and the other Security Documents;

12.08.03. **(Payment of Expenses)** pay to the Bank on demand any and all Expenses incurred by the Bank and/or any other amount which is payable by the Borrower or any other Security Party to the Bank under this Agreement and is not specified when it is due in any other Clause; and

12.08.04. **(Proof of Compliance)** upon request from time to time by the Bank promptly provide such information and evidence to the Bank as the Bank may reasonably require to demonstrate compliance with the covenants and undertakings set forth in this Agreement and any other Security Document.

12.09. Validity of Securities

12.09.01. **(Validity)** ensure and procure that all governmental or other consents required by law and/or any other steps required for the validity, enforceability and legality of this Agreement and the other Security Documents are maintained in full force and effect and/or are appropriately taken;

12.09.02. **(Earnings)** ensure and procure that, unless and until the Bank directs otherwise, or as provided herein, (i) all the Earnings of the Vessel shall be paid to the Current Account, and (ii) the persons from whom the Earnings of the Vessel are from time to time due are irrevocably instructed to pay them to the Current Account, in accordance with the provisions hereof and of the relevant Security Documents;

12.09.03. **(Taxes)** pay all taxes, assessments and other governmental charges when the same fall due, except to the extent that the same are being contested in good faith by appropriate proceedings and adequate reserves have been set aside for their payment if such proceedings fail; and

12.09.04. **(Additional Documents)** from time to time at the request of the Bank promptly execute and deliver to the Bank or procure for the execution and delivery to the Bank of all such documents as the Bank shall reasonably deem desirable for giving full effect to this Agreement, and for perfecting, protecting the value of or enforcing any rights or securities granted to the Bank under any one or more of this Agreement, the other Security Documents and any other documents executed pursuant hereto or thereto.

12.11. Covenants for the Security Parties

12.11.01. **(Security Parties)** ensure and procure that each of the Security Parties will duly and punctually comply with the covenants, conditions, undertakings, agreements or obligations on its or his part contained in this Agreement or any of the other Security Documents and shall not in any other way be in breach of or do or cause to be done any act repudiating or evidencing an intention to repudiate any of the Security Documents and that there shall not occur any event which would or would with the passage of time render performance of any of the Security Documents impossible or unlawful or unenforceable by the Bank; and

12.12. Waiver by the Bank

12.12.01. The covenants specified in this Clause are inserted solely for the benefit of the Bank and may be waived in whole or in part and with or without conditions by the Bank without prejudicing the right of the Bank to require fulfillment of such covenants at such time and manner as specified by the Bank.

13. EVENTS OF DEFAULT

There shall be an Event of Default whenever an event occurs described in Clauses 13.01 to 13.08:

13.01. Non Performance of Borrower's Obligations

13.01.01. The Borrower fails to pay any sum due from the Borrower under this Agreement and/or the ISDA Agreement and/or any of the other Security Documents when due, or, in the case of any sum payable on demand, within three (3) Banking Days from such demand; or

13.01.02. The Borrower commits any breach of or fails to observe and perform any of the covenants, terms, obligations or, undertakings contained in this Agreement and/or the other Security Documents relating to the Insurances; or

13.01.03. the Borrower commits any breach of or fails to observe and perform any of the covenants, terms, obligations or undertakings expressed to be assumed by the Borrower under this Agreement and/or the ISDA Agreement and/or the other Security Documents (other than failure to pay any sum when due or to comply with any obligation concerning the Insurances), and, in respect of any such breach or failure which in the sole opinion of the Bank is capable of remedy, such action as the Bank may require shall not have been taken within seven (7) days of the Bank notifying the Borrower of such required action to remedy the breach or failure; or

13.01.04. failure by the Borrower to utilize the Loan amount for the purposes stated in Clause 1.01 of this Agreement or failure (by the Borrower) to provide the Bank with evidence thereof within one week's time from the Bank's demand; or

13.02. Events affecting the Borrower

13.02.01. the Borrower is adjudicated or found bankrupt or insolvent or any order is made by any competent court or resolution passed by the Borrower or petition presented for the winding-up or dissolution of the Borrower or for the appointment of a liquidator, trustee, administrator or conservator or similar of the whole or any part of the undertakings, assets, rights or revenues of the Borrower; or

13.02.02. the Borrower becomes or is deemed to be insolvent or suspends payment of its debts or is (or is deemed to be) unable to or admits inability to pay its debts as they fall due or proposes or enters into any composition or other arrangement for the benefit of its creditors generally or proceedings are commenced in relation to the Borrower under any law, regulation or procedure relating to reconstruction or readjustment of debts; or

13.02.03. an encumbrancer takes possession or a receiver or similar officer is appointed for the whole or any part of the undertakings, assets, rights or revenues of the Borrower or a distress, execution, sequestration or other process is levied or enforced upon or sued out against the undertakings, assets, rights or revenues of the Borrower and is not discharged within fifteen (15) days; or

13.02.04. (Legal Process) any judgment or order made against the Borrower is not stayed or complied with within seven days or a creditor arrests, attaches or takes possession of, or a distress, execution, sequestration or other process is levied or enforced upon or sued out against the Vessel, any of the undertakings, assets, rights or revenues of the Borrower and is not discharged within seven days; or

13.02.05. **(Appointment of receivers and managers)** any administrator or other receiver is appointed on any Security Party or any part of its assets and/or undertaking or any other steps are taken to enforce any Encumbrance over all or any part of the assets of any Security Party; or

13.02.06. all or a material part of the undertakings, assets, rights or revenues of the Borrower are seized, nationalized, expropriated or compulsorily acquired by or under the authority of any government; or

13.02.07. any event occurs or proceeding is taken with respect to the Borrower in any Relevant Jurisdiction to which it is subject which has an effect equivalent or similar to any of the events mentioned in Clauses 13.02.01 to 13.02.06; or

13.02.08. the Borrower suspends or ceases or threatens to suspend or ceases to carry on its business; or

13.02.09. there occurs, in the opinion of the Bank, a materially adverse change in the financial condition of the Borrower or of any Security Party; or

13.02.10. the value of the Vessel and of any additional collateral security deteriorates, or any other event occurs or circumstances arise which, in the reasonable opinion of the Bank is likely materially and adversely to affect either (i) the ability of the Borrower to perform all or any of its obligations under or otherwise to comply with the terms of this Agreement and/or any of the Security Documents, or (ii) the security created by this Agreement and/or any of the Security Documents; or

13.02.11. there is any change in the ownership of the shares in the Borrower or any change in the control of the Borrower without the prior written consent of the Bank; or

13.03. **Representations Incorrect**

13.03.01. any representation or warranty made or deemed to be made or repeated by or in respect of the Borrower in or pursuant to this Agreement or any of the other Security Documents or in any notice, certificate or statement referred to in or delivered under this Agreement or any of the Security Documents is or proves to have been incorrect in any material respect; or

13.04. Cross - Default

13.04.01 any Indebtedness of the Borrower or of any of the other Security Parties or of any member of the Group to the Bank (other than under this Agreement), or any Indebtedness in excess of \$500,000 of the Borrower or of any of the other Security Parties or of any member of the Group to any third party, or any Financial Indebtedness of the Borrower or of any other Security Party or of any member of the Group (except for trade debts not in excess of \$500,000) is not paid when due or becomes due and payable, or any creditor of the Borrower or of any other Security Party or of any member of the Group becomes entitled to declare any such Indebtedness due and payable prior to the date when it would otherwise have become due, or any guarantee or indemnity given by the Borrower or any other Security Party or any member of the Group in respect of such Indebtedness is not honored when due and called upon; or

13.05. Events Affecting the Security Documents and the ISDA Agreement

13.05.01. this Agreement or the ISDA Agreement or any of the other Security Documents at any time and for any reason becomes invalid or unenforceable or otherwise ceases to remain in full force and effect, or the priority, validity or enforceability of this Agreement or any of the other Security Documents at any time and for any reason is contested by any party thereto (other than the Bank), or any such party denies that it has any, or any further, liability thereunder or it becomes impossible or unlawful for the Borrower to fulfill any of its covenants and obligations contained in this Agreement or any of the other Security Documents or for the Bank to exercise the rights or any of them vested in it thereunder or otherwise; or

13.05.02. any consent, authorization, license or approval of, or registration with or declaration to, governmental or public bodies or authorities or courts required by the Borrower to authorize or otherwise in connection with, the execution, delivery, validity, enforceability or admissibility in evidence of this Agreement and/or the ISDA Agreement and/or any of the other Security Documents or the performance by the Borrower of its obligations under this Agreement and/or the ISDA Agreement and/or any of the other Security Documents is modified in a manner unacceptable to the Bank or is not granted or is revoked or terminated or expires and is not renewed or otherwise ceases to be in full force and effect; or

13.05.03. any Encumbrance in respect of any property (or part thereof) which is the subject of the Security Documents (or any of them) is enforced; or

13.05.04. an Event of Default (as defined in the ISDA Agreement) has occurred and is continuing under the ISDA Agreement or (ii) an Early Termination Date (as defined in the ISDA Agreement) has occurred or been effectively designated under the ISDA Agreement or (iii) a person entitled to do so gives notice of an Early Termination Date (as defined in the ISDA Agreement) under section 6(b)(iv) of the ISDA Agreement or (iv) the ISDA Agreement is terminated, cancelled, suspended, rescinded or revoked or otherwise ceases to remain in full force and effect for any reason; or

13.06. Events Concerning the Security Parties other than the Borrower

13.06.01. any Security Party (other than the Borrower) fails to pay any sum due from it under this Agreement and/or the ISDA Agreement and/or any of the Security Documents when due, or, in the case of any sum payable on demand, within three (3) Banking Days of demand; or

13.06.02. any Security Party (other than the Borrower) commits any breach of or fails to observe and perform any of the covenants, terms, obligations or undertakings contained in this Agreement and/or the other Security Documents relating to the Insurances; or

13.06.03. any Security Party (other than the Borrower) commits any breach of or fails to observe and perform any of the covenants, terms obligations or undertakings expressed to be assumed by it under this Agreement and/or the ISDA Agreement and/or any of the other Security Documents (other than failure to pay any sum when due or to observe or perform obligations relating to the Insurances) and, in respect of any such breach or failure which in the opinion of the Bank is capable of remedy, such action as the Bank may require shall not have been taken within seven (7) days of the Bank notifying the relevant Security Party, of such required action to remedy the breach or failure; or

13.06.04. any representation or warranty made or deemed to be made or repeated by or in respect of any Security Party (other than the Borrower) in or pursuant to this Agreement or the ISDA Agreement or any of the other Security Documents or in any notice, certificate or statement referred to in or delivered under this Agreement or the ISDA Agreement or any of the other Security Documents is or proves to have been incorrect in any material respect; or

13.06.05. any of the events referred to in Clauses 13.02 to 13.05 (inclusive) occurs (amended as appropriate) in relation to any Security Party (other than the Borrower); or

13.07. Events Concerning the Vessel

13.07.01. in contradiction to the rules of proper maintenance the state of the Vessel deteriorates materially or appurtenances are removed; or

13.07.02. (i) the Borrower purchases, acquires or otherwise agrees to purchase or acquire on credit terms or with a reservation of ownership any item used to substitute any part of the Vessel having a value in excess of Dollars Four Hundred Thousand (\$ 400,000.00) or the equivalent in any other currency, or (ii) alterations or repairs or other work of a total cost in excess of Dollars Four Hundred Thousand (\$ 400,000.00) are made on the Vessel by the Borrower, without consent of the Bank and in case of authorized alterations or repairs, if inspection by the Bank's authorized expert is refused or if after termination of repairs, the Borrower does not furnish receipts or other proof within fourteen (14) days after demand of the Bank that the costs accrued were duly paid; or

13.07.03. any maritime liens or mortgages or other encumbrances over the Vessel with priority to the Bank's Mortgage increase to such an extent that the Loan at the Bank's sole determination is no longer covered in accordance with Clause 12.05.03, or if the Borrower does not furnish proof within 2 weeks after request that all claims secured by the maritime liens have been paid; or

13.07.04. any maritime liens or claims over the Earnings or the Insurances of the Vessel with priority to the Bank's security over such Earnings or Insurances increase to such an extent as to endanger or nullify the Bank's security, or if the Borrower does not furnish proof within fourteen (14) days after request that such maritime liens or claims have been paid; or

13.07.05. the Vessel suffers damage of more than 40% of its estimated value as stated in the full insurance policy; or

13.07.06. the value of eventual additional collateral securities deteriorates considerably; or

13.07.07. the Vessel is arrested, confiscated, seized, taken in execution, impounded, forfeited, detained in exercise or purported exercise of any possessory lien or other claim or otherwise taken from the possession of the Borrower and the Borrower shall fail to procure the release of the Vessel within a period of seven (7) days thereafter; or

13.07.08. the registration of the Vessel, under the laws of its flag is cancelled or terminated without the prior written consent of the Bank or if the Vessel is not permanently registered under the laws of the flag state within one month after the Drawdown Date, or if the flag state is involved in hostilities or civil war; or

13.07.09. the Charter or the Subsequent Charter (whether formally or in effect) is prematurely terminated for any reason whatsoever, and a substitute charter with respect to the Vessel on terms and with a first class charterer acceptable to the Bank at its discretion is not entered into within twenty one (21) days from such termination.

13.08. Environmental Events

13.08.01. any Relevant Party or any of its respective Environmental Affiliates fails to comply with any Environmental Law or any Environmental Approval or any Relevant Ship is involved in any incident which gives rise or which may give rise to any Environmental Claim, if in any such case, such non compliance or incident or the consequences thereof could (in the opinion of the Bank) reasonably be expected to have a material adverse effect on the business assets, operations, property or financial condition of the Borrower or any other Security Party or on the security created by any of the Security Documents; or

13.08.02. any Security Party or any other person acting on behalf of or under any agreement with a Security Party fails or omits to comply with any requirements of the protection and indemnity association or other insurer with which the Vessel is entered for insurance or is insured against protection and indemnity risks (including oil pollution risks) to the effect that any cover (including without limitation, liability for Environmental Claims arising in jurisdictions where the Vessel operates or trades) is or may be liable to cancellation, qualification or exclusion at any time.

13.09. **(Consequences of Default)** The Bank may without prejudice to any other rights of the Bank, at any time after the happening of an Event of Default;

13.09.01. by notice to the Borrower declare that the obligation of the Bank to make the Commitment or any part thereof available shall be terminated, whereupon the Commitment or such relevant part thereof shall be reduced to zero forthwith; and/or

13.09.02. by notice to the Borrower declare that the Loan and all interest, Expenses, and Fees accrued and all other Outstanding Indebtedness payable under this Agreement, including Break Costs and the other Security Documents have become due and payable, whereupon the same shall immediately or in accordance with the terms of such notice, become due and payable; and/or

13.09.03. put into force and exercise all or any of the rights, powers and remedies possessed by it under this Agreement and/or under any other Security Document as mortgagee of the Vessel, or as mortgagee, chargee, or assignee (as the case may be) of the assets charged or assigned to it under the Security Documents or otherwise (whether at law, by virtue of any of the Security Documents or otherwise).

13.10. **(Proof of Default).** It is agreed that (i) the non- payment of moneys in time will be proved conclusively by mere passage of time and (ii) the occurrence of this (non payment) and any other Event of Default shall be proved conclusively by a mere written statement of the Bank (save for manifest error).

14. INDEMNITIES

14.01. The Borrower shall (and it is hereby expressly undertaken by the Borrower to) on demand indemnify the Bank, without prejudice to any of the Bank's other rights under any of the Security Documents, against any loss (including loss of Margin) or expense which the Bank shall certify as sustained or incurred by it as a consequence of (i) any default in payment by any of the Security Parties of any sum under any of the Security Documents when due, (ii) the occurrence of any Event of Default, (iii) any payment under and/or prepayment of the Loan or part thereof being made under this Agreement or any other repayment of the Loan or part thereof being made otherwise than on an Interest Payment Date relating to the part of the Loan prepaid or repaid or (iv) the drawdown not being made for any reason (excluding any default by the Bank) after the Drawdown Notice has been given, including, in any such case, but not limited to, any loss or expense sustained or incurred in maintaining or funding the Loan or any part thereof or in liquidating or re-employing deposits from third parties acquired to effect or maintain the Loan or any part thereof.

Without limiting its generality, this Clause 14.01 covers any claim, expense, liability or loss, including a loss of a prospective profit, incurred by the Bank in terminating or reversing, or otherwise in connection with, any Designated Transaction.

14.02. The Borrower shall (and it is hereby expressly undertaken by the Borrower to) pay to the Bank on demand:

14.02.01. all expenses (including legal, printing and out-of- pocket expenses) incurred by the Bank in connection with the negotiation, preparation, execution and perfection of this Agreement and the other Security Documents and of any amendment or extension of or the granting of any waiver or consent under this Agreement and/or any of the other Security Documents and/or in connection with any proposal by the Borrower to constitute additional security pursuant to Clause 12.05.03, whether any such security shall in fact be constituted or not;

14.02.02. all expenses (including legal and out-of-pocket expenses) incurred by the Bank in contemplation of, or otherwise in connection with, the enforcement of, or preservation of any rights under, this Agreement and/or the other Security Documents, or otherwise in respect of the moneys owing under this Agreement and/or the other Security Documents and in general for the protection of the Bank's interests;

14.02.03. any and all other Expenses as defined in Clause 1.02; and

14.02.04. interest at the rate referred to in Clause 3.04 from the date of demand to the date of payment (as well after as before judgment).

All expenses payable pursuant to this Clause 14.02 shall be paid together with Value Added Tax (if any) thereon.

14.03. The Borrower shall (and it is hereby expressly undertaken by the Borrower to) pay any and all stamp, registration and similar taxes or charges (including those payable by the Bank) imposed by governmental authorities in relation to this Agreement and the other Security Documents, and shall indemnify the Bank against any and all liabilities with respect to, or resulting from delay or omission on the part of the Borrower to pay such taxes or charges.

14.04. **(Environmental Indemnity).** The Borrower shall indemnify the Bank on demand and hold the Bank harmless from and against all costs, expenses, payments, charges, losses, demands, liabilities, actions, proceedings (whether civil or criminal) penalties, fines, damages, judgments, orders, sanctions or other outgoings of whatever nature which may be suffered, incurred or paid by, or made or asserted against the Bank at any time, whether before or after the repayment in full of principal and interest under this Agreement, relating to, or arising directly or indirectly in any manner or for any cause or reason out of an Environmental Claim made or asserted against the Bank.

14.05. **(Currency Indemnity)** If any sum due from the Borrower under any of the Security Documents or any order or judgment given or made in relation hereto has to be converted from the currency (the "first currency") in which the same is payable under the relevant Security Document or under such order or judgment into another currency (the "second currency") for the purpose of (i) making or filing a claim or proof against the Borrower or any other Security Party, as the case may be, (ii) obtaining an order or judgment in any court or other tribunal or (iii) enforcing any order or judgment given or made in relation to any of the Security Documents, the Borrower shall (and it is hereby expressly undertaken by the Borrower to) indemnify and hold harmless the Bank from and against any loss suffered as a result of any difference between (a) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (b) the rate or rates of exchange at which the Bank may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof. Any amount due from the Borrower under this Clause 14.05 shall be due as a separate debt and shall not be affected by judgment being obtained for any other sums due under or in respect of any of the Security Documents, and the term "rate of exchange" includes any premium and costs of exchange payable in connection with the conversion of the first currency into the second currency;

For the avoidance of doubt, Clause 14.05 does not apply in respect of sums due from the Borrower to the Bank under or in connection with the ISDA Agreement as to which sums the provisions of Section 8 (Contractual Currency) of the ISDA Agreement shall apply.

14.06. **(Maintenance of the Indemnities)** The indemnities contained in this Clause 14 shall apply irrespective of any indulgence granted to the Borrower or any other Security Party or any other party from time to time and shall continue in full force and effect notwithstanding any payment in favour of the Bank and any sum due from the Borrower under this Clause 14 will be due as a separate debt and shall not be affected by judgment being obtained for any other sums due under any one or more of this Agreement, the other Security Documents and any other documents executed pursuant hereto or thereto.

14.07. **(Communications Indemnity)** It is hereby agreed that:

14.07.01. The Bank is hereby authorized by the Borrower to accept at its sole discretion all tested or untested communications given by facsimile, telex, e-mail, or otherwise, regarding any or all of the notices, requests, instructions or other communications under this Agreement, subject to any restrictions imposed by the Bank relating to such communications including, without limitation (if the Bank so asks) the obligation to confirm such communications by letter.

14.07.02. The Borrower shall recognize any and all of the said notices, requests, instructions or other communications as legal, valid and binding, when these notices, requests, instructions or communications come from the e mail address, telex and fax numbers mentioned in Clause 19 or any other usually used by it or the Manager.

14.07.03. The Borrower hereby assumes full responsibility for the execution of the said notices, requests, instructions or communications to the Bank and promises, and recognizes that the Bank shall not be held responsible for any loss, liability or expense that may result from such notices, requests, instructions or other communications. It is hereby undertaken by the Borrower to indemnify in full the Bank from and against all actions, proceedings, damages, costs, claims, demands, expenses and any and all direct and/or indirect losses which the Bank or any third party may suffer, incur or sustain by reason of the Bank following such notices, requests, instructions or communications.

14.07.04. The Bank shall have the right to ask the Borrower to furnish any information the Bank may require to establish the authority of any person purporting to act on behalf of the Borrower for these notices, requests, instructions or communications but the Bank is not obliged to do so. The Bank shall be fully protected in, and the Bank shall incur no liability to the Borrower for acting upon the said notices, requests, instructions or communications which the Bank in good faith believes to have been given by the Borrower or by any of its authorized representative(s).

14.07.05. It is undertaken by the Borrower to safeguard the function and the security of the electronic and mechanical appliance(s) such as telex(es), fax(es), e-mail(s) etc. The Borrower shall hold the Bank harmless and indemnified from all claims, losses, damages and expenses, which the Bank may incur by reason of the failure of the Borrower to comply with the obligations under this Clause.

14.07.06. The Bank may at any time at its discretion refuse to execute the requests and communications of the Borrower, or any part thereof given by telex or fax or e-mail without incurring any responsibility for loss, liability or expense arising out of such refusal.

15. ASSIGNMENT AND PARTICIPATION

15.01. This Agreement shall be binding upon the Borrower its successors and permitted assigns and shall inure to the benefit of the Bank and its successors and assigns.

15.02. (Assignment by the Borrower). The Borrower and any other Security Parties may not assign any rights and obligations under this Agreement or any of the other Security Documents or any documents executed pursuant to this Agreement and/or the other Security Documents without the prior written consent of the Bank at the Bank's discretion.

15.03. **(Assignment by the Bank).** The Bank may at any time at its discretion assign, transfer, or offer participations to other banks or financial institutions, in whole or in part, or in any manner dispose of all or any of its rights and/or obligations arising or accruing under this Agreement or any of the other Security Documents or any documents executed pursuant to this Agreement and/or the other Security Documents.

15.04. The Bank may in order to implement the assignments and/or transfers and/or participations referred to in Clause 15.03 above, at any time disclose information with respect to this Agreement, the Borrower, the other Security Parties, the Group, or the Vessel to any potential assignee, transferee or participant.

15.05. If the Bank assigns, transfers or in any other manner grants participation in respect of all or any part of its rights or benefits or transfers all or any of its obligations as provided in Clause 15.03 the Borrower undertakes, immediately on being requested to do so by the Bank, to enter into and procure that each other Security Party enters into such documents as may be necessary or desirable to transfer to the assignee, transferee, or participant all or the relevant part of the Bank's interest in the Security Documents and all relevant references in this Agreement to the Bank shall thereafter be construed as a reference to the Bank and/or its assignee, transferee or participant to the extent of their respective interests and, in the case of a transfer of all or part of the Bank's obligations, the Borrower shall thereafter look only to the assignee, transferee or participant in respect of that proportion of the Bank's obligations under this Agreement assumed by such assignee, transferee or participant.

15.06. The Borrower shall join in and execute such supplemental or substitute agreements as may be necessary to enable the Bank to assign and/or transfer and/or grant participation in respect of its rights and obligations to one or more banks or financial institutions in a syndicate. Any legal fees incurred by the Bank in the preparation and execution of the assignment, transfers, or granting of participation and of any required additional supplemental or substitute agreements or documents shall be borne by the Borrower.

15.07. The Bank shall be at liberty to transfer the Loan to any branch or branches.

15.08. If at the time of, or immediately after, any assignment by the Bank of all or any part of its rights or benefits under this Agreement or any transfer by the Bank of any part of the rights, benefits and/or obligations under this Agreement, or any change in the branch through which it lends for the purposes of this Agreement, the Borrower would be obliged to pay to the assignee or transferee or (in the event of a change of lending branch) the Bank under clause 6.04 or 16.02 any sum in excess of the sum (if any) which it would have been obliged to pay to the Bank under the relevant clause in the absence of such assignment, transfer or change, the Borrower shall be entitled, on giving the Bank not less than fourteen (14) days' prior notice in writing, to prepay the Loan and accrued interest thereon, together with all other Outstanding Indebtedness.

16. CHANGE IN CIRCUMSTANCES — INCREASED COST

16.01. The Bank will not be under any obligation to advance the Commitment in whole or in part or to maintain or fund the Loan, or to perform the whole or any part of this Agreement as the case may be, if the Bank shall be prevented from advancing the Commitment in whole or in part or maintaining or funding the Loan or performing the whole or any part of this Agreement as the result, directly or indirectly, of any action, inaction or purported action of any government or governmental agency or any other authority or any strike, boycott, blockade or lockout, or any act of God, civil war or other hostilities and generally force majeure, and the Bank may serve written notice on the Borrower declaring its obligations under this Agreement terminated, whereupon the same shall terminate forthwith and the Borrower will immediately repay the Loan and accrued interest together with all other Outstanding Indebtedness to the Bank under this Agreement.

16.02. If, as a result of (a) the introduction of any change in or in the interpretation of any law, regulation or official directive (whether or not having the force of law) or the interpretation or application thereof by any authority or by any court of competent jurisdiction or (b) compliance by the Bank with any request from any applicable governmental, fiscal or monetary authority (whether or not having the force of law) or (c) any other set of circumstances affecting the Bank including (without limitation) those relating to rating, taxation, capital adequacy, liquidity, reserve assets, cash ratio deposits and special deposits or those resulting from the implementation of any regulations which shall replace, amend and/or supplement those set out in the statement of the Basle Committee on Banking Regulations and Supervisory Practices dated July 1988 and entitled "International Convergence of Capital Measurement and Capital Structures" or any amendatory or substitute agreement thereof, or (d) any change in the Bank's general financial condition and/or rating:

16.02.01. the cost to the Bank of making the Commitment or any part thereof or maintaining or funding the Loan or of maintaining its obligations under the ISDA Agreement is increased or an additional cost on the Bank is imposed; and/or

16.02.02. the Bank is subjected to taxes or the basis of taxation (other than taxes or taxation on the overall net income of the Bank) in respect of any payments to the Bank under this Agreement or the ISDA Agreement or any of the other Security Documents is changed; and/or

16.02.03. the amounts payable or the effective return to the Bank under any of the Security Documents is reduced; and/or

16.02.04. the Bank's rate of return on its overall capital by reason of a change in the manner in which it is required to allocate capital resources to the Bank's obligations under any of the Security Documents or the ISDA Agreement is reduced; and/or

16.02.05. the Bank is required to make a payment or forgo a return on or calculated by references to any amount received or receivable by it under any of the Security Documents; and/or

16.02.06. the Bank is required to incur or sustain a loss (including a loss of future potential profits) by reason of being obliged to deduct all or part of the Commitment or the Loan from its capital for regulatory purposes; and/or

16.02.07. any reserve or liquidity requirements are imposed, modified or deemed applicable against assets held by or commitments of deposits in or for the account of, or loans by or commitments of, the Bank;

then the Borrower shall pay to the Bank, from time to time, upon demand, such additional moneys as the Bank shall specify to be necessary to indemnify the Bank for any increased cost, reduction in principal or interest receivable or other foregone return whatsoever and will agree with the Bank the restructuring of the transaction constituted by this Agreement and the Security Documents in a way (as determined at the discretion of the Bank) which will satisfactorily avoid the increased cost to the Bank or any adverse effect to the rights, interests and security of the Bank including, without limitation, increase of the Margin.

16.03. the Bank will promptly notify the Borrower of any intention to claim indemnification pursuant to Clause 16.02 and such notification will certify conclusively, except for manifest error, the amount of any increased cost or reduction and the method of calculating the same.

16.04. a claim under Clause 16.03 may be made at any time and must be discharged by the Borrower within fifteen (15) days of demand.

16.05. It shall not be a defense to a claim by the Bank under this Clause 16 that any increased cost or reduction could have been avoided by the Bank.

16.06. Any amount due from the Borrower under this Clause 16 shall be due as a separate debt secured by the Security Documents and shall not be affected by judgment being obtained for any other sums due under or in respect of this Agreement.

16.07. If any additional amounts are required to be paid by the Borrower to the Bank by virtue of this Clause 16, the Borrower shall be entitled, on giving the Bank not less than fourteen (14) days' prior notice in writing, to prepay the Loan and accrued interest thereon, together with all other Outstanding Indebtedness, on the next Repayment Date in accordance with Clause 6 of this Agreement. Any such notice, once given, shall be irrevocable.

16.08. If any change in or in the interpretation of any applicable law or regulation, by any government or governmental or regulatory authority or agency, makes it unlawful for the Bank to maintain or give effect to its obligations under this Agreement, then the Bank may serve written notice on the Borrower declaring its obligations under this Agreement terminated, whereupon the same shall terminate forthwith and the Borrower will immediately repay the Loan and accrued interest together with all other Outstanding Indebtedness to the Bank under this Agreement.

17. WAIVER AND REMEDIES

17.01. No delay or omission by the Bank to exercise any right, remedy or power vested in it under this Agreement and the other Security Documents or by law shall impair such right or power, or be construed as a waiver of, or as an acquiescence in any default by the Borrower or any other Security Party, nor shall any single or partial exercise by the Bank of any power, right or remedy preclude any other or further exercise thereof or the exercise of any other power, right or remedy. In the event of the Bank on any occasion agreeing to waive any such right, remedy or power, or consent to any departure from the strict application of the provisions of this Agreement or of any other Security Document, such waiver shall not in any way prejudice or affect the powers conferred upon the Bank under this Agreement and the other Security Documents or the right of the Bank thereafter to act strictly in accordance with the terms of this Agreement and the other Security Documents. No modification or waiver by the Bank of any provision of this Agreement or of any of the Security Documents nor any consent by the Bank to any departure therefrom by any Security Party shall be effective unless the same shall be in writing and then shall only be effective in the specific case and for the specific purpose for which given. No notice to or demand on any such party in any such case shall entitle such party to any other or further notice or demand in similar or other circumstances.

17.02. The rights and remedies of the Bank contained in this Agreement and the other Security Documents are cumulative and not exclusive of each other nor of any other rights or remedies conferred by law or otherwise.

18. INVALIDITY OF PROVISIONS

In the event of any provision contained in any one or more of this Agreement, the other Security Documents and any other documents executed pursuant hereto or thereto being invalid, illegal or unenforceable in any respect under any applicable law of any jurisdiction whatsoever such provision shall be ineffective as to that jurisdiction only without affecting the remaining provisions hereof or thereof. If, however this event becomes known to the Bank prior to the drawdown of the Commitment or of any part thereof, the Bank is entitled at its sole discretion to refuse drawdown until this discrepancy is remedied. Where however the provisions of any such applicable law may be waived they are hereby waived to the full extent permitted by that law to the intent that this Agreement, the other Security Documents and any other documents executed pursuant hereto or thereto shall be deemed to be valid binding and enforceable in accordance with their respective terms.

19. NOTICES

19.01. Every notice, request, demand or other communication under this Agreement or unless otherwise provided therein any of the Security Documents shall:

(a) be in writing delivered personally or by first-class prepaid letter (airmail if available), or subject to Clause 14.07 by telex, fax, or e mail or shall be served through a process server;

(b) be deemed to have been received, subject as otherwise provided in this Agreement or the relevant other Security Documents, in the case of a telex, at the time of dispatch with confirmed answerback of the addressee appearing at the beginning and end of the communication, in the case of fax or e mail, at the time of dispatch as per transmission report (provided that if the date of dispatch is not a business day in the country of the addressee it shall be deemed to have been received at the opening of business on the next such business day) and in the case of a letter when delivered or served personally or ten (10) days after it has been put into the post; and

(c) be sent;

(1) if to be sent to any Security Party,
to **DIANA SHIPPING INC.**
Pendelis 16, 17564 Palaio Faliro,
Athens, Greece
Tel1: +30 210 9470 100
Tel2: +30 213 0061 100
Fax: +30 210 9470 101
For the attention of Andreas Michalopoulos
E-mail: amichalopoulos@dianashippinginc.com

(2) if to be sent to the Bank, to
BREMER LANDESBANK KREDITANSTALT OLDENBURG – GIROZENTRALE –
Domshof 26
28195 Bremen
GERMANY

Fax.: (+49421) 332.3635
For the attention of Dr. Christian Peters or Mr. Michael Titzmann

E-mail: christian.peters@bremerlandesbank.de or michael.titzmann@bremerlandesbank.de

or to such other person, address, telex, fax number, or e mail address as is notified by the relevant Security Party or the Bank (as the case may be) to the other parties to this Agreement and, in the case of any such change of address, e-mail address, telex or fax number is notified to the Bank, the same shall not become effective until notice of such change is actually received by the Bank and a copy of the notice of such change signed by the Bank.

20. LAW AND JURISDICTION

20.01. This Agreement shall be governed by and construed in accordance with German Law.

20.02. For the exclusive benefit of the Bank the Borrower hereby irrevocably submit to the jurisdiction of the competent First Instance Court of Bremen, Federal Republic of Germany, provided that nothing contained in this clause shall limit the right of the Bank to take any suit, action or proceedings against the Borrower in any other court of competent jurisdiction nor shall the taking of any suit, action or proceedings against the Borrower in one or more jurisdictions preclude the taking of any suit, action or proceedings in any other jurisdiction whether concurrently or not.

20.03. The Borrower irrevocably appoints Timagenis Law Firm of 57, Notara Street, 18535 Piraeus, Greece, tel. no. 210 4220001, fax no. 210 4221388, as agent to accept service (hereinafter called "the Process Agent") upon whom any judicial process may be served and any notice, request, demand or other communication under this Agreement or any of the other Security Documents. In the event that the Process Agent (or any substitute process agent notified to the Bank in accordance with the foregoing) cannot be found at the address specified above (or, as the case may be, notified to the Bank), which will be conclusively proved by a deed of a process server that the Process Agent was not found at such address, any process notice, request, demand or other communication to be sent to any Security Party may be validly effected upon the Public Prosecutor of the First Instance Court of Piraeus.

20.04. The foregoing shall not limit the right of the Bank to start proceedings in any other country or to serve process in any other manner permitted by law. Finally, the Borrower hereby waives any objections to the inconvenience of Bremen, Germany, as a forum.

20.05. If the Bank decides that any such proceedings should be commenced in any other country, then it is hereby waived by the Borrower any objections as to the jurisdiction or any claim as to the inconvenience of the forum and covenant and undertake to instruct lawyers in that country to accept service of legal process and not to contest the validity of such proceedings as far as the jurisdiction of the court or courts involved is concerned.

21. MISCELLANEOUS

21.01. **(Entire Agreement).** The provisions of this Agreement and the other Security Documents and the documents executed in connection herewith and therewith represent the entire agreement between the parties hereto and supersede any and all prior expressions of intent or understanding of any nature whatsoever. Any alteration or amendment to this Agreement shall be made only in writing and such written instrument shall be the only admissible and conclusive evidence of such amendment or alteration.

In the event of any inconsistency between the provisions of this Agreement and the provisions of a Security Document the provisions of this Agreement shall prevail.

21.02. **(Counterparts).** This Agreement may be executed in any number of counterparts and all such counterparts taken together shall be deemed to constitute but one and the same instrument.

AS WITNESS the hands of the duly authorized representatives of the parties hereto the day and year first before written.

SIGNED AND DELIVERED

for and on behalf of

GALA PROPERTIES INC.

by: IOANNIS ZAFIRAKIS

pursuant to a Power of Attorney

dated the 20th day of October 2009

in the presence of:

)
)
)
)
)
)
)

/s/ IOANNIS ZAFIRAKIS

Witness: /s/ Anna Papanikolaou

Name: Anna Papanikolaou

Address: 130, Kolokotroni street, 185 36 Piraeus, Greece

SIGNED

for and on behalf of

BREMER LANDESBANK KREDITANSTALT

OLDENBURG - GIROZENIRALE -

by: IOANNIS VAFEIADIS-CHASOPOULOS

pursuant to a Power of Attorney

dated the 19th day of October 2009

in the presence of:

)
)
)
)
)
)
)

/s/ IOANNIS VAFEIADIS-CHASOPOULOS

Witness: /s/ Anna Papanikolaou

Name: Anna Papanikolaou

Address: 130, Kolokotroni street, 185 36 Piraeus, Greece

LOAN AGREEMENT

Dated 2 October 2010

for a US\$82,600,000 facility

Provided by

THE EXPORT - IMPORT BANK OF CHINA

and

DNB NOR BANK ASA

Guaranteed by

DIANA SHIPPING INC.

**LOAN AGREEMENT
for a Loan of up to US\$82,600,000
to
LAE SHIPPING COMPANY INC.
and
NAMU SHIPPING COMPANY INC.**

**provided by
THE BANKS AND FINANCIAL INSTITUTIONS SET OUT IN SCHEDULE 1**

**Mandated Co-Lead Arrangers
THE EXPORT-IMPORT BANK OF CHINA
and
DNB NOR BANK ASA**

**Agent, Security Agent
and Account Bank
DNB NOR BANK ASA**

**Swap Provider
DNB NOR BANK ASA**

 **NORTON ROSE**

Contents

Clause		Page
1	Purpose and definitions	1
2	The Total Commitment and the Advances	14
3	Interest and Interest Periods	15
4	Repayment and prepayment	17
5	Fees, commitment commission and expenses	20
6	Payments and taxes; accounts and calculations	21
7	Representations and warranties	23
8	Undertakings	28
9	Conditions	34
10	Events of Default	35
11	Indemnities	39
12	Unlawfulness and increased costs	40
13	Security, set-off and pro-rata payments	42
14	Operating Accounts	44
15	Assignment, transfer and lending office	45
16	Arrangers, Agent and Security Agent	47
17	Notices and other matters	56
18	Governing law and jurisdiction	59
Schedule 1 The Banks and their Commitments		60
Schedule 2 Form of Drawdown Notice		61
Schedule 3 Documents and evidence required as conditions precedent to the Loan being made		62
Schedule 4 Form of Transfer Certificate		68
Schedule 5 Form of Trust Deed		72
Schedule 6 Mandatory Cost formula		73
Schedule 7 Form of Mortgage		75
Schedule 8 Form of General Assignment		76
Schedule 9 Form of Corporate Guarantee		77
Schedule 10 Form of Manager's Undertaking		78
Schedule 11 Form of Master Swap Agreement		79
Schedule 12 Form of Swap Assignment		80
Schedule 13 Form of Operating Account Assignment		81
Schedule 14 Form of Charter Assignment		82

THIS AGREEMENT is dated 2 October 2010 and made **BETWEEN**:

- (1) **LAE SHIPPING COMPANY INC.** and **NAMU SHIPPING COMPANY INC.** as joint and several Borrowers;
- (2) **DNB NOR BANK ASA** as Agent, Security Agent and Account Bank;
- (3) **DNB NOR BANK ASA** as Swap Provider;
- (4) **DNB NOR BANK ASA** and **THE EXPORT-IMPORT BANK OF CHINA** as Arrangers; and
- (5) **THE BANKS AND FINANCIAL INSTITUTIONS** whose names are set out in schedule 1 as Banks.

IT IS AGREED as follows:

1 Purpose and definitions

1.1 Purpose

This Agreement sets out the terms and conditions upon and subject to which the Banks agree, according to their several obligations, to make available to the Borrowers, jointly and severally, in two (2) Advances, a loan of up to Eighty two million six hundred thousand Dollars (\$82,600,000) for the purpose of assisting the Borrowers to finance part of the acquisition cost of the Ships.

1.2 Definitions

In this Agreement, unless the context otherwise requires:

"Account Bank" means DnB NOR Bank ASA, a company incorporated in Norway with its registered office at Stranden 21, P.O. Box 1171 Sentrum N-0107 Oslo, Norway, acting for the purposes of this Agreement through its branch at 20 St. Dunstan's Hill, London EC3R 8HY, England (or of such other address as may last have been notified to the other parties to this Agreement pursuant to clause 17.1.3) or such other person as may be appointed as Account Bank by the Agent for the purposes of this Agreement and includes its successors in title;

"Advance" means each borrowing of a proportion of the Total Commitment by the Borrowers or (as the context may require) the principal amount of such borrowing outstanding from time to time, being the Lae Advance and the Namu Advance and:

- (a) in relation to the Lae Ship, it means the Lae Advance; or
- (b) in relation to the Namu Ship, it means the Namu Advance,

and **"Advances"** means either or both of them;

"Agent" means DnB NOR Bank ASA, a company incorporated in Norway with its registered office at Stranden 21, P.O. Box 1171 Sentrum N-0107 Oslo, Norway, acting for the purposes of this Agreement through its branch at 20 St. Dunstan's Hill, London EC3R 8HY, England (or of such other address as may last have been notified to the other parties to this Agreement pursuant to clause 17.1.3) or such other person as may be appointed as agent by the Banks and the Swap Provider pursuant to clause 16.13 and includes its successors in title;

"Applicable Accounting Principles" means the most recent and up-to-date US GAAP at any relevant time;

"Approved Shipbrokers" means, together, H. Clarkson and Company Ltd of London, England, Arrow Research Ltd. of London, England, Astrup Fearnley A/S of Oslo, Norway, R.S. Platou Shipbrokers of Oslo, Norway, Braemar Seascope of London, England, Galbraiths Limited of London, England, Simpson Spence & Young of London, England and any other independent firm of shipbrokers nominated by the Borrowers and approved by the Agent in its absolute discretion and **"Approved Shipbroker"** means any of them;

"Arrangers" means, together, (a) The Export-Import Bank of China with its registered office at No. 30, Fuxingmen Nei Street, Xicheng District, Beijing 100031, the People's Republic of China and (b) DnB NOR Bank ASA, a company incorporated in Norway with its registered office at Stranden 21, P.O. Box 1171 Sentrum, N-0107 Oslo, Norway acting for the purposes of this Agreement through its branch at 20 St. Dunstan's Hill, London EC3R 8HY, England (or, in each case, of such other address as may last have been notified to the other parties to this Agreement pursuant to clause 17.1.3), in their capacity as Mandated Co-Lead Arrangers and includes their respective successors in title, and **"Arranger"** means either of them;

"Available Commitment" means, in relation to a Bank, the amount of its Commitment less the amount of its Contribution;

"Balloon Instalment" shall have, in relation to each Advance, the meaning ascribed thereto in clause 4.1.1;

"Banking Day" means a day on which dealings in deposits in Dollars are carried on in the London Interbank Eurocurrency Market and (other than Saturday or Sunday) on which banks are open for business in London, Athens, Beijing and New York City (or any other relevant place of payment under clause 6);

"Banks" means the banks and financial institutions listed in schedule 1 and includes their respective successors in title and Transferee Banks and **"Bank"** means any of them;

"Basel 2 Accord" means the "International Convergence of Capital Measurement and Capital Standards, a Revised Framework" published by the Basel Committee on Banking Supervision in June 2004 in the form existing on the date of this Agreement;

"Basel 2 Approach" means, in relation to each Bank, either the Standardised Approach or the relevant Internal Ratings Based Approach (each as defined in the Basel 2 Accord) adopted by such Bank (or its holding company) for the purposes of implementing or complying with the Basel 2 Accord;

"Basel 2 Regulation" means, in relation to each Bank, (a) any law or regulation implementing the Basel 2 Accord or (b) any Basel 2 Approach adopted by such Bank;

"Borrowed Money" means Indebtedness in respect of (i) money borrowed or raised and debit balances at banks, (ii) any bond, note, loan stock, debenture or similar debt instrument, (iii) acceptance or documentary credit facilities, (iv) receivables sold or discounted (otherwise than on a non-recourse basis), (v) deferred payments for assets or services acquired, (vi) finance leases and hire purchase contracts, (vii) swaps, forward exchange contracts, futures and other derivatives, (viii) any other transaction (including without limitation forward sale or purchase agreements) having the commercial effect of a borrowing or raising of money or of any of (ii) to (vii) above and (ix) guarantees in respect of Indebtedness of any person falling within any of (i) to (viii) above;

"Borrower":

- (a) in relation to the Lae Ship and/or the Lae Advance, means the Lae Borrower; or
- (b) in relation to the Namu Ship and/or the Namu Advance, means the Namu Borrower,

and **"Borrowers"** means either or both of them;

"Borrowers' Security Documents" means, at any relevant time, such of the Security Documents as shall have been executed by either of the Borrowers at such time;

"Builder" means Shanghai Jiangnan-Changxing Shipbuilding Co., Ltd., of the People's Republic of China and includes its successors in title;

"Capital Adequacy Law" means any law or any regulation (whether or not having the force of law, but, if not having the force of law, with which a Bank or, as the case may be, its holding company habitually complies), including (without limitation) those relating to Taxation, capital adequacy, liquidity, reserve assets, cash ratio deposits and special deposits or other banking or monetary controls or requirements which affect the manner in which a Bank allocates capital resources to its obligations hereunder (including, without limitation, those resulting from the implementation or application of or compliance with the Basel 2 Accord or any Basel 2 Regulation);

"Charter" means, in respect of a Ship, any charter or other contract of employment which is entered into between the relevant Borrower as owner and another person (other than a Related Company of the Borrowers) as charterer or counterparty in relation to such Ship during the Security Period, with a tenor in excess of 12 months (including any options to extend or renew contained therein);

"Charter Assignment" means, in relation to each Ship and any Charter relevant to such Ship, the specific assignment executed or (as the context may require) to be executed by the relevant Borrower in favour of the Security Agent in respect of such Charter, whether pursuant to clause 8.1.14 or otherwise, in the form set out in schedule 14;

"Charterer" means, in relation to a Ship, any such person which shall enter into a Charter with the relevant Borrower in respect of the relevant Ship during the Security Period;

"Classification" means, in relation to each Ship, the highest class available to a vessel of such Ship's type with the relevant Classification Society or such other classification as the Agent shall, at the request of the Borrower owning such Ship, have agreed in writing shall be treated as the Classification in relation to such Borrower's Ship for the purposes of the relevant Ship Security Documents;

"Classification Society" means such classification society (being a member of the International Association of Classification Societies ("IACS")) which the Agent shall, at the request of the Borrower owning such Ship, have agreed in writing shall be treated as the Classification Society in relation to such Ship for the purposes of the relevant Ship Security Documents;

"Code" means the International Management Code for the Safe Operation of Ships and for Pollution Prevention constituted pursuant to Resolution A. 741 (18) of the International Maritime Organisation and incorporated into the Safety of Life at Sea Convention and includes any amendments or extensions thereto and any regulation issued pursuant thereto;

"Commitment" means, in relation to each Bank, the amount set out opposite its name in the column headed **"Commitment"** in schedule 1, and/or, in the case of a Transferee Bank, the amount transferred as specified in the relevant Transfer Certificate, as reduced in each case by any relevant term of this Agreement;

"Compliance Certificate" means each certificate received or (as the context may require) to be received by the Agent pursuant to clause 5.1 of the Corporate Guarantee in the form set out in the schedule to the Corporate Guarantee;

"Compulsory Acquisition" means requisition for title or other compulsory acquisition, requisition, appropriation, expropriation, deprivation, forfeiture or confiscation for any reason of a Ship by any Government Entity or other competent authority, whether de jure or de facto, but shall exclude requisition for use or hire not involving requisition of title;

"Confirmation" shall have, in relation to any continuing Designated Transaction, the meaning ascribed to it in the Master Swap Agreement;

"Contract" means:

- (a) in relation to the Lae Ship, the Lae Contract; or
- (b) in relation to the Namu Ship, the Namu Contract,

and **"Contracts"** means both of them;

"Contribution" means, in relation to each Bank, the principal amount of the Loan owing to such Bank at any relevant time;

"Corporate Guarantee" means the corporate guarantee issued or (as the context may require) to be issued by the Corporate Guarantor in favour of the Security Agent in the form set out in schedule 9;

"Corporate Guarantor" means Diana Shipping Inc. of Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro, Marshall Islands MH96960, and includes its successors in title;

"Creditors" means, together, the Arrangers, the Agent, the Security Agent, the Swap Provider, the Account Bank and the Banks and **"Creditor"** means any of them;

"CSTC" means China Shipbuilding Trading Company, Limited of 56 (Yi) Zhongguancun Nan Da Jie, Beijing 10044, the People's Republic of China and includes its successors in title;

"Default" means any Event of Default or any event or circumstance which with the giving of notice or lapse of time or the satisfaction of any other condition (or any combination thereof) would constitute an Event of Default;

"Delivery Date" means, in relation to each Ship, the date on which such Ship is delivered to, and accepted by, the relevant Borrower in accordance with the relevant Contract;

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

- (a) it is entered into by the Borrowers pursuant to the Master Swap Agreement with the Swap Provider as contemplated by clause 2.9; and
- (b) its purpose is the hedging of the Borrowers' exposure under this Agreement to fluctuations of LIBOR arising from the funding of the Loan (or any part thereof) for a period expiring no later than the final Repayment Date for the Loan or the relevant part thereof;

"DOC" means a document of compliance issued to an Operator in accordance with rule 13 of the Code;

"Dollars" and **"\$"** mean the lawful currency of the United States of America and, in respect of all payments to be made under any of the Security Documents, mean funds which are for same day settlement in the New York Clearing House Interbank Payments System (or such other U.S. dollar funds as may at the relevant time be customary for the settlement of international banking transactions denominated in U.S. dollars);

"Drawdown Date" means any date, being a Banking Day falling during the Drawdown Period, on which an Advance is, or is to be, made available;

"Drawdown Notice" means, in relation to each Advance, a notice substantially in the form of schedule 2 in respect of such Advance;

"Drawdown Period" means, in relation to each Advance, the period from the date of this Agreement and ending on the earlier of (a) the Termination Date, (b) the date on which the aggregate amount of the Advances is equal to the Total Commitment and (c) the date on which the Total Commitment is reduced to zero pursuant to clauses 4.3, 10.2 or 12;

"Early Termination Date" shall have, in relation to any continuing Designated Transaction, the meaning ascribed to it in the Master Swap Agreement;

"Encumbrance" means any mortgage, charge (whether fixed or floating), pledge, lien, hypothecation, assignment, trust arrangement or security interest or other encumbrance of any kind securing any obligation of any person or any type of preferential arrangement (including without limitation title transfer and/or retention arrangements) having a similar effect;

"Environmental Affiliate" means any agent or employee of either Borrower or any other Relevant Party or any person having a contractual relationship with either Borrower or any other Relevant Party in connection with any Relevant Ship or its operation or the carriage of cargo and/or passengers thereon and/or the provision of goods and/or services on or from such Relevant Ship;

"Environmental Approval" means any consent, authorisation, licence or approval of any governmental or public body or authorities or courts applicable to any Relevant Ship or its operation or the carriage of cargo and/or passengers thereon and/or the provision of goods and/or services on or from such Relevant Ship required under any Environmental Law;

"Environmental Claim" means any and all enforcement, clean-up, removal or other governmental or regulatory actions or orders instituted or completed pursuant to any Environmental Law or any Environmental Approval together with claims made by any third party relating to damage, contribution, loss or injury, resulting from any actual or threatened emission, spill, release or discharge of a Pollutant from any Relevant Ship;

"Environmental Laws" means all national, international and state laws, rules, regulations, treaties and conventions applicable to any Relevant Ship pertaining to the pollution or protection of human health or the environment including, without limitation, the carriage of Pollutants and actual or threatened emissions, spills, releases or discharges of Pollutants;

"euro" or **"€"** mean the lawful currency of the European Union from time to time;

"Event of Default" means any of the events or circumstances described in clause 10.1;

"Fee Letter" means each letter of even date herewith made between the Arrangers, the Agent, the Borrowers and the Corporate Guarantor in respect of certain of the fees payable under clause 5.1 and **"Fee Letters"** means all of them;

"Flag State" means, in relation to a Ship, the Republic of the Marshall Islands or such other state or territory designated in writing by the Agent, at the request of the Borrower owning such Ship, as being the **"Flag State"** of such Ship for the purposes of the relevant Ship Security Documents;

"General Assignment" means:

- (a) in relation to the Lae Ship, the Lae General Assignment; or
- (b) in relation to the Namu Ship, the Namu General Assignment,

and **"General Assignments"** means either or both of them;

"Government Entity" means and includes (whether having a distinct legal personality or not) any national or local government authority, board, commission, department, division, organ, instrumentality, court or agency and any association, organisation or institution of which any of the foregoing is a member or to whose jurisdiction any of the foregoing is subject or in whose activities any of the foregoing is a participant;

"Group" means, together, the Corporate Guarantor and its Subsidiaries from time to time (including, for the avoidance of doubt, the Borrowers) but always excluding Diana Containerships Inc. of the Republic of the Marshall Islands and its own Subsidiaries from time to time, and **"member of Group"** shall be constructed accordingly;

"Indebtedness" means any obligation for the payment or repayment of money, whether as principal or as surety and whether present or future, actual or contingent;

"Interest Payment Date" means the last day of an Interest Period;

"Interest Period" means, in relation to an Advance, each period for the calculation of interest in respect of such Advance, ascertained in accordance with clauses 3.2 and 3.3;

"ISPS Code" means the International Ship and Port Facility Security Code constituted pursuant to resolution A.924(22) of the International Maritime Organization now set out in Chapter XI-2 of the International Convention for the Safety of Life at Sea 1974 (as amended) as adopted by a Diplomatic conference of the International Maritime Organisation on Maritime Security in December 2002 and includes any amendments or extensions thereto and any regulation issued pursuant thereto;

"ISSC" means, in relation to each Ship, an International Ship Security Certificate issued in respect of such Ship pursuant to the ISPS Code;

"Lae Advance" means an Advance of up to Forty one million three hundred thousand Dollars (\$41,300,000) made or (as the context may require) to be made available to the Borrowers for the purpose of financing part of the acquisition cost of the Lae Ship by the Lae Borrower pursuant to the Lae Contract;

"Lae Borrower" means Lae Shipping Company Inc. of Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro, Marshall Islands, MH96960 and includes its successors in title;

"Lae Contract" means the shipbuilding contract as amended by the addendum no. 1 thereto each dated 13 April 2010 and each made between the Seller and the Lae Borrower as may be further amended and supplemented from time to time, relating to the construction and sale by the Seller and the purchase by the Lae Borrower, of the Lae Ship;

"Lae Contract Price" means the purchase price payable by the Lae Borrower to the Seller for the Lae Ship under the Lae Contract, being Fifty nine million Dollars (\$59,000,000) or such other sum as is determined under the terms of the Lae Contract to be the purchase price of the Lae Ship thereunder;

"Lae General Assignment" means the general assignment collateral to the Lae Mortgage executed or (as the context may require) to be executed by the Lae Borrower in favour of the Security Agent in the form set out in schedule 8;

"Lae Management Agreement" means the agreement made or (as the context may require) to be made between the Lae Borrower and the Manager approved in writing by the Agent (acting on the instructions of the Majority Banks), providing (*inter alia*) for the Manager to manage the Lae Ship;

"Lae Manager's Undertaking" means the undertaking and assignment in respect of the Lae Ship executed or (as the context may require) to be executed by the Manager in favour of the Security Agent in the form set out in schedule 10;

"Lae Mortgage" means the first preferred Marshall Islands mortgage of the Lae Ship executed or (as the context may require) to be executed by the Lae Borrower in favour of the Security Agent in the form set out in schedule 7;

"Lae Operating Account" means an interest bearing Dollar account of the Lae Borrower opened or (as the context may require) to be opened with the Account Bank and includes any sub-accounts thereof and any other account designated in writing by the Agent to be a Lae Operating Account for the purposes of this Agreement;

"Lae Operating Account Assignment" means a first priority assignment executed or (as the context may require) to be executed by the Lae Borrower in favour of the Security Agent in respect of the Lae Operating Account in the form set out in schedule 13;

"Lae Ship" means the 206,000 dwt bulk carrier known on the date of this Agreement as Hull No. 1234 under construction by the Builder under the Lae Contract, and to be registered on its Delivery Date in the ownership of the Lae Borrower through the relevant Registry and under the laws and flag of the relevant Flag State;

"LIBOR" means in relation to a particular period:

- (a) the rate for deposits of the relevant currency for a period equivalent to such period at or about 11:00 a.m. on the Quotation Date for such period as displayed on Reuters page LIBOR 01 (British Bankers' Association Interest Settlement Rates) (or such other page as may replace such page LIBOR 01 on such system or on any other system of the information vendor for the time being designated by the British Bankers' Association to calculate the BBA Interest Settlement Rate (as defined in the British Bankers' Association's Recommended Terms and Conditions ("**BBAIRS**" terms) applicable at the relevant time)); or
- (b) provided that if on such date no such rate is so displayed, LIBOR for such period shall be the arithmetic mean of the rates quoted to the Agent by the Reference Banks at the request of the Agent as the Reference Banks' offered rate for deposits of the relevant currency in an amount approximately equal to the amount in relation to which LIBOR is to be determined for a period equivalent to such period to prime banks in the London Interbank Market at or about 11:00 a.m. on the Quotation Date for such period;

"Loan" means the aggregate principal amount owing to the Banks under this Agreement at any relevant time;

"Majority Banks" means, at any relevant time, Banks (a) the aggregate of whose Contributions exceeds Eighty per cent (80%) of the Loan or (b) (if no principal amounts are outstanding under this Agreement) the aggregate of whose Commitments exceeds Eighty per cent (80%) of the Total Commitment;

"Management Agreement" means:

- (a) in relation to the Lae Ship, the Lae Management Agreement; or
- (b) in relation to the Namu Ship, the Namu Management Agreement,

and **"Management Agreements"** means either or both of them;

"Manager" means, in relation to each Ship, Diana Shipping Services S.A. of Edificio Universal, Piso 12, Avenida Federico Boyd, Panama or any other person appointed by a Borrower, with the prior written consent of the Majority Banks as the technical and commercial manager of such Borrower's Ship and includes its successors in title;

"Manager's Undertaking" means:

- (a) in relation to the Lae Ship, the Lae Manager's Undertaking; or
- (b) in relation to the Namu Ship, the Namu Manager's Undertaking,

and **"Manager's Undertakings"** means either or both of them;

"Mandatory Cost" means, in relation to any period, a percentage calculated by the Agent for such period at an annual rate determined by the application of the formula set out in schedule 6;

"Margin" means two point five zero per cent (2.50%) per annum;

"Master Swap Agreement" means the agreement made or (as the context may require) to be made between the Swap Provider and the Borrowers comprising an ISDA Master Agreement (including its schedule) in the form set out in schedule 11 and includes any Designated Transactions from time to time entered into and any Confirmations (as defined therein) from time to time exchanged thereunder and governed thereby;

"month" means a period beginning in one calendar month and ending in the next calendar month on the day numerically corresponding to the day of the calendar month on which it started, provided that (a) if the period started on the last Banking Day in a calendar month or if there is no such numerically corresponding day, it shall end on the last Banking Day in such next calendar month and (b) if such numerically corresponding day is not a Banking Day, the period shall end on the next following Banking Day in the same calendar month but if there is no such Banking Day it shall end on the preceding Banking Day and **"months"** and **"monthly"** shall be construed accordingly;

"Mortgage" means:

- (a) in relation to the Lae Ship, the Lae Mortgage; or
- (b) in relation to the Namu Ship, the Namu Mortgage,

and **"Mortgages"** means either or both of them;

"Mortgaged Ship" means, at any relevant time, any Ship which is at such time subject to a Mortgage and/or the Earnings, Insurances and Requisition Compensation (as defined in the relevant Ship Security Documents) of which are subject to an Encumbrance pursuant to the relevant Ship Security Documents and a Ship shall for the purposes of this Agreement be deemed to be a Mortgaged Ship as from whichever shall be the earlier of (a) the drawdown of the Advance relating to that Ship and (b) the date that the Mortgage of that Ship shall have been executed and registered in accordance with this Agreement until whichever shall be the earlier of (i) the payment in full of the amount required by the Agent to be paid pursuant to clause 4.3 following the sale or Total Loss of such Ship and (ii) the date on which all moneys owing under the Security Documents have been repaid in full;

"Namu Advance" means an Advance of up to Forty one million three hundred thousand Dollars (\$41,300,000) made or (as the context may require) to be made available to the Borrowers for the purpose of financing part of the acquisition cost of the Namu Ship by the Namu Borrower pursuant to the Namu Contract;

"Namu Borrower" means Namu Shipping Company Inc. of Trust Company Complex, Ajeltake Road, Ajeltake Island, Majuro, Marshall Islands, MH96960 and includes its successors in title;

"Namu Contract" means the shipbuilding contract as amended by the addendum no. 1 thereto, each dated 13 April 2010 and each made between the Seller and the Namu Borrower as may be further amended and supplemented from time to time, relating to the construction and sale by the Seller and the purchase by the Namu Borrower, of the Namu Ship;

"Namu Contract Price" means the purchase price payable by the Namu Borrower to the Seller for the Namu Ship under the Namu Contract, being Fifty nine million Dollars (\$59,000,000) or such other sum as is determined under the terms of the Namu Contract to be the purchase price of the Namu Ship thereunder;

"Namu General Assignment" means the general assignment collateral to the Namu Mortgage executed or (as the context may require) to be executed by the Namu Borrower in favour of the Security Agent in the form set out in schedule 8;

"Namu Management Agreement" means the agreement made or (as the context may require) to be made between the Namu Borrower and the Manager approved in writing by the Agent (acting on the instructions of the Majority Banks), providing (*inter alia*) for the Manager to manage the Namu Ship;

"Namu Manager's Undertaking" means the undertaking and assignment in respect of the Namu Ship executed or (as the context may require) to be executed by the Manager in favour of the Security Agent in the form set out in schedule 10;

"Namu Mortgage" means the first preferred Marshall Islands mortgage of the Namu Ship executed or (as the context may require) to be executed by the Namu Borrower in favour of the Security Agent in the form set out in schedule 7;

"Namu Operating Account" means an interest bearing Dollar account of the Namu Borrower opened or (as the context may require) to be opened with the Account Bank and includes any sub-accounts thereof and any other account designated in writing by the Agent to be a Namu Operating Account for the purposes of this Agreement;

"Namu Operating Account Assignment" means a first priority assignment executed or (as the context may require) to be executed by the Namu Borrower in favour of the Security Agent in respect of the Namu Operating Account in the form set out in schedule 13;

"Namu Ship" means the 206,000 dwt bulk carrier known on the date of this Agreement as Hull No. 1235 under construction by the Builder under the Namu Contract, and to be registered on its Delivery Date in the ownership of the Namu Borrower through the relevant Registry and under the laws and flag of the relevant Flag State;

"Operating Account" means:

- (a) in relation to the Lae Ship, the Lae Operating Account; or
- (b) in relation to the Namu Ship, the Namu Operating Account,

and **"Operating Accounts"** means either or both of them;

"Operating Account Assignment" means:

- (a) in relation to the Lae Ship, the Lae Operating Account Assignment; or
- (b) in relation to the Namu Ship, the Namu Operating Account Assignment,

and **"Operating Account Assignments"** means either or both of them;

"Operator" means any person who is from time to time during the Security Period concerned in the operation of a Ship and falls within the definition of "Company" set out in rule 1.1.2 of the Code;

"Permitted Encumbrance" means any Encumbrance in favour of the Security Agent or any other Creditor created pursuant to the Security Documents and Permitted Liens;

"Permitted Liens" means, in respect of each Ship:

- (a) any lien on such Ship for master's, officer's or crew's wages outstanding in the ordinary course of trading;
- (b) any lien for salvage; and

- (c) any ship repairer's or outfitter's possessory lien for a sum not (except with the prior written consent of the Agent) exceeding the Casualty Amount (as defined in the relevant General Assignment) for such Ship;

"Pollutant" means and includes pollutants, contaminants, toxic substances, oil as defined in the United States Oil Pollution Act of 1990 and all hazardous substances as defined in the United States Comprehensive Environmental Response, Compensation and Liability Act 1980;

"Quotation Date" means, in respect of any period for which LIBOR falls to be determined under this Agreement, the second Banking Day before the first day of such period;

"Reference Banks" means the Agent and any other prime bank or financial institution in the London Interbank Market appointed as a Reference Bank by the Agent from time to time;

"Registry" means, in respect of a Ship, such registrar, commissioner or representative of the relevant Flag State who is duly authorised and empowered to register such Ship, the relevant Borrower's title to such Ship and the relevant Mortgage under the laws and flag of the relevant Flag State;

"Related Company" of a person means any Subsidiary of such person, any company or other entity of which such person is a Subsidiary and any Subsidiary of any such company or entity;

"Relevant Jurisdiction" means any jurisdiction in which or where any Security Party is incorporated, resident, domiciled, has a permanent establishment, carries on, or has a place of business or is otherwise effectively connected;

"Relevant Party" means each of the Borrowers, any other Security Party and any other member of the Group but excluding Diana Containerships Inc. of the Republic of the Marshall Islands and its own Subsidiaries from time to time;

"Relevant Ship" means the Ships and any other vessel from time to time (whether before or after the date of this Agreement) owned by any Relevant Party;

"Repayment Dates" means, in relation to each Advance and subject to clause 6.3, each of the dates falling at three (3) monthly intervals after the Drawdown Date for such Advance, up to and including the date falling one hundred and twenty (120) months after the Drawdown Date for such Advance;

"Security Agent" means DnB NOR Bank ASA, a company incorporated in Norway with its registered office at Stranden 21, P.O. Box 1171 Sentrum N-0107 Oslo, Norway, acting for the purposes of this Agreement through its branch at 20 St. Dunstan's Hill, London EC3R 8HY, England (or of such other address as may last have been notified to the other parties to this Agreement pursuant to clause 17.1.3) or such other person as may be appointed as security agent and trustee by the Banks, the Agent and the Swap Provider pursuant to clause 16 and includes its successors in title;

"Security Documents" means this Agreement, the Fee Letters, the Master Swap Agreement, the Mortgages, the General Assignments, any Charter Assignments, the Operating Account Assignments, the Corporate Guarantee, the Manager's Undertakings and the Swap Assignment and any other documents as may have been or shall from time to time after the date of this Agreement be executed to guarantee and/or secure all or any part of the Loan, interest thereon and other moneys from time to time owing by the Borrowers and/or any other Security Party pursuant to this Agreement and/or any other Security Document (whether or not any such document also secures moneys from time to time owing pursuant to any other document or agreement);

"Security Party" means the Borrowers, the Manager, the Corporate Guarantor or any other person who may at any time be a party to any of the Security Documents (other than the Creditors);

"Security Period" means the period commencing on the date of this Agreement until the date when all moneys owing to the Creditors or any of them under this Agreement and the other Security Documents have been repaid in full and all Encumbrances constituted by the Security Documents have been discharged;

"Security Requirement" means the amount in Dollars (as certified by the Agent whose certificate shall, in the absence of manifest error, be conclusive and binding on the Borrowers and the other Creditors) which is, at any relevant time, one hundred and twenty five per cent (125%) of the aggregate of (a) the Loan and (b) the Swap Exposure, as at the relevant time;

"Security Value" means the amount in Dollars (as certified by the Agent whose certificate shall, in the absence of manifest error, be conclusive and binding on the Borrowers and the other Creditors) which is, at any relevant time, the aggregate of (a) the market value of the Mortgaged Ships as most recently determined in accordance with clause 8.2.2 and (b) the market value of any additional security for the time being actually provided to the Creditors pursuant to clause 8.2.1(b);

"Seller" means, together, the Builder and CSTC;

"Ship":

- (a) in relation to the Lae Borrower and/or the Lae Advance, means the Lae Ship; or
- (b) in relation to the Namu Borrower and/or the Namu Advance, means the Namu Ship,

and **"Ships"** means either or both of them;

"Ship Security Documents":

- (a) in respect of the Lae Ship, means the Lae Mortgage, the Lae General Assignment, the Lae Manager's Undertaking and any relevant Charter Assignment; or
- (b) in respect of the Namu Ship, means the Namu Mortgage, the Namu General Assignment, the Namu Manager's Undertaking and any relevant Charter Assignment;

"SMC" means a safety management certificate issued in respect of a Ship in accordance with rule 13 of the Code;

"Subsidiary" of a person means any company or entity directly or indirectly controlled by such person, and for this purpose **"control"** means either the ownership of more than fifty per cent (50%) of the voting share capital (or equivalent rights of ownership) of such company or entity or the power to direct its policies and management, whether by contract or otherwise;

"Swap Assignment" means the assignment executed or (as the context may require) to be executed by the Borrowers in favour of the Security Agent in relation to certain of the rights of the Borrowers under the Master Swap Agreement in the form set out in schedule 12;

"Swap Exposure" means, as at any relevant time, the amount certified by the Swap Provider to the Agent to be the aggregate net amount in Dollars which would be payable by the Borrowers to the Swap Provider under (and calculated in accordance with) section 6(e) (Payments on Early Termination) of the Master Swap Agreement if an Early Termination Date had occurred at the relevant time in relation to all continuing Designated Transactions;

"Swap Provider" means DnB NOR Bank ASA, a company incorporated in Norway with its registered office at Stranden 21, P.O. Box 1171 Sentrum, N-0107 Oslo, Norway acting for the purposes of this Agreement through its branch at 20 St. Dunstan's Hill, London EC3R 8HY, England (or of such other address as may last have been notified to the other parties to this Agreement pursuant to clause 17.1.3) and includes its successors in title;

"**Taxes**" includes all present and future taxes, levies, imposts, duties, fees or charges of whatever nature together with interest thereon and penalties in respect thereof and "**Taxation**" shall be construed accordingly;

"**Termination Date**" means 30 November 2012 or such later date as the Agent (acting on the instructions of all the Banks) may in its absolute discretion agree in writing;

"**Total Commitment**" means, at any relevant time, the total of the Commitments of all the Banks at such time as reduced by any relevant term of this Agreement;

"**Total Loss**" in relation to a Ship means:

- (a) actual, constructive, compromised or arranged total loss of such Ship; or
- (b) the Compulsory Acquisition of such Ship; or
- (c) the hijacking, theft, condemnation, capture, seizure, arrest, detention or confiscation of such Ship (other than where the same amounts to the Compulsory Acquisition of such Ship) by any Government Entity, or by persons acting or purporting to act on behalf of any Government Entity, unless such Ship be released and restored to the relevant Borrower from such hijacking, theft, condemnation, capture, seizure, arrest, detention or confiscation within thirty (30) days after the occurrence thereof;

"**Transaction**" has the meaning given in the Master Swap Agreement;

"**Transfer Certificate**" means a certificate in substantially the form set out in schedule 4;

"**Transferee Bank**" has the meaning ascribed thereto in clause 15.3;

"**Transferor Bank**" has the meaning ascribed thereto in clause 15.3;

"**Trust Deed**" means a trust deed in the form, or substantially in the form, set out in schedule 5;

"**Trust Property**" means (i) the security, powers, rights, titles, benefits and interests (both present and future) constituted by and conferred on the Security Agent under or pursuant to the Security Documents (including, without limitation, the benefit of all covenants, undertakings, representations, warranties and obligations given, made or undertaken to the Security Agent in the Security Documents), (ii) all moneys, property and other assets paid or transferred to or vested in the Security Agent or any agent of the Security Agent or any receiver or received or recovered by the Security Agent or any agent of the Security Agent or any receiver pursuant to, or in connection with, any of the Security Documents whether from any Security Party or any other person and (iii) all money, investments, property and other assets at any time representing or deriving from any of the foregoing, including all interest, income and other sums at any time received or receivable by the Security Agent or any agent of the Security Agent in respect of the same (or any part thereof); and

"**Underlying Documents**" means, together, the Management Agreements, the Contracts and any Charters and "**Underlying Document**" means any of them.

1.3 Headings

Clause headings and the table of contents are inserted for convenience of reference only and shall be ignored in the interpretation of this Agreement.

1.4 Construction of certain terms

In this Agreement, unless the context otherwise requires:

- 1.4.1 references to clauses and schedules are to be construed as references to clauses of, and schedules to, this Agreement and references to this Agreement include its schedules;
- 1.4.2 references to (or to any specified provision of) this Agreement or any other document shall be construed as references to this Agreement, that provision or that document as in force for the time being and as amended in accordance with terms thereof, or, as the case may be, with the agreement of the relevant parties;
- 1.4.3 references to a "**regulation**" include any present or future regulation, rule, directive, requirement, request or guideline (whether or not having the force of law) of any agency, authority, central bank or government department or any self-regulatory or other national or supra-national authority and, for the avoidance of doubt, shall include any Basel 2 Regulation;
- 1.4.4 words importing the plural shall include the singular and vice versa;
- 1.4.5 references to a time of day are to London time;
- 1.4.6 references to a person shall be construed as references to an individual, firm, company, corporation, unincorporated body of persons or any Government Entity;
- 1.4.7 two or more persons are "**acting in concert**" if, pursuant to an agreement or understanding (whether formal or informal), they actively co-operate, through the acquisition (directly or indirectly) of shares in the Corporate Guarantor by any of them, either directly or indirectly to obtain or consolidate control of the Corporate Guarantor;
- 1.4.8 references to a "**guarantee**" include references to an indemnity or other assurance against financial loss including, without limitation, an obligation to purchase assets or services as a consequence of a default by any other person to pay any Indebtedness and "**guaranteed**" shall be construed accordingly; and
- 1.4.9 references to any enactment shall be deemed to include references to such enactment as re-enacted, amended or extended.

1.5 Majority Banks

Where this Agreement or any other Security Document provides for any matter to be determined by reference to the opinion of the Majority Banks or to be subject to the consent or request of the Majority Banks or for any action to be taken on the instructions in writing of the Majority Banks, such opinion, consent, request or instructions shall (as between the Banks) only be regarded as having been validly given or issued by the Majority Banks if all the Banks shall have received prior notice of the matter on which such opinion, consent, request or instructions are required to be obtained and the relevant majority of Banks shall have given or issued such opinion, consent, request or instructions but so that (as between the Borrowers and the Creditors) the Borrowers shall be entitled (and bound) to assume that such notice shall have been duly received by each Bank and that the relevant majority shall have been obtained to constitute Majority Banks whether or not this is in fact the case.

1.6 Banks' Commitment

For the purposes of the definition of "**Majority Banks**" in clause 1.2 and the relevant provisions of the Security Documents, references to the Commitment of a Bank shall, if the Total Commitment has, at any relevant time, been reduced to zero, be deemed to be a reference to the Commitment of that Bank immediately prior to such reduction to zero.

2 The Total Commitment and the Advances

2.1 Agreement to lend

The Banks, relying upon each of the representations and warranties in clause 7, agree to lend to the Borrowers, jointly and severally, in two (2) Advances and upon and subject to the terms of this Agreement, the aggregate principal sum of up to Eighty two million six hundred thousand Dollars (\$82,600,000). The obligation of each Bank under this Agreement shall be to contribute that proportion of each Advance which, as at the Drawdown Date of such Advance, such Bank's Commitment bears to the Total Commitment.

2.2 Obligations several

The obligations of the Banks under this Agreement are several according to their respective Commitments and/or Contributions; the failure of any Bank to perform such obligations or the failure of the Swap Provider to perform its obligations under the Master Swap Agreement shall not relieve any other Creditor or the Borrowers or either of them of any of their respective obligations or liabilities under this Agreement or, as the case may be, the Master Swap Agreement nor shall any Creditor be responsible for the obligations of any Creditors (except for its own obligations, if any, as a Bank or Swap Provider) under this Agreement or the Master Swap Agreement.

2.3 Interests several

Notwithstanding any other term of this Agreement (but without prejudice to the provisions of this Agreement relating to or requiring action by the Majority Banks) the interests of the Creditors are several and the amount due to any Creditor is a separate and independent debt. Each Creditor shall have the right to protect and enforce its rights arising out of this Agreement and it shall not be necessary for any other Creditor to be joined as an additional party in any proceedings for this purpose.

2.4 Drawdown

Subject to the terms and conditions of this Agreement, each Advance shall be made to the Borrowers following receipt by the Agent from the Borrowers of a Drawdown Notice not later than 10:00 a.m. on the third Banking Day before the proposed Drawdown Date which shall be a Banking Day falling within the Drawdown Period. A Drawdown Notice shall be effective on actual receipt by the Agent and, once given, shall, subject as provided in clause 3.6.1, be irrevocable.

2.5 Timing and limitation of Advances

2.5.1 The aggregate amount of both Advances shall not exceed the Total Commitment.

2.5.2 Each Advance shall not exceed the lower of (a) Forty one million three hundred thousand Dollars (\$41,300,000) and (b) seventy per cent (70%) of the market value of the Ship relevant to such Advance determined in accordance with the valuation(s) obtained for that Ship pursuant to schedule 3, Part 2.

2.5.3 Each Advance:

- (a) shall be applied in or towards payment to the Seller of such part of the Contract Price for the Ship relevant to such Advance, which is payable on the Delivery Date for that Ship;
- (b) shall be drawn down only once the part of the Contract Price referred to in paragraph 2.5.3(a) above has become due and payable; and
- (c) shall be paid by the Banks to the Seller directly, unless (i) the relevant Borrower has already paid such part of the Contract Price to the Seller when it was due, in which case the relevant Advance (or part thereof) shall be advanced to the Borrowers, or (ii) the Advance exceeds the portion of the Contract Price payable to the Seller on the delivery of the relevant Ship under the relevant Contract, in which case a part of the Advance equal to such portion shall be paid to the Seller and the balance of the Advance shall be advanced to the Borrowers.

2.6 Availability

Upon receipt of a Drawdown Notice complying with the terms of this Agreement the Agent shall promptly notify each Bank (and, in the case of The Export-Import Bank of China only, such notification shall be sent by the Agent via swift message) and, subject to the provisions of clause 9, on the Drawdown Date for the relevant Advance, each Bank shall make available to the Agent its portion of such Advance for payment by the Agent in accordance with clause 6.2. The Borrowers acknowledge that payment of any Advance or part thereof to the Seller, in accordance with clause 6.2, shall satisfy the obligations of the Banks to lend such Advance or part thereof to the Borrowers.

2.7 Termination of Total Commitment

Any part of the Total Commitment which remains undrawn and uncanceled by the end of the Termination Date shall thereupon be automatically cancelled.

2.8 Application of proceeds

Without prejudice to the Borrowers' obligations under clause 8.1.3, none of the Creditors shall have any responsibility for the application of the proceeds of the Loan or part thereof by the Borrowers.

2.9 Derivative transactions

2.9.1 If, at any time during the Security Period, the Borrowers wish to enter into interest rate swap or other derivative transactions so as to hedge all or any part of their exposure under this Agreement to interest rate fluctuations, they shall advise the Swap Provider in writing.

2.9.2 Any such swap or other derivative transaction shall be concluded with the Swap Provider under the Master Swap Agreement provided however that no such swap or other derivative transaction shall be concluded unless the Swap Provider first agrees to it in writing. For the avoidance of doubt, other than the Swap Provider's agreement in writing referred to in the preceding sentence no prior approval is required by the Borrowers from any other Creditor before concluding any such transaction. If and when any such swap or other derivative transaction has been concluded, it shall constitute a Designated Transaction, and the Borrowers shall sign a Confirmation with the Swap Provider and advise the Banks through the Agent promptly after concluding any Designated Transaction.

3 Interest and Interest Periods

3.1 Normal interest rate

The Borrowers shall pay interest on each Advance in respect of each Interest Period relating thereto on each Interest Payment Date (or, in the case of Interest Periods of more than three (3) months, by instalments, the first instalment three (3) months from the commencement of the Interest Period and the subsequent instalments at intervals of three (3) months or, if shorter, the period from the date of the preceding instalment until the Interest Payment Date relative to such Interest Period) at the rate per annum determined by the Agent to be the aggregate of (a) the Margin, (b) LIBOR for such Interest Period and (c) Mandatory Cost (if any).

3.2 Selection of Interest Periods

The Borrowers may by notice received by the Agent not later than 10:00 a.m. on the third Banking Day before the beginning of each Interest Period specify whether such Interest Period shall have a duration of three (3), six (6), nine (9) or twelve (12) months or such other period (shorter than twelve (12) months) as the Borrowers may select and the Agent (acting on the instructions of the Majority Banks) may agree.

3.3 Determination of Interest Periods

Every Interest Period shall be of the duration specified by the Borrowers pursuant to clause 3.2 but so that:

- 3.3.1 the initial Interest Period in respect of each Advance shall commence on the Drawdown Date for such Advance and each subsequent Interest Period for such Advance shall commence on the last day of the previous Interest Period for such Advance;
- 3.3.2 if any Interest Period for an Advance would otherwise overrun a Repayment Date for such Advance, then, in the case of the last Repayment Date for such Advance, such Interest Period shall end on such Repayment Date, and in the case of any other Repayment Date or Repayment Dates for such Advance, the relevant Advance shall be divided into parts so that there is one part in the amount of the repayment instalment due on each Repayment Date for such Advance falling during that Interest Period and having an Interest Period ending on the relevant Repayment Date and another part in the amount of the balance of the relevant Advance having an Interest Period ascertained in accordance with clause 3.2 and the other provisions of this clause 3.3; and
- 3.3.3. if the Borrowers fail to specify the duration of an Interest Period in accordance with the provisions of clause 3.2 and this clause 3.3 such Interest Period shall have a duration of three (3) months or such other period as shall comply with this clause 3.3.

3.4 Default interest

If the Borrowers or either of them fail to pay any sum (including, without limitation, any sum payable pursuant to this clause 3.4) on its due date for payment under any of the Security Documents (except the Master Swap Agreement), the Borrowers shall pay interest on such sum on demand from the due date up to the date of actual payment (as well after as before judgment) at a rate determined by the Agent pursuant to this clause 3.4. The period beginning on such due date and ending on such date of payment shall be divided into successive periods of not more than six (6) months as selected by the Agent each of which (other than the first, which shall commence on such due date) shall commence on the last day of the preceding such period. The rate of interest applicable to each such period shall be the aggregate (as determined by the Agent) of (a) two per cent (2%) per annum, (b) the Margin, (c) LIBOR for such period and (d) the Mandatory Cost (if any). Such interest shall be due and payable on the last day of each such period as determined by the Agent and each such day shall, for the purposes of this Agreement, be treated as an Interest Payment Date, provided that if such unpaid sum is an amount of principal which became due and payable by reason of a declaration by the Agent under clause 10.2.2 or a prepayment pursuant to clauses 4.3, 8.2.1 or 12.1, on a date other than an Interest Payment Date relating thereto, the first such period selected by the Agent shall be of a duration equal to the period between the due date of such principal sum and such Interest Payment Date and interest shall be payable on such principal sum during such period at a rate of two per cent (2%) above the rate applicable thereto immediately before it shall have become so due and payable. If, for the reasons specified in clause 3.6.1, the Agent is unable to determine a rate in accordance with the foregoing provisions of this clause 3.4, each Bank shall promptly notify the Agent of the cost of funds to such Bank, and interest on any sum not paid on its due date for payment shall be calculated for each Bank at a rate determined by the Agent to be two per cent (2%) per annum above the aggregate of the Margin and the cost of funds to such Bank (including Mandatory Cost, if any).

3.5 Notification of Interest Periods and interest rate

The Agent shall notify the Borrowers and the Banks promptly of the duration of each Interest Period and of each rate of interest (or, as the case may be default interest) determined by it under this clause 3.

3.6 Market disruption; non-availability

3.6.1 If and whenever, at any time prior to the commencement of any Interest Period:

- (a) the Agent shall have determined (which determination shall, in the absence of manifest error, be conclusive) that adequate and fair means do not exist for ascertaining LIBOR during such Interest Period; or
- (b) where applicable, none or only one of the Reference Banks supplies the Agent with a quotation for the purpose of calculating LIBOR; or
- (c) the Agent shall have received notification from Banks whose aggregate Contributions are not less than twenty per cent (20%) of the Loan (or, prior to the first Drawdown Date, whose aggregate Commitments are not less than twenty per cent (20%) of the Total Commitment), that deposits in Dollars are not available to such Banks in the London Interbank Market in the ordinary course of business in sufficient amounts to fund their Commitments or their Contributions for such Interest Period, or that LIBOR does not accurately reflect the cost to such Banks of obtaining such deposits,

the Agent shall forthwith give notice (a "**Determination Notice**") thereof to the Borrowers and to each of the Banks and the Swap Provider. A Determination Notice shall contain particulars of the relevant circumstances giving rise to its issue. After the giving of any Determination Notice the undrawn amount of the Total Commitment shall not be borrowed until notice to the contrary is given to the Borrowers by the Agent.

3.6.2 During the period of ten (10) days after any Determination Notice has been given by the Agent under clause 3.6.1, each Bank shall certify an alternative basis (the "**Alternative Basis**") for funding its Commitment or for maintaining its Contribution. The Alternative Basis may at the relevant Bank's sole and unfettered discretion (without limitation) include alternative interest periods, alternative currencies or alternative rates of interest but shall include a margin above the cost of funds (including Mandatory Cost, if any) to such Bank equivalent to the Margin. The Agent shall calculate the arithmetic mean of the Alternative Basis provided by the relevant Banks (the "**Substitute Basis**") and certify the same to the Borrowers, the Banks and the Swap Provider. The Substitute Basis so certified shall be binding upon the Borrowers and shall take effect in accordance with its terms from the date specified in the Determination Notice until such time as the Agent notifies the Borrowers that none of the circumstances specified in clause 3.6.1 continues to exist whereupon the normal interest rate fixing provisions of this Agreement shall apply.

3.7 Reference Bank quotations

If any Reference Bank is unable or otherwise fails to furnish a quotation for the purposes of calculating LIBOR, the interest rate shall be determined, subject to clause 3.6, on the basis of quotations furnished by the other Reference Banks (if any).

4 Repayment and prepayment

4.1 Repayment

4.1.1 Subject to clause 4.1.3 below, the Borrowers shall repay each Advance by forty (40) instalments, one such instalment to be repaid on each of the Repayment Dates for such Advance. Subject to the provisions of this Agreement, the amount of each of the first to thirty ninth instalments (inclusive) for such Advance shall be Six hundred and ninety two thousand five hundred Dollars (\$692,500) and the amount of the fortieth and final instalment for such Advance shall be Fourteen million two hundred and ninety two thousand five hundred Dollars (\$14,292,500) (comprising an instalment of Six hundred and ninety two thousand five hundred Dollars (\$692,500) and a balloon payment of Thirteen million six hundred thousand Dollars (\$13,600,000) (each such balloon payment in relation to an Advance, the "**Balloon Instalment**" for such Advance)).

- 4.1.2 If the Total Commitment in respect of any Advance or part thereof is not drawn down in full, the amount of each instalment in respect of such Advance (including the relevant Balloon Instalment) referred to in clause 4.1.1 shall be reduced proportionately.
- 4.1.3 Notwithstanding clause 4.1.1 above, any individual Bank in its absolute and unfettered discretion (but acting through the Agent) shall be entitled to demand repayment in full of each Advance on the twenty fourth Repayment Date in respect of that Advance (namely, the Repayment Date for that Advance falling seventy two (72) months after the Drawdown Date for such Advance). If one or more Banks (acting through the Agent) exercise such right in respect of an Advance, the Borrowers shall be obliged to repay the entire balance of that Advance in full on such Repayment Date. In that case, the Borrowers shall continue to repay the repayment instalments in respect of that Advance on the same Repayment Dates as scheduled and specified in clause 4.1.1 for that Advance but up to the twenty fourth Repayment Date for that Advance and, on the said twenty fourth Repayment Date, in addition to the relevant instalment for that Advance falling due on such date under clause 4.1.1, the Borrowers shall also repay the remaining balance of that Advance in full.
- 4.1.4 The Banks shall be entitled to exercise their right under clause 4.1.3, whether in respect of one Advance only, or in respect of both Advances, and they can exercise it at separate times in respect of each Advance.
- 4.1.5 If one or more Banks wish to exercise their right under clause 4.1.3 in respect of an Advance, the Agent shall send to the Borrowers a written demand to this effect in respect of that Advance by not earlier than the date falling fifty four (54) months after the Drawdown Date for such Advance and by not later than the date falling sixty (60) months after the Drawdown Date for such Advance. Neither the Agent nor any Bank shall be obliged to assign any reason to any decision to demand such repayment of an Advance under clause 4.1.3 above.

4.2 Voluntary prepayment

The Borrowers may prepay any Advance in whole or part (being Five hundred thousand Dollars (\$500,000) or any larger sum which is an integral multiple of Five hundred thousand Dollars (\$500,000)), on any Interest Payment Date relating to the Advance to be prepaid without premium or penalty.

4.3 Cancellation of Commitments and prepayment on Total Loss or sale

4.3.1 Before drawdown

On a Ship becoming a Total Loss (or suffering damage or being involved in an incident which in the opinion of the Agent may result in such Ship being subsequently determined to be a Total Loss) before the Advance in respect of such Ship is drawn down, the obligations of the Banks to make the Advance for such Ship available shall immediately cease and the Total Commitment shall be immediately reduced by the amount of the Advance for such Ship.

4.3.2 Thereafter

On the date falling one hundred and twenty (120) days after that on which a Mortgaged Ship became a Total Loss or, if earlier, on the date upon which the insurance proceeds in respect of such Total Loss are, or Requisition Compensation (as defined in the relevant Ship Security Documents) is, received by the relevant Borrower (or the Security Agent pursuant to the relevant Ship Security Documents), or on the date falling immediately prior to the completion of the sale of a Mortgaged Ship, the Borrowers shall prepay the outstanding Advance relevant to that Ship in full.

4.3.3 Interpretation

For the purpose of this Agreement and the other Security Documents, a Total Loss in respect of a Ship shall be deemed to have occurred:

- (a) in the case of an actual total loss of a Ship, on the actual date and at the time such Ship was lost or, if such date is not known, on the date on which such Ship was last reported;
- (b) in the case of a constructive total loss of a Ship, upon the date and at the time notice of abandonment of such Ship is given to the insurers of such Ship for the time being;
- (c) in the case of a compromised or arranged total loss of a Ship, on the date upon which a binding agreement as to such compromised or arranged total loss has been entered into by the insurers of such Ship;
- (d) in the case of Compulsory Acquisition of a Ship, on the date upon which the relevant requisition of title or other compulsory acquisition of such Ship occurs; and
- (e) in the case of hijacking, theft, condemnation, capture, seizure, arrest, detention or confiscation of a Ship (other than where the same amounts to Compulsory Acquisition of such Ship) by any Government Entity, or by persons purporting to act on behalf of any Government Entity, which deprives the relevant Borrower of the use of such Ship for more than thirty (30) days, upon the expiry of the period of thirty (30) days after the date upon which the relevant hijacking, theft, condemnation, capture, seizure, arrest, detention or confiscation occurred.

4.4 Amounts payable on prepayment

Any prepayment of all or part of the Loan under this Agreement and any repayment of an Advance made under clause 4.1.3, shall be made together with:

- (a) accrued interest on the amount to be prepaid to the date of such prepayment;
- (b) any additional amount payable under clauses 6.6 or 12.2; and
- (c) all other sums payable by the Borrowers to the Creditors under this Agreement or any of the other Security Documents including, without limitation, any commitment commission and any amounts payable under clause 11.1.

4.5 Notice of prepayment; reduction of repayment instalments

- 4.5.1 No prepayment may be effected under clause 4.2 unless the Borrowers shall have given the Agent at least ten (10) Banking Days' prior written notice of their intention to make such prepayment. Every notice of prepayment shall be effective only on actual receipt by the Agent, shall be irrevocable, shall specify the Advance and the amount thereof to be prepaid and shall oblige the Borrowers to make such prepayment on the date specified.
- 4.5.2 Any amount prepaid pursuant to clause 4.2 in respect of an Advance shall be applied in reducing the repayment instalments of the relevant Advance (including, where applicable, the relevant Balloon Instalment) under clause 4.1 proportionately.
- 4.5.3 Any amount prepaid pursuant to clause 8.2.1(a) shall be applied in prepayment of both Advances proportionately as between them and in reduction of the repayment instalments of each Advance proportionately.
- 4.5.4 The Borrowers may not prepay the Loan or any part thereof save as expressly provided in this Agreement.
- 4.5.5 No amount prepaid under this Agreement may be re-borrowed.

4.6 Unwinding of Designated Transactions

On or prior to any repayment or prepayment of all or part of the Loan or any cancellation or reduction of all or part of the Commitments (including, without limitation, pursuant to clauses 4.1, 4.2, 4.3, 8.2.1(a), 10.2 or 12), the Borrowers shall upon the request of the Swap Provider wholly or partially reverse, offset, unwind, cancel, close out, net out or otherwise terminate one or more of the continuing Designated Transactions so that the notional principal amount of the continuing Designated Transactions thereafter remaining does not and will not in the future (taking into account the scheduled amortisation) exceed the amount of the Loan as reducing from time to time thereafter pursuant to clause 4.1 or the amount of the Total Commitment as cancelled or reduced to that date.

5 Fees, commitment commission and expenses

5.1 Fees

The Borrowers shall pay to the Agent:

- 5.1.1 for the account of the Arrangers, on or prior to the date of this Agreement, such fees and in such amounts as are specified in the relevant Fee Letters;
- 5.1.2 for the account of the Agent, on or prior to the date of this Agreement and at twelve (12) monthly intervals thereafter until all moneys owing under the Security Documents have been repaid in full, an annual agency fee of such amount as is specified in the relevant Fee Letter; and
- 5.1.3 for the account of each Bank pro rata in accordance with its Commitment, on each of the dates falling at three (3) monthly intervals after the date of this Agreement until the last day of the Drawdown Period and on such day, commitment commission computed from the date of this Agreement (in the case of the first payment of commission) and from the due date of the preceding payment of commission (in the case of each subsequent payment), at the rate of zero point five zero per cent (0.50%) per annum on the daily undrawn amount of the Total Commitment.

The fees referred to in clauses 5.1.1 and 5.1.2 and the commitment commission referred to in clause 5.1.3 shall be non-refundable and shall be payable by the Borrowers, whether or not any part of the Total Commitment is ever advanced.

5.2 Expenses

The Borrowers shall pay to the Agent on a full indemnity basis on demand all expenses (including legal, printing and out-of-pocket expenses) incurred by the Creditors or any of them:

- 5.2.1 in connection with the negotiation, preparation, execution and, where relevant, registration of the Security Documents and of any amendment or extension of or the granting of any waiver or consent under, any of the Security Documents, the syndication of the Loan and/or the securitisation of the Loan and any or all of the Security Documents; and
- 5.2.2 in contemplation of, or otherwise in connection with, the enforcement of, or preservation of any rights under, any of the Security Documents, or otherwise in respect of the moneys owing under any of the Security Documents,

together with interest at the rate referred to in clause 3.4 from the date on which such expenses were incurred to the date of payment (as well after as before judgment).

5.3 Value added tax

All fees and expenses payable pursuant to this clause 5 and/or pursuant to the Security Documents shall be paid together with value added tax or any similar tax (if any) properly chargeable thereon. Any value added tax chargeable in respect of any services supplied by the Creditors or any of them under this Agreement shall, on delivery of the value added tax invoice, be paid in addition to any sum agreed to be paid hereunder.

5.4 Stamp and other duties

The Borrowers shall pay all stamp, documentary, registration or other like duties or taxes (including any duties or taxes payable by, or assessed on, the Creditors or any of them) imposed on or in connection with any of the Underlying Documents, the Security Documents or the Loan and shall indemnify the Creditors or any of them against any liability arising by reason of any delay or omission by the Borrowers to pay such duties or taxes.

6 Payments and taxes; accounts and calculations

6.1 No set-off or counterclaim

The Borrowers acknowledge that in performing their respective obligations under this Agreement, the Banks will be incurring liabilities to third parties in relation to the funding of amounts to the Borrowers, such liabilities matching the liabilities of the Borrowers to the Banks and that it is reasonable for the Banks to be entitled to receive payments from the Borrowers gross on the due date in order that each of the Banks is put in a position to perform its matching obligations to the relevant third parties. All payments to be made by the Borrowers under [any of the Security Documents shall be made in full, without any set-off or counterclaim whatsoever and, subject as provided in clause 6.6](#), free and clear of any deductions or withholdings, in Dollars on the due date to such account at such bank and in such place as the Agent may from time to time specify for this purpose. Save for payments which are for the account of the Swap Provider and save as otherwise provided in this Agreement or any relevant Security Documents, such payments shall be for the account of all Banks and the Agent or, as the case may be, the Security Agent shall distribute such payments in like funds as are received by the Agent or, as the case may be, the Security Agent to the Banks rateably in accordance with their respective Commitment or (if after the first drawdown) Contribution, as the case may be.

6.2 Payment by the Banks

All sums to be advanced by the Banks to the Borrowers under this Agreement shall be remitted in Dollars on the Drawdown Date for the relevant Advance to the account of the Agent at such bank as the Agent may have notified to the Banks and shall be paid by the Agent to such account as is specified in the Drawdown Notice for such Advance.

6.3 Non-Banking Days

When any payment under any of the Security Documents would otherwise be due on a day which is not a Banking Day, the due date for payment shall be extended to the next following Banking Day unless such Banking Day falls in the next calendar month in which case payment shall be made on the immediately preceding Banking Day.

6.4 Calculations

All interest and other payments of an annual nature under any of the Security Documents shall accrue from day to day and be calculated on the basis of actual days elapsed and a three hundred and sixty (360) day year.

6.5 Certificates conclusive

Any certificate or determination of the Agent or the Security Agent or any Bank or the Swap Provider as to any rate of interest or any other amount pursuant to and for the purposes of any of the Security Documents shall, in the absence of manifest error, be conclusive and binding on the Borrowers and (in the case of a certificate or determination by the Agent or the Security Agent) on the other Creditors.

6.6 Grossing-up for Taxes

- 6.6.1 If at any time the Borrowers are required to make any deduction or withholding in respect of Taxes from any payment due under any of the Security Documents for the account of any Creditor (or if the Agent or, as the case may be, the Security Agent is required to make any such deduction or withholding from a payment to a Bank), the sum due from the Borrowers in respect of such payment shall be increased to the extent necessary to ensure that, after the making of such deduction or withholding, the relevant Creditor receives on the due date for such payment (and retains, free from any liability in respect of such deduction or withholding), a net sum equal to the sum which it would have received had no such deduction or withholding been required to be made and the Borrowers shall indemnify each Creditor against any losses or costs incurred by it by reason of any failure of the Borrowers to make any such deduction or withholding or by reason of any increased payment not being made on the due date for such payment. The Borrowers shall promptly deliver to the Agent any receipts, certificates or other proof evidencing the amounts (if any) paid or payable in respect of any deduction or withholding as aforesaid.

6.6.2 For the avoidance of doubt, clause 6.6.1 does not apply in respect of sums due from the Borrowers to the Swap Provider under or in connection with the Master Swap Agreement as to which sums the provisions of section 2(d) (Deduction or Withholding for Tax) of the Master Swap Agreement shall apply.

6.7 Loan account

Each Bank shall maintain, in accordance with its usual practice, an account evidencing the amounts from time to time lent by, owing to and paid to it under the Security Documents. The Agent shall maintain a control account showing the Loan, interest and other sums owing and/or payable by the Borrowers under the Security Documents. The control account shall, in the absence of manifest error, be conclusive as to the amount from time to time owing by the Borrowers under the Security Documents.

6.8 Agent may assume receipt

Where any sum is to be paid under this Agreement to the Agent for the account of another person, the Agent may assume that the payment will be made when due and may (but shall not be obliged to) make such sum available to the person so entitled. If it proves to be the case that such payment was not made to the Agent, then the person to whom such sum was so made available shall on request refund such sum to the Agent together with interest thereon sufficient to compensate the Agent for the cost of making available such sum up to the date of such repayment and the person by whom such sum was payable shall indemnify the Agent for any and all loss or expense which the Agent may sustain or incur as a consequence of such sum not having been paid on its due date.

6.9 Partial payments

If, on any date on which a payment is due to be made by the Borrowers under any of the Security Documents, the amount received by the Agent from the Borrowers falls short of the total amount of the payment due to be made by the Borrowers on such date then, without prejudice to any rights or remedies available to the Creditors or any of them under the Security Documents, the Agent shall apply the amount actually received from the Borrowers in or towards discharge of the obligations of the Borrowers under the Security Documents in the following order, notwithstanding any appropriation made, or purported to be made, by the Borrowers:

- 6.9.1 firstly, in or towards payment, on a pro rata basis, of any unpaid costs and expenses of any Arranger, the Agent, the Security Agent or any other Creditor under, or in relation to, the Security Documents;
- 6.9.2 secondly, in or towards payment of any fees or commitment commission payable to any Arranger, the Agent or any other Creditor under, or in relation to, the Security Documents which remain unpaid;
- 6.9.3 thirdly, in or towards payment to the Banks, on a pro rata basis, of any accrued interest which shall have become due under any of the Security Documents but remains unpaid;

- 6.9.4 fourthly, in or towards payment to the Banks, on a pro rata basis, of any principal in respect of the Loan which shall have become due but remains unpaid;
- 6.9.5 fifthly, in or towards payment to any Bank for any loss suffered by reason of any payment in respect of principal not being effected on an Interest Payment Date relating to the part of the Loan repaid and which amounts are so payable under this Agreement;
- 6.9.6 sixthly, in or towards payment to the Swap Provider of any amounts owing to it under the Master Swap Agreement; and
- 6.9.7 seventhly, in or towards payment to the relevant person of any other sum which shall have become due under any of the Security Documents but remains unpaid (and, if more than one such sum so remains unpaid, on a pro rata basis).

The order of application set out in clauses 6.9.3 to 6.9.7 may be varied by the Agent if the Majority Banks so direct, without any reference to, or consent or approval from, the Borrowers.

7 Representations and warranties

7.1 Continuing representations and warranties

The Borrowers jointly and severally represent and warrant to each Creditor that:

7.1.1 Due incorporation

the Borrowers and each of the other Security Parties are duly incorporated and validly existing in good standing under the laws of their respective countries of incorporation as limited liabilities companies or (as the case may be) corporations, and have power to carry on their respective businesses as they are now being conducted and to own their respective property and other assets;

7.1.2 Corporate power

each of the Borrowers has power to execute, deliver and perform its obligations under the Underlying Documents and the Borrowers' Security Documents to which it is or is to be a party and to borrow the Total Commitment and each of the other Security Parties has power to execute and deliver and perform its obligations under the Security Documents and the Underlying Documents to which it is or is to be a party; all necessary corporate, shareholder and other action has been taken to authorise the execution, delivery and performance of the same and no limitation on the powers of either Borrower to borrow will be exceeded as a result of borrowing the Loan;

7.1.3 Binding obligations

the Underlying Documents and the Security Documents constitute or will, when executed, constitute valid and legally binding obligations of the relevant Security Parties enforceable in accordance with their respective terms;

7.1.4 No conflict with other obligations

the execution and delivery of, the performance of their obligations under, and compliance with the provisions of, the Underlying Documents and the Security Documents by the relevant Security Parties will not (i) contravene any existing applicable law, statute, rule or regulation or any judgment, decree or permit to which either of the Borrowers or any other Security Party is subject, (ii) conflict with, or result in any breach of any of the terms of, or constitute a default under, any agreement or other instrument to which either of the Borrowers or any other Security Party is a party or is subject or by which it or any of its property is bound, (iii) contravene or conflict with any provision of the constitutional documents of either of the Borrowers or any other Security Party or (iv) result in the creation or imposition of or oblige either of the Borrowers or any other member of the Group or any other Security Party to create any Encumbrance (other than a Permitted Encumbrance) on any of the undertakings, assets, rights or revenues of either of the Borrowers or any other member of the Group or any other Security Party;

- 7.1.5 No litigation
- no litigation, arbitration or administrative proceeding is taking place, pending or, to the knowledge of the officers of either of the Borrowers, threatened against either of the Borrowers or any other member of the Group or any other Security Party which could have a material adverse effect on the business, assets, management prospects, performance, operations, results of operations, properties or the condition (financial or otherwise) of either of the Borrowers or any other member of the Group or any other Security Party or the Group as a whole;
- 7.1.6 No filings required
- save for the registration of the Mortgages under the laws of the Flag State through the Registry, it is not necessary to ensure the legality, validity, enforceability or admissibility in evidence of any of the Underlying Documents or the Security Documents that they or any other instrument be notarised, filed, recorded, registered or enrolled in any court, public office or elsewhere in any Relevant Jurisdiction or that any stamp, registration or similar tax or charge be paid in any Relevant Jurisdiction on or in relation to any of the Underlying Documents or the Security Documents and each of the Underlying Documents and the Security Documents is in proper form for its enforcement in the courts of each Relevant Jurisdiction;
- 7.1.7 Choice of law
- the choice of English law to govern the Underlying Documents and the Security Documents (other than the Mortgages) and the choice of Marshall Islands law to govern the Mortgages, and the submissions by the Security Parties therein to the non-exclusive jurisdiction of the English courts are valid and binding;
- 7.1.8 No immunity
- neither of the Borrowers nor any other Security Party nor any of their respective assets is entitled to immunity on the grounds of sovereignty or otherwise from any legal action or proceeding (which shall include, without limitation, suit, attachment prior to judgement, execution or other enforcement);
- 7.1.9 Consents obtained
- every consent, authorisation, licence or approval of, or registration with or declaration to, governmental or public bodies or authorities or courts required by any Security Party to authorise, or required by any Security Party in connection with, the execution, delivery, validity, enforceability or admissibility in evidence of each of the Underlying Documents and each of the Security Documents to which it is a party or the performance by each Security Party of its obligations under the Security Documents to which it is a party, respectively, has been obtained or made and is in full force and effect and there has been no default in the observance of any of the conditions or restrictions (if any) imposed in, or in connection with, any of the same;
- 7.1.10 Financial statements correct and complete
- the unaudited consolidated financial statements of the Group in respect of the financial half-year ended on 30 June 2010 as delivered to the Agent, have been prepared in accordance with the Applicable Accounting Principles which have been consistently applied and present fairly and accurately the consolidated financial position of the Group as at the date they were prepared and the consolidated results of the operations of the Group for the financial period ended on such date and, as at such date no member of the Group had any significant liabilities (contingent or otherwise) or any unrealised or anticipated losses which are not disclosed by, or reserved against or provided for in, such financial statements;

7.1.11 Compliance with laws and regulations

each of the Borrowers is in compliance with the terms and conditions of all laws, regulations, agreements, licences and concessions material to the carrying on of its business (including in relation to Taxation);

7.1.12 No material adverse change

there has been no material adverse change in the business, management, assets, operations, results of operations, properties, performance, prospects or the condition (financial or otherwise) of any of the Borrowers or the Manager or the Corporate Guarantor or the Group as a whole from that existing on the date of this Agreement as described by or on behalf of the Borrowers and/or any other Security Party to the Agent and/or the Arrangers in the negotiation of this Agreement; and

7.1.13 Solvency

- (a) none of the Borrowers nor any other Relevant Party is unable, or admits or has admitted its inability, to pay its debts or has suspended making payments on any of its debts;
- (b) none of the Borrowers nor any other Relevant Party by reason of actual or anticipated financial difficulties has commenced, or intends to commence, negotiations with one or more of its creditors with a view to rescheduling any of its Indebtedness;
- (c) the value of the assets of the Borrowers and the other Relevant Parties is not less than their respective liabilities (taking into account contingent and prospective liabilities); and
- (d) no moratorium has been, or may, in the reasonably foreseeable future be, declared in respect of any Indebtedness of the Borrowers or any other Relevant Party.

7.2 Initial representations and warranties

The Borrowers jointly and severally further represent and warrant to each Creditor that:

7.2.1 Pari passu and subordinated indebtedness

- (a) the obligations of each Borrower under this Agreement are direct, general and unconditional obligations of such Borrower and rank at least pari passu with all other present and future unsecured and unsubordinated Indebtedness of such Borrower with the exception of any obligations which are mandatorily preferred by law and not by contract;
- (b) any Indebtedness of the Borrowers or the Corporate Guarantor owing to any of its respective shareholders or other members of the Group is subordinated in all respects to the Borrowers' obligations under this Agreement and the Master Swap Agreement (in the case of the Borrowers) and to the Corporate Guarantor's obligations under the Corporate Guarantee (in the case of the Corporate Guarantor);

7.2.2 No default under other Indebtedness

neither of the Borrowers nor any other member of the Group nor any other Security Party is (nor would with the giving of notice or lapse of time or the satisfaction of any other condition or combination thereof be) in breach of or in default under any agreement relating to Indebtedness to which it is a party or by which it may be bound;

7.2.3 Information

the information, exhibits and reports furnished by or on behalf of any Security Party to the Agent and/or the Arrangers in connection with the negotiation and preparation of the Security Documents are true and accurate in all material respects and not misleading, do not omit material facts and all reasonable enquiries have been made to verify the facts and statements contained therein; there are no other facts the omission of which would make any fact or statement therein misleading;

7.2.4 No withholding Taxes

no Taxes are imposed by withholding or otherwise on any payment to be made by any Security Party under the Underlying Documents or the Security Documents or are imposed on or by virtue of the execution or delivery by the Security Parties of the Underlying Documents or the Security Documents or any other document or instrument to be executed or delivered under any of the Security Documents;

7.2.5 No Default

no Default has occurred and is continuing;

7.2.6 The Ships

each Ship will, on the Drawdown Date of the Advance relevant to such Ship, be:

- (a) in the absolute ownership of the relevant Borrower who will, on and after such Drawdown Date, be the sole, legal and beneficial owner of such Ship;
- (b) permanently registered through the Registry as a ship under the laws and flag of the relevant Flag State;
- (c) operationally seaworthy and in every way fit for service; and
- (d) classed with the relevant Classification free of all requirements and recommendations of the relevant Classification Society;

7.2.7 Ships' employment

save for any relevant Charter delivered to the Agent prior to the date of this Agreement, neither Ship is nor will, on or before the Drawdown Date of the Advance relevant to such Ship, be subject to any charter or contract or to any agreement to enter into any charter or contract which, if entered into after the date of the relevant Ship Security Documents, would have required the consent of the Agent or, as the context may require, the Security Agent and on or before the Drawdown Date of the Advance relevant to such Ship, there will not be any agreement or arrangement whereby the Earnings (as defined in the General Assignment for such Ship) of such Ship may be shared with any other person;

7.2.8 Freedom from Encumbrances

neither of the Ships, nor its Earnings, Insurances or Requisition Compensation (each as defined in the relevant Ship Security Documents) nor the Operating Account for such Ship nor any other properties or rights which are, or are to be, the subject of any of the Security Documents nor any part thereof will be, on the Drawdown Date of the Advance relevant to such Ship, subject to any Encumbrance;

7.2.9 Compliance with Environmental Laws and Approvals

except as may already have been disclosed by the Borrowers in writing to, and acknowledged in writing by, the Agent:

- (a) the Borrowers and the other Relevant Parties and, to the best of the Borrowers' knowledge and belief (having made due enquiry), their respective Environmental Affiliates have complied with the provisions of all Environmental Laws;
- (b) the Borrowers and the other Relevant Parties and, to the best of the Borrowers' knowledge and belief (having made due enquiry), their respective Environmental Affiliates have obtained all Environmental Approvals and are in compliance with all such Environmental Approvals; and
- (c) neither the Borrowers nor any other Relevant Party nor, to the best of the Borrowers' knowledge and belief (having made due enquiry), any of their respective Environmental Affiliates have received notice of any Environmental Claim that the Borrowers or any other Relevant Party or any such Environmental Affiliate is not in compliance with any Environmental Law or any Environmental Approval;

7.2.10 No Environmental Claims

except as may already have been disclosed by the Borrowers in writing to, and acknowledged in writing by, the Agent, there is no Environmental Claim pending or, to the best of the Borrowers' knowledge and belief, threatened against the Borrowers or either of the Ships or any other Relevant Party or any other Relevant Ship or, to the best of the Borrowers' knowledge and belief (having made due enquiry), any of their respective Environmental Affiliates;

7.2.11 No potential Environmental Claims

except as may already have been disclosed by the Borrowers in writing to, and acknowledged in writing by, the Agent, there has been no emission, spill, release or discharge of a Pollutant from either of the Ships or any other Relevant Ship owned by, managed or crewed by or chartered to the Borrowers nor, to the best of the Borrowers' knowledge and belief (having made due enquiry), from any Relevant Ship owned by, managed or crewed by or chartered to any other Relevant Party which could give rise to an Environmental Claim;

7.2.12 Copies true and complete

[the copies of the Underlying Documents delivered or to be delivered to the Agent pursuant to clause 9.1](#) are or will, when delivered, be true and complete copies of such documents; such documents constitute valid and binding obligations of the parties thereto enforceable in accordance with their terms and there have been no amendments or variations thereof or defaults thereunder;

7.2.13 Shareholdings and management

- (a) each of the Borrowers is a wholly-owned direct Subsidiary of the Corporate Guarantor;
- (b) all of the issued shares in the Manager are legally and beneficially owned by the Corporate Guarantor;
- (c) to the best of their knowledge and belief (having made due and careful enquiry), no person, or persons acting in concert (other than any financial institution acting as a passive investor), are the legal or ultimate beneficial owners of a higher percentage of the total issued share capital of the Corporate Guarantor, than the percentage of the total issued share capital of the Corporate Guarantor, beneficially owned by Mr Simeon Palios; and
- (d) Mr. Simeon Palios is the Chief Executive Officer, the Chairman and a member of the board of directors of the Corporate Guarantor;

7.2.14 DOC and SMC

on the Drawdown Date of the Advance relevant to a Ship, the Operator will have a DOC for itself and an SMC in respect of such Ship; and

7.2.15 ISPS Code

on the Drawdown Date of the Advance relevant to a Ship, the Borrower owning such Ship shall have a valid and current ISSC in respect of such Ship and such Ship shall be in compliance with the ISPS Code.

7.3 Repetition of representations and warranties

On and as of each Drawdown Date and (except in relation to the representations and warranties in clause 7.2) on each Interest Payment Date, the Borrowers shall (a) be deemed to repeat the representations and warranties in clauses 7.1 and 7.2 (other than clauses 7.2.13(c) and (d)) as if made with reference to the facts and circumstances existing on such day and (b) be deemed to further represent and warrant to each of the Creditors that the then latest financial statements delivered to the Agent by the Borrowers (if any) under clause 8.1.5 have been prepared in accordance with the Applicable Accounting Principles which have been consistently applied and present fairly and accurately the consolidated financial position of the Group as at the end of the financial period to which the same relate and the consolidated results of the operations of the Group, respectively, for the financial period to which the same relate and, as at the end of such financial period, neither the Corporate Guarantor nor any other member of the Group had any significant liabilities (contingent or otherwise) or any unrealised or anticipated losses which are not disclosed by, or reserved against or provided for in, such financial statements.

8 Undertakings

8.1 General

The Borrowers jointly and severally undertake with each Creditor that, from the date of this Agreement and so long as any moneys are owing under any of the Security Documents and while all or any part of the Total Commitment remains outstanding, they will:

8.1.1 Notice of Default

promptly inform the Agent of any occurrence of which either of them becomes aware which might adversely affect the ability of any Security Party to perform its obligations under any of the Security Documents and the Underlying Documents and, without prejudice to clause 8.1.9 and without limiting the generality of the foregoing, will inform the Agent of any Default forthwith upon becoming aware thereof and will from time to time, if so requested by the Agent, confirm to the Agent in writing that, save as otherwise stated in such confirmation, no Default has occurred and is continuing;

8.1.2 Consents and licences

without prejudice to clauses 7.1 and 9, obtain or cause to be obtained, maintain in full force and effect and comply in all material respects with the conditions and restrictions (if any) imposed in, or in connection with, every consent, authorisation, licence or approval of governmental or public bodies or authorities or courts and do, or cause to be done, all other acts and things which may from time to time be necessary or desirable under applicable law for the continued due performance of all the obligations of the Security Parties under each of the Security Documents;

8.1.3 Use of proceeds

use the Loan or, as the case may be, the Advances for their benefit and under their full responsibility and exclusively for the purposes specified in clauses 1.1 and 2.5;

8.1.4 Pari passu and subordination

- (a) ensure that their obligations under this Agreement and the Master Swap Agreement shall, without prejudice to the provisions of clause 8.3 and the security intended to be created by the Security Documents, at all times rank at least pari passu with all their other present and future unsecured and unsubordinated Indebtedness with the exception of any obligations which are mandatorily preferred by law and not by contract; and
- (b) ensure that the obligations (if any) of the Borrowers to repay any loan advanced to them by their shareholders or any other member of the Group are at all times fully subordinated towards their obligations to the Creditors under this Agreement and the other Security Documents and that any such loans or advances are and remain at all times on terms and conditions acceptable to the Banks in all respects;

8.1.5 Financial statements and Compliance Certificate

- (a) prepare or cause to be prepared consolidated financial statements of the Group in accordance with the Applicable Accounting Principles consistently applied in respect of each financial year (but commencing with the financial year ending on 31 December 2010) and cause the same to be reported on by their auditors and prepare unaudited consolidated financial statements of the Group on the same basis as the annual statements in respect of each financial quarter, including on a year to date basis (but commencing with the financial quarter ending on 31 December 2010) and deliver as many copies of the same as the Agent may reasonably require as soon as practicable but not later than one hundred and twenty (120) days (in the case of audited financial statements) or ninety (90) days (in the case of unaudited financial statements) after the end of the financial period to which they relate; and
- (b) deliver to the Agent in sufficient copies for all the Banks, a Compliance Certificate for the relevant period executed by the Corporate Guarantor and counter-signed by the Chief Financial Officer or two authorised Directors of the Corporate Guarantor at the time when any unaudited or audited consolidated financial statements of the Group are delivered to the Agent in accordance with clause 8.1.5(a) and clause 5.1.4 of the Corporate Guarantee;

8.1.6 Delivery of reports

deliver to the Agent sufficient copies for all the Banks of every report, circular, notice or like document issued by the Borrowers or any member of the Group to their shareholders or creditors generally, at the same time when it is issued or given;

8.1.7 Provision of further information

provide the Agent with such financial and other information concerning the Borrowers, the other Security Parties, any other member of the Group, the Group as a whole and their respective affairs as the Agent may from time to time reasonably require, including, without limitation, regarding their financial standing, commitments, operations, vessel sales or purchases, any new borrowings, any material litigation, arbitration and administrative proceedings and all major financial developments in relation to each Security Party, any other member of the Group and the Group as a whole;

8.1.8 Know your customer information

deliver to the Agent such documents and evidence as the Agent shall from time to time require relating to the verification of identity and knowledge of the Agent's or any Bank's or the Swap Provider's customers and the compliance by the Agent or any Bank or the Swap Provider with all necessary "know your customer" or similar checks, always on the basis of applicable laws and regulations or the Agent's or any Bank's or any Swap Provider's own internal guidelines, in each case as such laws, regulations or internal guidelines apply from time to time;

8.1.9 Obligations under Security Documents

and will procure that each of the other Security Parties will, duly and punctually perform each of the obligations expressed to be assumed by them under the Security Documents;

8.1.10 Compliance with Code

and will procure that the Manager or any Operator will, comply with and ensure that each Ship and the Manager or any Operator at all times complies with the requirements of the Code, including (but not limited to) the maintenance and renewal of valid certificates pursuant thereto throughout the Security Period and will procure that each member of the Group and each vessel thereof complies with the requirements of the Code;

8.1.11 Withdrawal of DOC and SMC

and will procure that the Manager or any Operator will, immediately inform the Agent if there is any threatened or actual withdrawal of its Operator's DOC or the SMC in respect of any Ship;

8.1.12 Issuance of DOC and SMC

and will procure that the Manager or any Operator will, promptly inform the Agent upon the issue to either of the Borrowers, the Manager or any Operator of a DOC and to each Ship of an SMC or the receipt by either of the Borrowers, the Manager or any Operator of notification that its application for the same has been refused;

8.1.13 ISPS Code Compliance

and will procure that the Manager or any Operator will:

- (a) maintain at all times a valid and current ISSC respect of each Ship;
- (b) immediately notify the Agent in writing of any actual or threatened withdrawal, suspension, cancellation or modification of the ISSC in respect of each Ship; and
- (c) procure that each Ship and any other vessel of the Group will comply at all times with the ISPS Code;

8.1.14 Charters

advise the Agent promptly of any Charter of either Ship and (i) forthwith after its execution deliver a certified copy of each such Charter to the Agent, (ii) forthwith following demand by the Agent execute a Charter Assignment of any such Charter in favour of the Security Agent and any notice of assignment required in connection therewith and promptly procure the service of any such notice of assignment on the relevant Charterer and the acknowledgement of such notice by the relevant Charterer and (iii) pay all legal and other costs incurred by the Agent or any other Creditor in connection with any such Charter Assignments;

8.1.15 Intra-Group transactions

ensure that any transactions, agreements or other arrangements (if any) entered into by it with any members of the Group, are entered into on an arm's length basis and for full value and consideration;

8.1.16 Minimum liquidity

maintain at all times a credit balance of no less than Four hundred thousand Dollars (\$400,000) in each Operating Account; and

8.1.17 Acknowledgement

if a Charter exists on the Drawdown Date for an Advance relevant to a Ship, procure that there are delivered to the Agent, no later than fourteen (14) days after the Drawdown Date of that Advance, a duly executed acknowledgment of the notice of assignment of that Charter by the relevant Charterer in the form set out in schedule 1 of the relevant Charter Assignment, together with evidence of the authority of the relevant Charterer to execute the same.

8.2 Security value maintenance

8.2.1 Security shortfall

If at any time the Security Value shall be less than the Security Requirement, the Agent (acting on the instructions of the Majority Banks) shall give notice to the Borrowers requiring that such deficiency be remedied and then the Borrowers shall either:

- (a) prepay within a period of ten (10) days of the date of receipt by the Borrowers of the Agent's said notice, such sum in Dollars as will result in the Security Requirement after such prepayment (taking into account any other repayment made between the date of the notice and the date of such prepayment) being equal to the Security Value; or
- (b) within ten (10) days of the date of receipt by the Borrowers of the Agent's said notice constitute to the satisfaction of the Agent such further security for the Loan and amounts owing under the Master Swap Agreement, as shall be acceptable to the Banks, having a value for security purposes (as determined by the Agent in its absolute discretion) at the date upon which such further security shall be constituted which, when added to the Security Value, shall not be less than the Security Requirement as at such date.

The provisions of clause 4.4 and any relevant provisions of clause 4.5 shall apply to prepayments made under clause 8.2.1(a).

8.2.2 Valuation of Mortgaged Ships

Each of the Mortgaged Ships shall, for the purposes of this Agreement, be valued in Dollars as and when the Agent (acting on instructions of the Majority Banks) shall require by two (2) of the Approved Shipbrokers nominated by the Borrowers (or, failing this, by the Agent) and appointed by the Agent. Each such valuation shall be addressed to the Agent (with a copy to the Borrowers) and made without, unless required by the Agent, physical inspection and on the basis of a sale for prompt delivery for cash at arm's length on normal commercial terms as between a willing buyer and a willing seller without taking into account the benefit of any charterparty or other engagement concerning such Mortgaged Ship. In the event that the said two (2) valuations differ between them by more than fifteen per cent (15%), then the Agent may, in its sole discretion, obtain a third valuation of a Mortgaged Ship from another Approved Broker and made on the same basis as the other two valuations for such Mortgaged Ship. The arithmetic mean of the valuations for a Mortgaged Ship eventually obtained in accordance with this clause shall constitute the value of such Mortgaged Ship for the purposes of this clause [8.2](#).

The value of each Mortgaged Ship determined in accordance with the provisions of this clause 8.2 shall be binding upon the parties hereto until such time as any such further valuation shall be obtained.

8.2.3 Information

The Borrowers jointly and severally undertake with each Creditor to supply to the Agent and to any such Approved Shipbrokers such information concerning each Mortgaged Ship and its condition as such Approved Shipbroker may require for the purpose of making any such valuation.

8.2.4 Costs

All costs in connection with the Agent obtaining any valuation of the Mortgaged Ships referred to in clause 8.2.2 up to once per calendar year (without taking into account any valuation of the Mortgaged Ships included in the valuations obtained under clause 5.4 of the Corporate Guarantee), any valuation of the Fleet Vessels referred to in clause 5.4 of the Corporate Guarantee, the valuations of the Ships referred to in schedule 3, and any valuation either of any additional security for the purposes of ascertaining the Security Value at any time or necessitated by the Borrowers electing to constitute additional security pursuant to clause 8.2.1(b), shall be borne by the Borrowers **Provided however** that, if a Default shall have occurred, the cost of any and all such valuation or valuations of the Mortgaged Ships and the Fleet Vessels shall be borne by the Borrowers.

8.2.5 Valuation of additional security

For the purpose of this clause 8.2, the market value of any additional security provided or to be provided to the Security Agent shall be determined by the Agent in its absolute discretion without any necessity for the Agent assigning any reason thereto.

8.2.6 Documents and evidence

In connection with any additional security provided in accordance with this clause 8.2, the Agent shall be entitled to receive such evidence and documents of the kind referred to in schedule 3 as may in the Agent's opinion be appropriate and such favourable legal opinions as the Agent shall in its absolute discretion require.

8.3 Negative undertakings

The Borrowers jointly and severally undertake with each Creditor that, from the date of this Agreement and so long as any moneys are owing under the Security Documents and while all or any part of the Total Commitment remains outstanding, the Borrowers will not, without the prior written consent of the Agent:

8.3.1 Negative pledge

permit any Encumbrance (other than a Permitted Encumbrance) to subsist, arise or be created or extended over all or any part of their present or future undertakings, assets, rights or revenues to secure or prefer any present or future Indebtedness or other liability or obligation of any Security Party (other than the Corporate Guarantor) or any other person;

8.3.2 No merger

merge or consolidate with any other person or enter into any demerger, amalgamation or corporate reconstruction or redomiciliation of any type;

8.3.3 Disposals

sell, transfer, abandon, lend or otherwise dispose of or cease to exercise direct control over any part (being, either alone or when aggregated with all other disposals falling to be taken into account pursuant to this clause 8.3.3, material in the opinion of the Agent in relation to their respective undertakings, assets, rights and revenues taken as a whole) of their respective present or future undertakings, assets, rights or revenues (otherwise than by transfers, sales or disposals for full consideration in the ordinary course of trading but in any event excluding the Ships) whether by one or a series of transactions related or not;

- 8.3.4 Other business
- undertake any business other than the ownership, chartering and operation of the Ships and the chartering of the Ships to third parties;
- 8.3.5 Acquisitions
- acquire any further assets other than the Ships and rights arising under contracts entered into by or on behalf of the Borrowers in the ordinary course of their businesses of owning, operating and chartering the Ships;
- 8.3.6 Other obligations
- incur any obligations except for obligations arising under the Underlying Documents or the Security Documents or contracts entered into in the ordinary course of their business of owning, operating and chartering the Ships;
- 8.3.7 No borrowing
- incur any Borrowed Money except for Borrowed Money pursuant to the Security Documents;
- 8.3.8 Repayment of borrowings
- repay or prepay the principal of, or pay interest on or any other sum in connection with, any of their Borrowed Money except for Borrowed Money pursuant to the Security Documents;
- 8.3.9 Guarantees
- issue any guarantees or indemnities or otherwise become directly or contingently liable for the obligations of any person, firm, or corporation except pursuant to the Security Documents and except for guarantees or indemnities from time to time required in the ordinary course by any protection and indemnity or war risks association with which a Ship is entered, guarantees required to procure the release of a Ship from any arrest, detention, attachment or levy or guarantees or undertakings required for the salvage of a Ship;
- 8.3.10 Loans
- make any loans or grant any credit (save for normal trade credit in the ordinary course of business) to any person or agree to do so;
- 8.3.11 Sureties
- permit any Indebtedness of either Borrower to any person (other than the Creditors) to be guaranteed by any person (save for guarantees or indemnities from time to time required in the ordinary course by any protection and indemnity or war risks association with which a Ship is entered, guarantees required to procure the release of a Ship from any arrest, detention, attachment or levy or guarantees or undertakings required for the salvage of a Ship);
- 8.3.12 Share capital and distribution
- purchase or otherwise acquire for value any shares of their capital or declare or pay any dividends or distribute any of their present or future assets, undertakings, rights or revenues to any of their shareholders **Provided however** that each Borrower may declare or pay dividends to the Corporate Guarantor, if no Event of Default has occurred and is continuing at the time of declaration or payment of such dividends or would occur as a result thereof;

- 8.3.13 Change of management of a Ship
- appoint any person to carry out the commercial and technical management of any Ship other than the Manager or terminate a Management Agreement or vary or amend the terms thereof;
- 8.3.14 Designated Transactions
- enter into any derivative transactions other than Designated Transactions; or
- 8.3.15 Subsidiaries
- form or acquire any Subsidiaries; or
- 8.3.16 Financial year, auditors and constitutional documents
- (a) change, cause, permit or agree to any change in, the way of computation of their financial year;
 - (b) change, permit or agree to any change of, their auditors from those existing on the date of this Agreement; or
 - (c) change, amend or vary, or agree to or permit any change, amendment or variation of or to, their constitutional documents.

9 Conditions

9.1 Documents and evidence

The obligation of each Bank to make its Commitment available shall be subject to the condition that:

- 9.1.1 the Agent, or its duly authorised representative, shall have received, not later than the day on which the Drawdown Notice for the first Advance is given, the documents and evidence specified in Part 1 of schedule 3 in form and substance satisfactory to the Agent; and
- 9.1.2 the Agent, or its duly authorised representative, shall have received, on or prior to the drawdown of an Advance for a Ship, the documents and evidence specified in Part 2 of schedule 3 in respect of such Advance and the Ship relevant to it, in form and substance satisfactory to the Agent.

9.2 General conditions precedent

The obligation of each Bank to contribute to any Advance shall be subject to the further conditions that, at the time of the giving of the Drawdown Notice for such Advance, and at the time of the making of such Advance:

- 9.2.1 the representations and warranties contained in (a) clauses 7.1, 7.2 and 7.3(b) and (b) clause 4 of the Corporate Guarantee, are true and correct on and as of each such time as if each was made with respect to the facts and circumstances existing at such time; and
- 9.2.2 no Default shall have occurred and be continuing or would result from the making of such Advance.

9.3 Waiver of conditions precedent

The conditions specified in this clause 9 are inserted solely for the benefit of the Banks and may be waived by the Agent (acting on the instructions of the Majority Banks) in whole or in part and with or without conditions.

9.4 Further conditions precedent

Not later than five (5) Banking Days prior to each Drawdown Date and not later than five (5) Banking Days prior to each Interest Payment Date, the Agent (acting on the instructions of the Majority Banks) may request and the Borrowers shall, not later than two (2) Banking Days prior to such date, deliver to the Agent on such request further favourable certificates and/or favourable opinions as to any or all of the matters which are the subject of clauses 7, 8, 9 and 10.

10 Events of Default

10.1 Events

There shall be an Event of Default if:

- 10.1.1 Non-payment:** any Security Party fails to pay any sum payable by it under any of the Security Documents at the time, in the currency and in the manner stipulated in the Security Documents (and so that, for this purpose, sums payable on demand shall be treated as having been paid at the stipulated time if paid within three (3) Banking Days of demand); or
- 10.1.2 Master Swap Agreement:** (a) an Event of Default or Potential Event of Default (in each case as defined in the Master Swap Agreement) has occurred and is continuing with the Borrowers or either of them as the Defaulting Party (as defined in the Master Swap Agreement) under the Master Swap Agreement or (b) an Early Termination Date has occurred or been or become capable of being effectively designated under the Master Swap Agreement by the Swap Provider or (c) the Master Swap Agreement is terminated, cancelled, suspended, rescinded or revoked or otherwise ceases to remain in full force and effect for any reason; or
- 10.1.3 Breach of Insurance and certain other obligations:** either of the Borrowers or, as the context may require, the Manager fails to obtain and/or maintain the Insurances (as defined in, and in accordance with the requirements of, the Ship Security Documents) for either of the Mortgaged Ships or if any insurer in respect of such Insurances cancels such Insurances or disclaims liability by reason, in either case, of mis-statement in any proposal for such Insurances or for any other failure or default on the part of either of the Borrowers or any other person or either of the Borrowers commits any breach of or omits to observe any of the obligations or undertakings expressed to be assumed by them under clauses 8.1.5, 8.2 or 8.3 or the Corporate Guarantor commits any breach or fails to observe any of the obligations or undertakings expressed to be assumed by it under clauses 5.1.4, 5.1.5, 5.2, 5.3 or 5.4 of the Corporate Guarantee; or
- 10.1.4 Breach of other obligations:** any Security Party commits any breach of or omits to observe any of its obligations or undertakings expressed to be assumed by it under any of the Security Documents (other than those referred to in clauses 10.1.1 and 10.1.3 above) and, in respect of any such breach or omission which in the opinion of the Agent (acting on the instructions of the Majority Banks) is capable of remedy, such action as the Agent (acting on the instructions of the Majority Banks) may require shall not have been taken within fourteen (14) days of the Agent notifying the relevant Security Party of such default and of such required action; or
- 10.1.5 Misrepresentation:** any representation or warranty made or deemed to be made or repeated by or in respect of any Security Party in or pursuant to any of the Security Documents or in any notice, certificate or statement referred to in or delivered under any of the Security Documents is or proves to have been incorrect or misleading in any material respect; or
- 10.1.6 Cross-default:** any Indebtedness of any Security Party or any other member of the Group is not paid when due or any Indebtedness of any Security Party or any other member of the Group becomes (whether by declaration or automatically in accordance with the relevant agreement or instrument constituting the same) due and payable prior to the date when it would otherwise have become due (unless as a result of the exercise by the relevant Security Party or any other member of the Group of a voluntary right of prepayment), or any creditor of any Security Party or any other member of the Group becomes entitled to declare any such Indebtedness due and payable or any facility or commitment available to any Security Party or other member of the Group relating to Indebtedness is withdrawn, suspended or cancelled by reason of any default (however described) of the person concerned unless the relevant Security Party or any other member of the Group shall have satisfied the Agent that such withdrawal, suspension or cancellation will not affect or prejudice in any way the ability of the relevant Security Party or of the relevant member of the Group to pay its debts as they fall due and fund its commitments, or any guarantee given by any Security Party or any other member of the Group in respect of Indebtedness is not honoured when due and called upon **Provided that** the amount or aggregate amount at any one time, of all Indebtedness of any Security Party or any other member of the Group in relation to which any of the foregoing events shall have occurred and be continuing, is equal to or greater than Five million Dollars (\$5,000,000) or its equivalent in the currency which the same is denominated or payable.

For the avoidance of doubt for the purpose of this clause 10.1.6 "Indebtedness" shall exclude Indebtedness owing under this Agreement and/or the other Security Documents; or

- 10.1.7 Legal process:** any judgment or order made against any Security Party or other member of the Group is not stayed or complied with within seven (7) days or a creditor attaches or takes possession of, or a distress, execution, sequestration or other process is levied or enforced upon or sued out against, any of the undertakings, assets, rights or revenues of any Security Party or other member of the Group and is not discharged within seven (7) days; or
- 10.1.8 Insolvency:** any Security Party or other member of the Group is unable or admits inability to pay its debts as they fall due; suspends making payments on any of its debts or announces an intention to do so; becomes insolvent; has assets the value of which is less than the value of its liabilities (taking into account contingent and prospective liabilities); or suffers the declaration of a moratorium in respect of any of its Indebtedness; or
- 10.1.9 Reduction or loss of capital:** a meeting is convened by any Security Party or other member of the Group for the purpose of passing any resolution to purchase, reduce or redeem any of its share capital; or
- 10.1.10 Winding up:** any corporate action, legal proceedings or other procedure or step is taken for the purpose of winding-up any Security Party or other member of the Group or an order is made or resolution passed for the winding up of any Security Party or other member of the Group or a notice is issued convening a meeting for the purpose of passing any such resolution; or
- 10.1.11 Administration:** any petition is presented, notice given or other step is taken for the purpose of the appointment of an administrator of any Security Party or other member of the Group or the Agent believes that any such petition or other step is imminent or an administration order is made in relation to any Security Party or other member of the Group; or
- 10.1.12 Appointment of receivers and managers:** any administrative or other receiver, liquidator, compulsory manager or other similar officer is appointed of any Security Party or other member of the Group or any part of its assets and/or undertaking or any other steps are taken to enforce any Encumbrance over all or any part of the assets of any Security Party or other member of the Group; or
- 10.1.13 Compositions:** any corporate action, legal proceedings or other procedures or steps are taken, or negotiations commenced, by any Security Party or other member of the Group or by any of its creditors with a view to the general readjustment or rescheduling of all or part of its indebtedness or to proposing any kind of composition, compromise or arrangement involving such person and any of its creditors; or
- 10.1.14 Analogous proceedings:** there occurs, in relation to any Security Party or other member of the Group, in any country or territory in which any of them carries on business or to the jurisdiction of whose courts any part of their assets is subject, any event which, in the reasonable opinion of the Agent, appears in that country or territory to correspond with, or have an effect equivalent or similar to, any of those mentioned in clauses 10.1.7 to 10.1.13 (inclusive) or any Security Party or other member of the Group otherwise becomes subject, in any such country or territory, to the operation of any law relating to insolvency, bankruptcy or liquidation; or

- 10.1.15 Cessation of business:** any Security Party or any other member of the Group suspends or ceases or threatens to suspend or cease to carry on its business; or
- 10.1.16 Seizure:** all or a material part of the undertaking, assets, rights or revenues of, or shares or other ownership interests in, any Security Party or any other member of the Group are seized, nationalised, expropriated or compulsorily acquired by or under the authority of any government; or
- 10.1.17 Invalidity:** any of the Security Documents shall at any time and for any reason become invalid or unenforceable or otherwise cease to remain in full force and effect, or if the validity or enforceability of any of the Security Documents shall at any time and for any reason be contested by any Security Party which is a party thereto, or if any such Security Party shall deny that it has any, or any further, liability thereunder; or
- 10.1.18 Unlawfulness:** it becomes impossible or unlawful at any time for any Security Party, to fulfil any of the covenants and obligations expressed to be assumed by it in any of the Security Documents or for a Creditor to exercise the rights or any of them vested in it under any of the Security Documents or otherwise; or
- 10.1.19 Repudiation:** any Security Party repudiates any of the Security Documents or does or causes or permits to be done any act or thing evidencing an intention to repudiate any of the Security Documents; or
- 10.1.20 Encumbrances enforceable:** any Encumbrance (other than Permitted Liens) in respect of any of the property (or part thereof) which is the subject of any of the Security Documents becomes enforceable; or
- 10.1.21 Material adverse change:** there occurs, in the opinion of the Agent, a material adverse change in the business, management, assets, operations, results of operations, properties, performances, prospects or the condition (financial or otherwise) of either Borrower or any other Security Party or any other member of the Group from that existing on the date of this Agreement, as described by or on behalf of the Borrowers or any other Security Party to the Agent and/or the Arrangers in the negotiation of this Agreement which in the reasonable opinion of the Agent (following consultation with the Banks) is likely, materially and adversely, to affect the ability of any Security Party to perform all or any of its obligations under, or otherwise to comply with the terms of, any of the Security Documents; or
- 10.1.22 Arrest:** either Ship is arrested, confiscated, seized, taken in execution, impounded, forfeited, detained in exercise or purported exercise of any possessory lien or other claim or otherwise taken from the possession of the relevant Borrower and such Borrower shall fail to procure the release of such Ship within a period of seven (7) days thereafter; or
- 10.1.23 Registration:** the registration of either Ship under the laws and flag of the relevant Flag State is cancelled or terminated without the prior written consent of the Agent (acting on the instructions of the Majority Banks) or if such registration of such Ship is not renewed at least thirty (30) days prior to the expiry of such registration; or
- 10.1.24 Unrest:** the Flag State of either Ship becomes involved in hostilities or civil war or there is a seizure of power in the Flag State of either Ship by unconstitutional means if, in any such case such event could in the opinion of the Agent reasonably be expected to have a material adverse effect on the security constituted by any of the Security Documents; or
- 10.1.25 Environment:** either Borrower and/or any other Relevant Party and/or any of their respective Environmental Affiliates fails to comply with any Environmental Law or any Environmental Approval or either of the Ships or any other Relevant Ship is involved in any incident which gives rise or may give rise to an Environmental Claim if, in any such case, such non-compliance or incident or the consequences thereof could, in the opinion of the Majority Banks acting through the Agent, reasonably be expected to have an adverse effect on the business, assets, operations, property or financial condition of either Borrower or any other Security Party, or on the security constituted by any of the Security Documents or on the ability of any Security Party to perform all or any of its obligations under or otherwise to comply with the terms of any of the Security Documents; or

- 10.1.26** **P&I:** either Borrower or any other person fails or omits to comply with any requirements of the protection and indemnity association or other insurer with which such Borrower's Ship is entered for insurance or insured against protection and indemnity risks (including oil pollution risks) to the effect that any cover (including, without limitation, any cover in respect of liability for Environmental Claims arising in jurisdictions where such Ship operates or trades) is or may be liable to cancellation, qualification or exclusion at any time; or
- 10.1.27** **Shareholdings:**
- (a) either of the Borrowers ceases at any time to be a wholly-owned direct Subsidiary of the Corporate Guarantor; or
 - (b) there is any change in the legal and/or beneficial ownership of any of the shares of the Manager, from that existing on the date of this Agreement, as set out in clause 7.2.13; or
 - (c) any person, or persons acting in concert (other than any financial institution acting as a passive investor), become at any time the legal or ultimate beneficial owners of a higher percentage of the total issued share capital of the Corporate Guarantor, than the percentage of the total issued share capital of the Corporate Guarantor, beneficially owned by Mr Simeon Palios at that time; or
 - (d) Mr. Simeon Palios ceases to hold an executive position in the Corporate Guarantor; or
- 10.1.28** **Listing:** the shares of the Corporate Guarantor are de-listed or cease to trade permanently on, the New York Stock Exchange; or
- 10.1.29** **Accounts:** moneys are withdrawn from either of the Operating Accounts other than in accordance with clause 14 or as otherwise provided in this Agreement; or
- 10.1.30** **Manager:** either Ship ceases to be managed by the Manager; or
- 10.1.31** **Licenses, etc:** any license, authorisation, consent or approval at any time necessary to enable any Security Party to comply with its obligations under the Security Documents is revoked or withheld or modified or is otherwise not granted or fails to remain in full force and effect or if any exchange control or other law or regulation shall exist which would make any transaction under the Security Documents or the continuation thereof, unlawful or would prevent the performance by any Security Party of any term of any of the Security Documents; or
- 10.1.32** **Material events:** any other event occurs or circumstance arises which, in the reasonable opinion of the Agent (following consultation with the Banks), is likely materially and adversely to affect either (a) the ability of any Security Party to perform all or any of its obligations under or otherwise to comply with the terms of any of the Security Documents or (b) the security created by any of the Security Documents.

10.2 Acceleration

The Agent may, and if so requested by the Majority Banks shall, without prejudice to any other rights of the Banks, at any time after the happening of an Event of Default by notice to the Borrowers declare that:

- 10.2.1 the obligation of each Bank to make its Commitment available shall be terminated, whereupon the Total Commitment shall be reduced to zero forthwith; and/or
- 10.2.2 the Loan and all interest and commitment commission accrued and all other sums payable under the Security Documents have become due and payable, whereupon the same shall, immediately or in accordance with the terms of such notice, become due and payable.

10.3 Demand basis

If, pursuant to clause 10.2.2, the Agent declares the Loan to be due and payable on demand, the Agent may (and if so instructed by the Majority Banks shall) by written notice to the Borrowers (a) call for repayment of the Loan on such date as may be specified whereupon the Loan shall become due and payable on the date so specified together with all interest and commitment commission accrued and all other sums payable under this Agreement or (b) withdraw such declaration with effect from the date specified in such notice.

10.4 Position of Swap Provider

Neither the Agent nor the Security Agent shall be obliged, in connection with any action taken or proposed to be taken under or pursuant to the foregoing provisions of this clause 10, to have any regard to the requirements of the Swap Provider except to the extent that the Swap Provider is also a Bank.

11 Indemnities

11.1 Miscellaneous indemnities

The Borrowers shall on demand indemnify each Creditor, without prejudice to any of such Creditor's other rights under any of the Security Documents, against any loss (including loss of Margin) or expense which such Creditor shall certify as sustained or incurred by it as a consequence of:

- 11.1.1 any default in payment by any Security Party of any sum under any of the Security Documents when due;
- 11.1.2 the occurrence of any other Event of Default;
- 11.1.3 any prepayment or repayment of the Loan or part thereof being made under clauses 4.1, 4.2, 4.3, 8.2.1 or 12.1, or any other repayment or prepayment of the Loan or part thereof being made otherwise than on an Interest Payment Date relating to the part of the Loan prepaid or repaid; or
- 11.1.4 any Advance not being made for any reason (excluding any default by any Creditor) after the Drawdown Notice for such Advance has been given,

including, in any such case, but not limited to, any loss or expense sustained or incurred by the relevant Creditor in maintaining or funding its Contribution or, as the case may be, Commitment or any part thereof or in liquidating or re-employing deposits from third parties acquired to effect or maintain its Contribution or, as the case may be, Commitment or any part thereof or in terminating or reversing or otherwise in connection with, any interest rate and/or currency swap or other derivative transaction or other arrangement entered into by a Creditor (whether with another legal entity or with another office or department of such Creditor) to hedge any exposure arising under this Agreement or in terminating, reversing, or otherwise in connection with, any open position arising under this Agreement, or any other amount owing to such Creditor.

11.2 Currency indemnity

If any sum due from the Borrowers or either of them under any of the Security Documents or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under the relevant Security Document or under such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Borrowers or either of them, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to any of the Security Documents, the Borrowers shall indemnify and hold harmless each Creditor from and against any loss suffered as a result of any difference between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which the relevant Creditor may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

Any amount due from the Borrowers under this clause 11.2 shall be due as a separate debt and shall not be affected by judgment being obtained for any other sums due under or in respect of any of the Security Documents and the term "**rate of exchange**" includes any premium and costs of exchange payable in connection with the purchase of the first currency with the second currency.

11.3 Environmental indemnity

The Borrowers shall indemnify each Creditor on demand and hold it harmless from and against all costs, expenses, payments, charges, losses, demands, liabilities, actions, proceedings (whether civil or criminal), penalties, fines, damages, judgements, orders, sanctions or other outgoings of whatever nature which may be suffered, incurred or paid by, or made or asserted against such Creditor at any time, whether before or after the repayment in full of principal and interest under this Agreement, relating to, or arising directly or indirectly in any manner or for any cause or reason whatsoever out of an Environmental Claim made or asserted against such Creditor if such Environmental Claim would not have been, or been capable of being, made or asserted against such Creditor if it had not entered into any of the Security Documents and/or exercised any of its rights, powers and discretions thereby conferred and/or performed any of its obligations thereunder and/or been involved in any of the transactions contemplated by the Security Documents.

11.4 Central Bank or European Central Bank reserve requirements indemnity

The Borrowers shall on demand promptly indemnify each Bank against any cost incurred or loss suffered by such Bank as a result of its complying with the minimum reserve requirements of the European Central Bank and/or any other National Central Bank with respect to maintaining required reserves with the relevant national Central Bank to the extent that such compliance relates to such Bank's Commitment and/or Contribution or deposits obtained by it to fund the whole or part of that Contribution and to the extent such cost or loss is not recoverable by such Bank under clause 12.2.

12 Unlawfulness and increased costs

12.1 Unlawfulness

If it is or becomes contrary to any law or regulation for any Bank to contribute to an Advance or to maintain its Commitment or fund its Contribution, such Bank shall promptly, through the Agent, give notice to the Borrowers whereupon (a) such Bank's Commitment shall be reduced to zero and (b) the Borrowers shall be obliged to prepay such Bank's Contribution either (i) forthwith or (ii) on a future specified date not being earlier than the latest date permitted by the relevant law or regulation together with interest accrued to the date of prepayment and all other sums payable by the Borrowers under this Agreement and/or the Master Swap Agreement.

12.2 Increased costs

If the result of any change in, or in the interpretation or application of, or the introduction of, any Capital Adequacy Law or of compliance by a Bank with any Capital Adequacy Law, is to:

- 12.2.1 subject any Bank to Taxes or change the basis of Taxation of any Bank with respect to any payment under any of the Security Documents (other than Taxes or Taxation on the overall net income, profits or gains of such Bank imposed in the jurisdiction in which its principal or lending office under this Agreement is located); and/or
- 12.2.2 increase the cost to, or impose an additional cost on, any Bank or its holding company in making or keeping such Bank's Commitment available or maintaining or funding all or part of such Bank's Contribution; and/or
- 12.2.3 reduce the amount payable or the effective return to any Bank under any of the Security Documents; and/or
- 12.2.4 reduce any Bank's or its holding company's rate of return on its overall capital by reason of a change in the manner in which it is required to allocate capital resources to such Bank's obligations under any of the Security Documents; and/or
- 12.2.5 require any Bank or its holding company to make a payment or forego a return on or calculated by reference to any amount received or receivable by such Bank under any of the Security Documents; and/or
- 12.2.6 require any Bank or its holding company to incur or sustain a loss (including a loss of future potential profits) by reason of being obliged to deduct all or part of its Commitment or the Loan from its capital for regulatory purposes,

then and in each such case (subject to clause [12.3](#)):

- (a) such Bank shall (through the Agent) notify the Borrowers in writing of such event promptly upon its becoming aware of the same; and
- (b) the Borrowers shall on demand made at any time whether or not such Bank's Contribution has been repaid, pay to the Agent for the account of such Bank the amount which such Bank specifies (in a certificate setting forth the basis of the computation of such amount but not including any matters which such Bank or its holding company regards as confidential) is required to compensate such Bank and/or (as the case may be) its holding company for such liability to Taxes, cost, reduction, payment, foregone return or loss.

For the purposes of this clause [12.2](#) "holding company" means, in relation to a Bank, the company or entity (if any) within the consolidated supervision of which such Bank is included.

12.3 Exception

Nothing in clause 12 shall entitle any Bank to receive any amount in respect of compensation for any such liability to Taxes, increased or additional cost, reduction, payment, foregone return or loss to the extent that the same is the subject of an additional payment under clause [6.6](#).

12.4 Mitigation

If circumstances arise which would, or would upon the giving of notice, result in an increased payment required to be made by the Borrowers under clause 6.6 or clause 12.2 then, without in any way limiting the obligations of the Borrowers under either of these clauses, the relevant Bank shall use reasonable endeavours to transfer its obligations, liabilities and rights under this Agreement and the other Security Documents to another of its offices not affected by the circumstances which gave rise to such increased payment, but no Bank shall be under any obligation to take any such action if in its opinion, to do so would or might:

- 12.4.1 be prejudicial to such Bank (or, as the case may be, its holding company); or
- 12.4.2 have an adverse effect on such Bank's or its holding company's business, operations, administration or financial condition; or

- 12.4.3 involve such Bank or its holding company in any activity which is unlawful or prohibited or any activity that is contrary to, or inconsistent, with any regulation or such Bank's general banking policies; or
- 12.4.4 involve such Bank or its holding company in any expense (unless indemnified to its satisfaction) or tax disadvantage.

13 Security, set-off and pro-rata payments

13.1 Application of moneys

All moneys received by the Agent and/or the Security Agent under or pursuant to any of the Security Documents and expressed to be applicable in accordance with the provisions of this clause 13.1 shall be applied in the following manner:

- 13.1.1 first, in or towards payment of all unpaid costs and expenses which may be owing to the Creditors or any of them under any of the Security Documents;
- 13.1.2 secondly, in or towards payment of any unpaid fees and commissions payable to the Creditors or any of them;
- 13.1.3 thirdly, in or towards payment of any arrears of interest owing in respect of the Loan or any part thereof;
- 13.1.4 fourthly, in or towards repayment of the Loan (whether the same is due and payable or not);
- 13.1.5 fifthly, in or towards payment to any Bank for any loss suffered by reason of any such payment in respect of principal not being effected on an Interest Payment Date relating to the part of the Loan repaid or prepaid and which amounts are so payable under this Agreement;
- 13.1.6 sixthly, in or towards payment to the Swap Provider of any amounts owing to it under the Master Swap Agreement;
- 13.1.7 seventhly, in or towards payment to any Creditor of any other sums owing to it under any of the Security Documents (and if such sums are owing to more than one Creditor, as between such Creditors on a pro-rata basis); and
- 13.1.8 eighthly, the surplus (if any) shall be paid to the Borrowers or to whomsoever else may be entitled to receive such surplus.

13.2 Pro rata payments

- 13.2.1 If at any time any Bank (the "**Recovering Bank**") receives or recovers any amount owing to it by the Borrowers under this Agreement by direct payment, set-off or in any manner other than by payment through the Agent pursuant to clauses 6.1 or 6.9 (not being a payment received from a Transferee Bank or a sub-participant in such Bank's Contribution or any other payment of an amount due to the Recovering Bank for its sole account pursuant to clauses 3.6, 5, 6.6, 11.1, 11.2, 12.1, or 12.2) the Recovering Bank shall, within two (2) Banking Days of such receipt or recovery (a "**Relevant Receipt**") notify the Agent of the amount of the Relevant Receipt. If the Relevant Receipt exceeds the amount which the Recovering Bank would have received if the Relevant Receipt had been received by the Agent and distributed pursuant to clauses 6.1 or 6.9 (as the case may be) then:
- (a) within two (2) Banking Days of demand by the Agent, the Recovering Bank shall pay to the Agent an amount equal (or equivalent) to the excess;
- (b) the Agent shall treat the excess amount so paid by the Recovering Bank as if it were a payment made by the Borrowers and shall distribute the same to the Banks (other than the Recovering Bank) in accordance with clause 6.9; and

- (c) as between the Borrowers and the Recovering Bank the excess amount so re-distributed shall be treated as not having been paid but the obligations of the Borrowers to the other Banks shall, to the extent of the amount so re-distributed to them, be treated as discharged.

13.2.2 If any part of the Relevant Receipt subsequently has to be wholly or partly refunded by the Recovering Bank (whether to a liquidator or otherwise) each Bank to which any part of such Relevant Receipt was so re-distributed shall on request from the Recovering Bank repay to the Recovering Bank such Bank's pro-rata share of the amount which has to be refunded by the Recovering Bank.

13.2.3 Each Bank shall on request supply to the Agent such information as the Agent may from time to time request for the purpose of this clause 13.2.

13.2.4 Notwithstanding the foregoing provisions of this clause 13.2, no Recovering Bank shall be obliged to share any Relevant Receipt which it receives or recovers pursuant to legal proceedings taken by it to recover any sums owing to it under this Agreement with any other party which has a legal right to, but does not, either join in such proceedings or commence and diligently pursue separate proceedings to enforce its rights in the same or another court (unless the proceedings instituted by the Recovering Bank are instituted by it without prior notice having been given to such party through the Agent).

13.3 Set-off

13.3.1 Each Borrower authorises each Creditor (without prejudice to any of such Creditor's rights at law, in equity or otherwise), at any time and without notice to such Borrower, to apply any credit balance to which such Borrower is then entitled standing upon any account of such Borrower with any branch of such Creditor in or towards satisfaction of any sum due and payable from such Borrower to such Creditor under any of the Security Documents. For this purpose, each Creditor is authorised to purchase with the moneys standing to the credit of such account such other currencies as may be necessary to effect such application.

13.3.2 No Creditor shall be obliged to exercise any right given to it by this clause 13.2. Each Creditor shall notify the Agent and the relevant Borrower forthwith upon the exercise or purported exercise of any right of set-off giving full details in relation thereto and the Agent shall inform the other Creditors.

13.4 No release

For the avoidance of doubt it is hereby declared that failure by any Recovering Bank to comply with the provisions of clause 13.2 shall not release any other Recovering Bank from any of its obligations or liabilities under clause 13.2.

13.5 No charge

The provisions of this clause 13 shall not, and shall not be construed so as to, constitute a charge or other security interest by a Creditor over all or any part of a sum received or recovered by it in the circumstances mentioned in clause 13.2.

13.6 Further assurance

The Borrowers jointly and severally undertake that the Security Documents shall both at the date of execution and delivery thereof and so long as any moneys are owing under any of the Security Documents be valid and binding obligations of the respective parties thereto and rights of each Creditor enforceable in accordance with their respective terms and that they will, at their expense, execute, sign, perfect and do, and will procure the execution, signing, perfecting and doing by each of the other Security Parties of, any and every such further assurance, document, act or thing as in the reasonable opinion of the Majority Banks may be necessary or desirable for perfecting the security contemplated or constituted by the Security Documents.

13.7 Conflicts

In the event of any conflict between this Agreement and any of the other Borrowers' Security Documents, the provisions of this Agreement shall prevail.

14 Operating Accounts

14.1 General

The Borrowers jointly and severally undertake with each Creditor that they will:

14.1.1 on or before the Drawdown Date of the first Advance to be drawn down, open each of the Operating Accounts; and

14.1.2 procure that all moneys payable to a Borrower in respect of the Earnings (as defined in the relevant General Assignment) of such Borrower's Ship shall, unless and until the Agent (acting on the instructions of the Majority Banks) directs to the contrary pursuant to clause 2.1 of each of the General Assignment relevant to such Ship, be paid to such Borrower's Operating Account Provided however that if any of the moneys paid to either of the Operating Accounts are payable in a currency other than Dollars, the Account Bank shall (and the Borrowers hereby irrevocably and unconditionally instruct the Account Bank to) convert such moneys into Dollars at the Account Bank's spot rate of exchange at the relevant time for the purchase of Dollars with such currency and the term "**spot rate of exchange**" shall include any premium and costs of exchange payable in connection with the purchase of Dollars with such currency.

14.2 Account terms

Amounts standing to the credit of the Operating Accounts shall (unless otherwise agreed between the Account Bank and the Borrowers) bear interest at the rates from time to time offered by the Account Bank to its customers for Dollar deposits in comparable amounts for comparable periods. Interest shall accrue on the Operating Accounts from day to day and be calculated on the basis of actual days elapsed and a three hundred and sixty (360) day year and shall be credited to the Operating Accounts at such times as the Account Bank and the Borrowers shall agree.

14.3 Withdrawals

Unless and until a Default shall occur and the Agent (acting on the instructions of the Majority Banks) shall direct to the contrary, each Borrower may withdraw moneys from its Operating Account for any purpose but subject always, to complying with clause 8.1.16 at all times.

14.4 Application of accounts

At any time after the occurrence of an Event of Default, the Agent may (and on the instructions of the Majority Banks shall), without notice to the Borrowers, instruct the Account Bank to apply all moneys then standing to the credit of the Operating Accounts or either of them (together with interest from time to time accruing or accrued thereon) in or towards satisfaction of any sums due to the Creditors or any of them under the Security Documents in the manner specified in clause 13.1.

14.5 Charging of Operating Accounts

The Operating Accounts and all amounts from time to time standing to the credit thereof shall be subject to the security constituted and the rights conferred by the Operating Account Assignments.

15 Assignment, transfer and lending office

15.1 Benefit and burden

This Agreement shall be binding upon, and enure for the benefit of, the Creditors and the Borrowers and their respective successors in title.

15.2 No assignment by Borrowers

Neither Borrower may assign or transfer any of its rights or obligations under this Agreement.

15.3 Transfers by Banks

Subject to the prior written consent of the Agent, any Bank (the "**Transferor Bank**") may at any time cause all or any part of its rights, benefits and/or obligations under this Agreement and the Security Documents to be transferred to any other bank, financial institution or other person whatsoever (a "**Transferee Bank**") by delivering to the Agent a Transfer Certificate duly completed and duly executed by the Transferor Bank and the Transferee Bank. No such transfer is binding on, or effective in relation to, the Borrowers, the Agent or the other Creditors unless (i) it is effected or evidenced by a Transfer Certificate which complies with the provisions of this clause 15.3 and is signed by or on behalf of the Transferor Bank, the Transferee Bank and the Agent (on behalf of itself, the Borrowers and the other Creditors) and (ii) such transfer of rights under the other Security Documents has been effected and registered to the satisfaction of the Agent. Upon signature of any such Transfer Certificate by the Agent, which signature shall be effected as promptly as is practicable after such Transfer Certificate has been delivered to the Agent, and subject to the terms of such Transfer Certificate, such Transfer Certificate shall have effect as set out below.

The following further provisions shall have effect in relation to any Transfer Certificate:

- 15.3.1 a Transfer Certificate may be in respect of a Bank's rights in respect of all, or part of, its Commitment and shall be in respect of the same proportion of its Contribution;
- 15.3.2 a Transfer Certificate shall only be in respect of rights and obligations of the Transferor Bank in its capacity as a Bank and shall not transfer its rights and obligations as Agent, Security Agent or in any other capacity, as the case may be and such other rights and obligations may only be transferred in accordance with any applicable provisions of this Agreement;
- 15.3.3 a Transfer Certificate shall take effect in accordance with English law as follows:
 - (a) to the extent specified in the Transfer Certificate, the Transferor Bank's payment rights and all its other rights (other than those referred to in sub-clause 15.3.2 above) under this Agreement are assigned to the Transferee Bank absolutely, free of any defects in the Transferor Bank's title and of any rights or equities which the Borrowers or either of them had against the Transferor Bank;
 - (b) the Transferor Bank's Commitment is discharged to the extent specified in the Transfer Certificate;
 - (c) the Transferee Bank becomes a Bank with a Contribution and a Commitment of the amounts specified in the Transfer Certificate;
 - (d) the Transferee Bank becomes bound by all the provisions of this Agreement and the Security Documents which are applicable to the Banks generally, including those about pro-rata sharing and the exclusion of liability on the part of, and the indemnification of, the Agent, the Security Agent, the Swap Provider and the Arrangers in accordance with the provisions of clause 16 and to the extent that the Transferee Bank becomes bound by those provisions, the Transferor Bank ceases to be bound by them;
 - (e) an Advance or part of an Advance which the Transferee Bank makes after the Transfer Certificate comes into effect ranks in point of priority and security in the same way as it would have ranked had it been made by the Transferor Bank, assuming that any defects in the Transferor Bank's title and any rights or equities of any Security Party against the Transferor Bank had not existed; and
 - (f) the Transferee Bank becomes entitled to all the rights under this Agreement which are applicable to the Banks generally, including [but not limited to those relating to the Majority Banks and those under clauses 3.6, 5 and 12](#) and to the extent that the Transferee Bank becomes entitled to such rights, the Transferor Bank ceases to be entitled to them;

- 15.3.4 the rights and equities of the Borrowers or of any other Security Party referred to above include, but are not limited to, any right of set-off and any other kind of cross-claim; and
- 15.3.5 the Borrowers, the Account Bank, the Security Agent, the Arrangers, the Swap Provider and the Banks hereby irrevocably authorise and instruct the Agent to sign any such Transfer Certificate on their behalf and undertake not to withdraw, revoke or qualify such authority or instruction at any time. Promptly upon its signature of any Transfer Certificate, the Agent shall notify the Borrowers, the Security Agent, the Swap Provider, the Account Bank, the Arrangers, the Transferor Bank, the Transferee Bank and the other Banks.

15.4 Reliance on Transfer Certificate

- 15.4.1 The Agent shall be entitled to rely on any Transfer Certificate believed by it to be genuine and correct and to have been presented or signed by the persons by whom it purports to have been presented or signed, and shall not be liable to any of the parties to this Agreement and the Security Documents for the consequences of such reliance.
- 15.4.2 The Agent shall at all times during the continuation of this Agreement maintain a register in which it shall record the name, Commitments, Contributions and administrative details (including the lending office) from time to time of the Banks holding a Transfer Certificate and the date at which the transfer referred to in such Transfer Certificate held by each Bank was transferred to such Bank, and the Agent shall make the said register available for inspection by any Bank, the Security Agent, the Swap Provider, the Account Bank or either Borrower during normal banking hours upon receipt by the Agent of reasonable prior notice requesting the Agent to do so.
- 15.4.3 The entries on the said register shall, in the absence of manifest error, be conclusive in determining the identities of the Commitments, the Contributions and the Transfer Certificates held by the Banks from time to time and the principal amounts of such Transfer Certificates and may be relied upon by the Agent, the other Creditors and the Security Parties for all purposes in connection with this Agreement and the Security Documents.

15.5 Transfer fees and expenses

If any Bank causes the transfer of all or any part of its rights, benefits and/or obligations under the Security Documents, it shall pay to the Agent and/or the Security Agent on demand all costs, fees and expenses (including, but not limited to, legal fees and expenses), and all value added tax thereon, verified by the Agent or, as the case may be, the Security Agent as having been incurred by it in connection with such transfer.

15.6 Documenting transfers

If any Bank transfers all or any part of its rights, benefits and/or obligations as provided in clause 15.3, the Borrowers jointly and severally undertake with each Creditor, immediately on being requested to do so by the Agent and at the cost of the Transferor Bank, to enter into, and procure that the other Security Parties shall (at the cost of the Transferor Bank) enter into, such documents as may be necessary or desirable to transfer to the Transferee Bank all or the relevant part of such Bank's interest in the Security Documents and all relevant references in this Agreement to such Bank shall thereafter be construed as a reference to the Transferor Bank and/or its Transferee Bank (as the case may be) to the extent of their respective interests.

15.7 Sub-participation

A Bank may sub-participate to any other bank or financial institution all or any part of its rights and/or obligations under the Security Documents without the consent of, or notice to, the Borrowers but with the prior written consent of the Agent (acting on the instructions of the Majority Banks).

15.8 Lending offices

Each Bank shall lend through its office at the address specified in schedule 1 or, as the case may be, in any relevant Transfer Certificate or through any other office of such Bank selected from time to time by such Bank through which such Bank wishes to lend for the purposes of this Agreement. If the office through which a Bank is lending is changed pursuant to this clause 15.8, such Bank shall notify the Agent promptly of such change and the Agent shall notify the Borrowers, the Security Agent, the Swap Provider, the Account Bank and the other Banks.

15.9 Disclosure of information

Any Bank may, with the prior written consent of the Agent, disclose to a prospective Transferee Bank or to any other person who may propose entering into contractual relations with such Bank in relation to this Agreement such information about the Borrowers, the other Security Parties or any of them as such Bank shall consider appropriate.

16 Arrangers, Agent and Security Agent

16.1 Appointment of the Agent

Each Bank and the Swap Provider irrevocably appoints the Agent as its agent for the purposes of this Agreement and such of the Security Documents to which it may be appropriate for the Agent to be party. By virtue of such appointment, each of the Banks and the Swap Provider hereby authorises the Agent:

16.1.1 to execute such documents as may be approved by the Majority Banks for execution by the Agent; and

16.1.2 (whether or not by or through employees or agents) to take such action on such Bank's or, as the case may be, the Swap Provider's behalf and to exercise such rights, remedies, powers and discretions as are specifically delegated to the Agent by this Agreement and/or any other Security Document, together with such powers and discretions as are reasonably incidental thereto.

16.2 Agent's actions

Any action taken by the Agent under or in relation to this Agreement or any of the other Security Documents whether with requisite authority, or on the basis of appropriate instructions, received from the Banks (or as otherwise duly authorised) shall be binding on all the Banks, the Swap Provider and the other Creditors.

16.3 Agent's duties

The Agent shall:

16.3.1 promptly notify each Bank and the Swap Provider of the contents of each notice, certificate or other document received by it from the Borrowers under or pursuant to clauses 8.1.1, 8.1.5, 8.1.6 and 8.1.7; and

- 16.3.2 (subject to the other provisions of this clause 16) take (or instruct the Security Agent to take) such action or, as the case may be, refrain from taking (or authorise the Security Agent to refrain from taking) such action with respect to the exercise of any of its rights, remedies, powers and discretions as agent, as the Majority Banks may direct.

16.4 Agent's rights

The Agent may:

- 16.4.1 in the exercise of any right, remedy, power or discretion in relation to any matter, or in any context, not expressly provided for by this Agreement or any of the other Security Documents, act or, as the case may be, refrain from acting (or authorise the Security Agent to act or refrain from acting) in accordance with the instructions of the Banks, and shall be fully protected in so doing;
- 16.4.2 unless and until it shall have received directions from the Majority Banks, take such action or, as the case may be, refrain from taking such action (or authorise the Security Agent to take or refrain from taking such action) in respect of a Default of which the Agent has actual knowledge as it shall deem advisable in the best interests of the Banks and the Swap Provider (but shall not be obliged to do so);
- 16.4.3 refrain from acting (or authorise the Security Agent to refrain from acting) in accordance with any instructions of the Banks to institute any legal proceedings arising out of or in connection with this Agreement or any of the other Security Documents until it and/or the Security Agent has been indemnified and/or secured to its satisfaction against any and all costs, expenses or liabilities (including legal fees) which it would or might incur as a result;
- 16.4.4 deem and treat (i) each Bank as the person entitled to the benefit of the Contribution of such Bank for all purposes of this Agreement unless and until a Transfer Certificate shall have been filed with the Agent pursuant to clause 15.3 and shall have become effective, and (ii) the office set opposite the name of each of the Banks in schedule 1 or, as the case may be, in any relevant Transfer Certificate as such Bank's lending office unless and until a written notice of change of lending office shall have been received by the Agent and the Agent may act upon any such notice unless and until the same is superseded by a further such notice;
- 16.4.5 rely as to matters of fact which might reasonably be expected to be within the knowledge of any Security Party upon a certificate signed by any director or officer of the relevant Security Party on behalf of the relevant Security Party; and
- 16.4.6 do anything which is in its opinion necessary or desirable to comply with any law or regulation in any jurisdiction.

16.5 No liability of Arrangers or Agent

None of the Arrangers nor the Agent nor any of their respective employees and agents shall:

- 16.5.1 be obliged to make any enquiry as to the use of any of the proceeds of any Advance unless (in the case of the Agent) so required in writing by a Bank, in which case the Agent shall promptly make the appropriate request to the Borrowers; or
- 16.5.2 be obliged to make any enquiry as to any breach or default by either of the Borrowers or any other Security Party in the performance or observance of any of the provisions of this Agreement or any of the other Security Documents or as to the existence of a Default unless the Agent has actual knowledge thereof or has been notified in writing thereof by a Bank or the Swap Provider, in which case the Agent shall promptly notify the Banks of the relevant event or circumstance; or
- 16.5.3 be obliged to enquire whether or not any representation or warranty made by either of the Borrowers or any other Security Party pursuant to this Agreement or any of the other Security Documents is true; or

- 16.5.4 be obliged to do anything (including, without limitation, disclosing any document or information) which would, or might in its opinion, be contrary to any law or regulation or be a breach of any duty of confidentiality or otherwise be actionable or render it liable to any person; or
- 16.5.5 be obliged to account to any Bank or the Swap Provider for any sum or the profit element of any sum received by it for its own account; or
- 16.5.6 be obliged to institute any legal proceedings arising out of or in connection with this Agreement or any of the other Security Documents other than on the instructions of the Majority Banks; or
- 16.5.7 be liable to any Bank or the Swap Provider for any action taken or omitted under or in connection with this Agreement or any of the other Security Documents unless caused by its gross negligence or wilful misconduct.

For the purposes of this clause 16, none of the Arrangers nor the Agent shall be treated as having actual knowledge of any matter of which the corporate finance or any other division outside the agency or loan administration department of any Arranger or the person for the time being acting as the Agent may become aware in the context of corporate finance, advisory or lending activities from time to time undertaken by any Arranger or, as the case may be, the Agent for any Security Party or any other person which may be a trade competitor of any Security Party or may otherwise have commercial interests similar to those of any Security Party.

16.6 Non-reliance on Arrangers or Agent

Each Bank and the Swap Provider acknowledges that it has not relied on any statement, opinion, forecast or other representation made by any Arranger or the Agent to induce it to enter into this Agreement or any of the other Security Documents and that it has made and will continue to make, without reliance on the Arrangers or the Agent and based on such documents as it considers appropriate, its own appraisal of the creditworthiness of the Security Parties and its own independent investigation of the financial condition, prospects and affairs of the Security Parties in connection with the making and continuation of such Bank's Commitment or Contribution under this Agreement. None of the Arrangers nor the Agent shall have any duty or responsibility, either initially or on a continuing basis, to provide any other Creditor with any credit or other information with respect to any Security Party whether coming into its possession before the making of any Advance or at any time or times thereafter other than as provided in clause 16.3.1.

16.7 No responsibility on Arrangers or Agent for Borrowers' performance

None of the Arrangers nor the Agent shall have any responsibility or liability to any other Creditor:

- 16.7.1 on account of the failure of any Security Party to perform its obligations under any of the Security Documents; or
- 16.7.2 for the financial condition of any Security Party; or
- 16.7.3 for the completeness or accuracy of any statements, representations or warranties in any of the Security Documents or any document delivered under any of the Security Documents; or
- 16.7.4 for the execution, effectiveness, adequacy, genuineness, validity, enforceability or admissibility in evidence of any of the Security Documents or of any certificate, report or other document executed or delivered under any of the Security Documents; or
- 16.7.5 to investigate or make any enquiry into the title of either of the Borrowers or any other Security Party to the Ships or any other security or any part thereof; or

- 16.7.6 for the failure to register any of the Security Documents with any official or regulatory body or office or elsewhere; or
- 16.7.7 for taking or omitting to take any other action under or in relation to any of the Security Documents or any aspect of any of the Security Documents; or
- 16.7.8 on account of the failure of the Security Agent to perform or discharge any of its duties or obligations under the Security Documents; or
- 16.7.9 otherwise in connection with this Agreement or its negotiation or for acting (or, as the case may be, refraining from acting) in accordance with the instructions of the Banks.

16.8 Reliance on documents and professional advice

Each of the Arrangers and the Agent shall be entitled to rely on any communication, instrument or document believed by it to be genuine and correct and to have been signed or sent by the proper person and shall be entitled to rely as to legal or other professional matters on opinions and statements of any legal or other professional advisers selected or approved by it (including those in an Arranger's or, as the case may be, the Agent's employment).

16.9 Other dealings

Each of the Arrangers and the Agent may, without any liability to account to any other Creditor, accept deposits from, lend money to, and generally engage in any kind of banking or other business with, and provide advisory or other services to, any Security Party or any of its Related Companies or any of the other Creditors as if it was not an Arranger or, as the case may be, the Agent.

16.10 Rights of Agent as Bank; no partnership

With respect to its own Commitment and Contribution (if any) the Agent shall have the same rights and powers under the Security Documents as any other Bank and may exercise the same as though it were not performing the duties and functions delegated to it under this Agreement and the term "**Banks**" shall, unless the context clearly otherwise indicates, include the Agent in its individual capacity as a Bank. This Agreement shall not and shall not be construed so as to constitute a partnership between the parties or any of them.

16.11 Amendments and waivers

- 16.11.1 Subject to clause 16.11.2, the Agent may, with the written consent of the Majority Banks (or if and to the extent expressly authorised by the other provisions of any of the Security Documents) and, if so instructed by the Majority Banks, shall:

- (a) agree (or authorise the Security Agent to agree) amendments or modifications to any of the Security Documents with any Security Party; and/or
- (b) waive breaches of, or defaults under, or otherwise excuse performance of, any provision of any of the other Security Documents by any Security Party (or authorise the Security Agent to do so).

Any such action so authorised and effected by the Agent shall be documented in such manner as the Agent shall (with the approval of the Majority Banks) determine, shall be promptly notified to the Banks by the Agent and (without prejudice to the generality of clause 16.2) shall be binding on all the other Creditors.

- 16.11.2 Except with the prior written consent of all the Banks, the Agent shall have no authority on behalf of the Banks to agree (or authorise the Security Agent to agree) with any Security Party any amendment or modification to any of the Security Documents or to grant (or authorise the Security Agent to grant) waivers in respect of breaches or defaults or to vary or excuse (or authorise the Security Agent to vary or excuse) performance of or under any of the Security Documents by any Security Party, if the effect of such amendment, modification, waiver or excuse would be to:

- (a) reduce the Margin;
- (b) vary or postpone the due date or reduce the amount of any payment of principal, interest or other amount payable by any Security Party under any of the Security Documents;
- (c) change the currency in which any amount is payable by any Security Party under any of the Security Documents;
- (d) increase any Bank's Commitment;
- (e) extend the Termination Date;
- (f) change any provision of any of the Security Documents which expressly or implied requires the approval or consent of all the Banks such that the relevant approval or consent may be given otherwise than with the sanction of all the Banks;
- (g) change the order of distribution under clause 6.9 or clause 13.1;
- (h) change this clause 16.11;
- (i) change the definition of "**Majority Banks**" in clause 1.2; or
- (j) release any Security Party from the security constituted by any Security Document (except as required by the terms thereof or by law) or change the terms and conditions upon which such security or guarantee may be, or is required to be, released.

16.12 Reimbursement and indemnity by Banks

Each Bank shall reimburse the Agent (rateably in accordance with such Bank's Commitment or, following the first drawdown, Contribution), to the extent that the Agent is not reimbursed by the Borrowers, for the costs, charges and expenses incurred by the Agent which are expressed to be payable by the Borrowers under clause 5.2 including (in each case) the fees and expenses of legal or other professional advisers. Each Bank shall on demand indemnify the Agent (rateably in accordance with such Bank's Commitment or, following the first drawdown, Contribution) against all liabilities, damages, costs and claims whatsoever incurred by the Agent in connection with any of the Security Documents or the performance of its duties under any of the Security Documents or any action taken or omitted by the Agent under any of the Security Documents, unless such liabilities, damages, costs or claims arise from the Agent's own gross negligence or wilful misconduct.

16.13 Retirement of Agent

- 16.13.1 The Agent may, (having given to the Borrowers, each of the Banks and the Swap Provider not less than fifteen (15) days' notice of its intention to do so), retire from its appointment as Agent under this Agreement, provided that no such retirement shall take effect unless there has been appointed by the Banks and the Swap Provider as a successor agent:
- (a) a Related Company of the Agent nominated by the Agent which the Banks hereby irrevocably and unconditionally agree to appoint or, failing such a nomination,
 - (b) a Bank nominated within a period of twenty eight (28) days by the Majority Banks or, failing such a nomination,
 - (c) any reputable bank or financial institution experienced in shipping finance nominated by the retiring Agent.

Any corporation into which the retiring Agent may be merged or converted or any corporation with which the Agent may be consolidated or any corporation resulting from any merger, conversion, amalgamation, consolidation or other reorganisation to which the Agent shall be a party shall, to the extent permitted by applicable law, be the successor Agent under this Agreement and the other Security Documents without the execution or filing of any document or any further act on the part of any of the parties to this Agreement and the other Security Documents save that notice of any such merger, conversion, amalgamation, consolidation or other reorganisation shall forthwith be given to each Security Party, the Banks and the Swap Provider. Prior to any such successor being appointed, the Agent agrees to consult with the Borrowers as to the identity of the proposed successor and to take account of any reasonable objections which the Borrowers may raise to such successor being appointed.

- 16.13.2 Upon any such successor as aforesaid being appointed, the retiring Agent shall be discharged from any further obligation under the Security Documents (but shall continue to have the benefit of this clause 16 in respect of any action it has taken or refrained from taking prior to such discharge) and its successor and each of the other parties to this Agreement shall have the same rights and obligations among themselves as they would have had if such successor had been a party to this Agreement in place of the retiring Agent. The retiring Agent shall (at the expense of the Borrowers) provide its successor with copies of such of its records as its successor reasonably requires to carry out its functions under the Security Documents.

16.14 Appointment and retirement of Security Agent

16.14.1 Appointment

Each of the Agent, the Swap Provider and the Banks irrevocably appoints the Security Agent as its security agent and trustee for the purposes of this Agreement and the other Security Documents on the terms set out in this Agreement. By virtue of such appointment, the Agent, the Swap Provider and each of the Banks hereby authorises the Security Agent (whether or not by or through employees or agents) to take such action on its behalf and to exercise such rights, remedies, powers and discretions as are specifically delegated to the Security Agent by this Agreement and/or any of the other Security Documents together with such powers and discretions as are reasonably incidental thereto.

16.14.2 Retirement

- (a) Without prejudice to clause 16.13, the Security Agent may, having given to the Borrowers and each of the Banks and the Swap Provider not less than fifteen (15) days' notice of its intention to do so, retire from its appointment as Security Agent under this Agreement and any Trust Deed, provided that no such retirement shall take effect unless there has been appointed by the Banks, the Agent and the Swap Provider as a successor security agent and trustee:
- (i) a Related Company of the Security Agent nominated by the Security Agent which the Banks hereby irrevocably and unconditionally agree to appoint or, failing such nomination,
 - (ii) a bank or trust corporation nominated by the Majority Banks or, failing such a nomination,
 - (iii) any bank or trust corporation nominated by the retiring Security Agent,

and, in any case (A) such successor security agent and trustee shall have duly accepted such appointment by delivering to the Agent (1) written confirmation (in a form acceptable to the Agent) of such acceptance agreeing to be bound by this Agreement in the capacity of Security Agent as if it had been an original party to this Agreement and (2) a duly executed Trust Deed and (B) such successor security agent and trustee shall have duly entered into, whether with the retiring Security Agent and/or with the Borrowers and/or with the Creditors or with any of them, such documents in connection with the Security Documents as the Agent shall require in its absolute discretion.

- (b) Any corporation into which the retiring Security Agent may be merged or converted or any corporation with which the Security Agent may be consolidated or any corporation resulting from any merger, conversion, amalgamation, consolidation or other reorganisation to which the Security Agent shall be a party shall, to the extent permitted by applicable law, be the successor Security Agent under this Agreement, any Trust Deed and the other Security Documents without the execution or filing of any document or any further act on the part of any of the parties to this Agreement, any Trust Deed and the other Security Documents save that notice of any such merger, conversion, amalgamation, consolidation or other reorganisation shall forthwith be given to each Security Party, the Banks, the Agent and the Swap Provider. Prior to any such successor being appointed, the Security Agent agrees to consult with the Borrowers as to the identity of the proposed successor and to take account of any reasonable objections which the Borrowers may raise to such successor being appointed.
- (c) Upon any such successor as aforesaid being appointed, the retiring Security Agent shall be discharged from any further obligation under the Security Documents (but shall continue to have the benefit of this clause 16 in respect of any action it has taken or refrained from taking prior to such discharge) and its successor and each of the other parties to this Agreement shall have the same rights and obligations among themselves as they would have had if such successor had been a party to this Agreement in place of the retiring Security Agent. The retiring Security Agent shall (at the expense of the Borrowers) provide its successor with copies of such of its records as its successor reasonably requires to carry out its functions under the Security Documents.

16.15 Powers and duties of the Security Agent

16.15.1 The Security Agent shall have no duties, obligations or liabilities to the Agent, the Swap Provider or any of the Banks beyond those expressly stated in any of the Security Documents. The Agent, the Swap Provider and each of the Banks hereby authorises the Security Agent to enter into and execute:

- (a) each of the Security Documents to which the Security Agent is or is intended to be a party; and
- (b) any and all such other Security Documents as may be approved by the Agent in writing (acting on the instructions of the Majority Banks) for entry into by the Security Agent,

and, in each and every case, to hold any and all security thereby created upon trust for the Banks, the Agent and the Swap Provider in the manner contemplated by this Agreement.

16.15.2 Subject to clause 16.15.3 the Security Agent may, with the prior consent of the Majority Banks communicated in writing by the Agent, concur with any of the Security Parties to:

- (a) amend, modify or otherwise vary any provision of the Security Documents to which the Security Agent is or is intended to be a party; or
- (a) waive breaches of, or defaults under, or otherwise excuse performance of, any provision of the Security Documents to which the Security Agent is or is intended to be a party.

Any such action so authorised and effected by the Security Agent shall be promptly notified to the Banks, the Agent and the Swap Provider by the Security Agent and shall be binding on all the Creditors.

- 16.15.3 The Security Agent shall not concur with any Security Party with respect to any of the matters described in clause [16.11.2](#) without the consent of all the Banks communicated in writing by the Agent.
- 16.15.4 The Security Agent shall (subject to the other provisions of this clause 16) take such action or, as the case may be, refrain from taking such action, with respect to any of its rights, powers and discretions as security agent and trustee, as the Agent may direct. Subject as provided in the foregoing provisions of this clause, unless and until the Security Agent shall have received such instructions from the Agent, the Security Agent may, but shall not be obliged to, take (or refrain from taking) such action under or pursuant to the Security Documents referred to in clause 16.15.1 as the Security Agent shall deem advisable in the best interests of the Creditors provided that (for the avoidance of doubt), to the extent that this clause might otherwise be construed as authorising the Security Agent to take, or refrain from taking, any action of the nature referred to in clause [16.15.2](#) - and for which the prior consent of the Banks is expressly required under clause [16.15.3](#) - clauses [16.15.2](#) and [16.15.3](#) shall apply to the exclusion of this clause.
- 16.15.5 None of the Banks nor the Swap Provider nor the Agent shall have any independent power to enforce any of the Security Documents referred to in clause 16.15.1 or to exercise any rights, discretions or powers or to grant any consents or releases under or pursuant to such Security Documents or otherwise have direct recourse to the security and/or guarantees constituted by such Security Documents except through the Security Agent.
- 16.15.6 For the purpose of this clause 16, the Security Agent may, rely and act in reliance upon any information from time to time furnished to the Security Agent by the Agent (whether pursuant to clause [16.15.7](#) or otherwise) unless and until the same is superseded by further such information, so that the Security Agent shall have no liability or responsibility to any party as a consequence of placing reliance on and acting in reliance upon any such information unless the Security Agent has actual knowledge that such information is inaccurate or incorrect.
- 16.15.7 Without prejudice to the foregoing, each of the Agent, the Swap Provider and the Banks (whether directly or through the Agent) shall provide the Security Agent with such written information as it may reasonably require for the purpose of carrying out its duties and obligations under the Security Documents referred to in clause 16.15.1.
- 16.15.8 Each Bank shall reimburse the Security Agent (rateably in accordance with such Bank's Commitment or, following the first drawdown, Contribution), to the extent that the Security Agent is not reimbursed by the Borrowers, for the costs, charges and expenses incurred by the Agent which are expressed to be payable by the Borrowers under clause 5.2 including (in each case) the fees and expenses of legal or other professional advisers. Each Bank shall on demand indemnify the Security Agent (rateably in accordance with such Bank's Commitment or, following the first drawdown, Contribution) against all liabilities, damages, costs and claims whatsoever incurred by the Security Agent in connection with any of the Security Documents or the performance of its duties under any of the Security Documents or any action taken or omitted by the Security Agent under any of the Security Documents, unless such liabilities, damages, costs or claims arise from the Security Agent's own gross negligence or wilful misconduct.

16.16 Trust provisions

- 16.16.1 The trusts constituted or evidenced in or by this Agreement and the Trust Deed shall remain in full force and effect until whichever is the earlier of:
- (a) the expiration of a period of eighty (80) years from the date of this Agreement; and
 - (b) receipt by the Security Agent of confirmation in writing by the Agent that there is no longer outstanding any Indebtedness (actual or contingent) which is secured or guaranteed or otherwise assured by or under any of the Security Documents, and the parties to this Agreement declare that the perpetuity period applicable to this Agreement and the trusts declared by the Trust Deed shall for the purposes of the Perpetuities and Accumulations Act 1964 be the period of eighty (80) years from the date of this Agreement.

- 16.16.2 In its capacity as trustee in relation to the Security Documents specified in clause 16.15.1 the Security Agent shall, without prejudice to any of the powers, discretions and immunities conferred upon trustees by law (and to the extent not inconsistent with the provisions of any of those Security Documents), have all the same powers and discretions as a natural person acting as the beneficial owner of such property and/or as are conferred upon the Security Agent by any of those Security Documents.
- 16.16.3 It is expressly declared that, in its capacity as trustee in relation to the Security Documents specified in clause 16.15.1, the Security Agent shall be entitled to invest moneys forming part of the security and which, in the opinion of the Security Agent, may not be paid out promptly following receipt in the name or under the control of the Security Agent in any of the investments for the time being authorised by law for the investment by trustees of trust moneys or in any other property or investments whether similar to the aforesaid or not or by placing the same on deposit in the name or under the control of the Security Agent as the Security Agent may think fit without being under any duty to diversify its investments and the Security Agent may at any time vary or transpose any such property or investments for or into any others of a like nature and shall not be responsible for any loss due to depreciation in value or otherwise of such property or investments. Any investment of any part of all of the security may, at the discretion of the Security Agent, be made or retained in the names of nominees.

16.17 Independent action by Creditors

None of the Creditors shall enforce, exercise any rights, remedies or powers or grant any consents or releases under or pursuant to, or otherwise have a direct recourse to the security and/or guarantees constituted by any of the Security Documents without the prior written consent of the Majority Banks but, Provided such consent has been obtained, it shall not be necessary for any other Creditor to be joined as an additional party in any proceedings for this purpose.

16.18 Common Agent and Security Agent

The Agent and the Security Agent have entered into the Security Documents in their separate capacities (a) as agent for the Banks and the Swap Provider under and pursuant to this Agreement (in the case of the Agent) and (b) as security agent and trustee for the Agent, the Banks and the Swap Provider, under and pursuant to this Agreement, to hold the guarantees and/or security created by the other Security Documents specified in clause 16.15.1 on the terms set out in such Security Documents (in the case of the Security Agent). However, from time to time the Agent and the Security Agent may be the same entity. When the Agent and the Security Agent are the same entity and any Security Document provides for the Agent to communicate with or provide instructions to the Security Agent (and vice versa), it will not be necessary for there to be any such formal communications or instructions on those occasions.

16.19 Co-operation to achieve agreed priorities of application

The Banks, the Agent, the Swap Provider and the Account Bank shall co-operate with each other and with the Security Agent and any receiver under the Security Documents in realising the property and assets subject to the Security Documents and in ensuring that the net proceeds realised under the Security Documents after deduction of the expenses of realisation are applied in accordance with clause 13.1.

16.20 Prompt distribution of proceeds

Moneys received by any of the Creditors (whether from a receiver or otherwise) pursuant to the exercise of (or otherwise by virtue of the existence of) any rights and powers under or pursuant to any of the Security Documents shall (after providing for all costs, charges, expenses and liabilities and other payments ranking in priority) be paid to the Agent for distribution (in the case of moneys so received by any of the Creditors other than the Agent or the Security Agent) and shall be distributed by the Agent or, as the case may be, the Security Agent (in the case of moneys so received by the Agent or, as the case may be, the Security Agent) in each case in accordance with clause 13.1. The Agent or, as the case may be, the Security Agent shall make each such application and/or distribution as soon as is practicable after the relevant moneys are received by, or otherwise become available to, the Agent or, as the case may be, the Security Agent save that (without prejudice to any other provision contained in any of the Security Documents) the Agent or, as the case may be, the Security Agent (acting on the instructions of the Majority Banks) or any receiver may credit any moneys received by it to a suspense account for so long and in such manner as the Agent or such receiver may from time to time determine with a view to preserving the rights of the Agent and/or the Security Agent and/or the Account Bank and/or the Swap Provider and/or the Arrangers and/or the Banks or any of them to provide for the whole of their respective claims against the Borrowers or any other person liable.

17 Notices and other matters

17.1 Notices

Every notice, request, demand or other communication under this Agreement or (unless otherwise provided therein) under any of the other Security Documents shall:

- 17.1.1 be in writing delivered personally or by first-class prepaid letter (airmail if available) or facsimile transmission or other means of telecommunication in permanent written form;
- 17.1.2 be deemed to have been received, subject as otherwise provided in the relevant Security Document, in the case of a letter, when delivered personally or three (3) days after it has been put in to the post and, in the case of a facsimile transmission or other means of telecommunication in permanent written form, at the time of despatch (provided that if the date of despatch is not a business day in the country of the addressee or if the time of despatch is after the close of business in the country of the addressee it shall be deemed to have been received at the opening of business on the next such business day); and
- 17.1.3 be sent:
- (a) if to the Borrowers or either of them at:

c/o Diana Shipping Services S.A.
Pendelis 16
Palaio Faliro
175 64 Athens
Greece

Fax no: +30 210 942 4975
Attention: Mr Andreas Michalopoulos
 - (b) if to the Agent, the Security Agent or the Account Bank at:

(b) DnB NOR Bank ASA
20 St. Dunstan's Hill
London EC3R 8HY
England

Fax No: +44 207 626 5956
Attention: Shipping Department
 - (c) in the case of a Bank (or an Arranger who is also a Bank), to its address or facsimile number specified in schedule 1 or in any relevant Transfer Certificate; or

- (d) in the case of the Swap Provider, to its address or fax number specified in paragraph (a) of Part 4 of the Schedule to the Master Swap Agreement,

or to such other address and/or numbers as is notified by one party to the other parties under this Agreement.

17.2 Notices through the Agent

Every notice, request, demand or other communication under this Agreement to be given by the Borrowers to any other party (other than the Swap Provider) shall be given to the Agent for onward transmission as appropriate and if such notice, request, demand or other communication is to be given to the Borrowers it shall (except if otherwise provided in the Security Documents) be given through the Agent.

17.3 No implied waivers, remedies cumulative

No failure or delay on the part of any Creditor to exercise any power, right or remedy under any of the Security Documents shall operate as a waiver thereof, nor shall any single or partial exercise by any Creditor of any power, right or remedy preclude any other or further exercise thereof or the exercise of any other power, right or remedy. The remedies provided in the Security Documents are cumulative and are not exclusive of any remedies provided by law.

17.4 English language

All certificates, instruments and other documents to be delivered under or supplied in connection with any of the Security Documents shall be in the English language or shall be accompanied by a certified English translation upon which the Creditors or any of them shall be entitled to rely.

17.5 Borrowers' obligations

17.5.1 Joint and several

Notwithstanding anything to the contrary contained in any of the Security Documents, the agreements, obligations and liabilities of the Borrowers herein contained are joint and several and shall be construed accordingly. Each of the Borrowers agrees and consents to be bound by the Security Documents to which it is, or is to be, a party notwithstanding that the other Borrower which is intended to sign or to be bound may not do so or be effectually bound and notwithstanding that any of the Security Documents may be invalid or unenforceable against the other Borrower, whether or not the deficiency is known to any of the Creditors.

17.5.2 Borrowers as principal debtors

Each Borrower acknowledges and confirms that it is a principal and original debtor in respect of all amounts which may become payable by the Borrowers in accordance with the terms of this Agreement or any of the other Security Documents and agrees that the Creditors may also continue to treat it as such, whether or not any Creditor is or becomes aware that such Borrower is or has become a surety for the other Borrower.

17.5.3 Indemnity

The Borrowers hereby agree jointly and severally to keep the Creditors fully indemnified on demand against all damages, losses, costs and expenses arising from any failure of either Borrower to perform or discharge any purported obligation or liability of a Borrower which would have been the subject of this Agreement or any other Security Document had it been valid and enforceable and which is not or ceases to be valid and enforceable against a Borrower on any ground whatsoever, whether or not known to a Creditor (including, without limitation, any irregular exercise or absence of any corporate power or lack of authority of, or breach of duty by, any person purporting to act on behalf of a Borrower (or any legal or other limitation, whether under the Limitation Acts or otherwise or any disability or death, bankruptcy, unsoundness of mind, insolvency, liquidation, dissolution, winding up, administration, receivership, amalgamation, reconstruction or any other incapacity of any person whatsoever (including, in the case of a partnership, a termination or change in the composition of the partnership) or any change of name or style or constitution of any Security Party)).

17.5.4 Liability unconditional

None of the obligations or liabilities of the Borrowers under this Agreement or any other Security Document shall be discharged or reduced by reason of:

- (a) the death, bankruptcy, unsoundness of mind, insolvency, liquidation, dissolution, winding-up, administration, receivership, amalgamation, reconstruction or other incapacity of any person whatsoever (including, in the case of a partnership, a termination or change in the composition of the partnership) or any change of name or style or constitution of a Borrower or any other person liable;
- (b) the Agent (acting on the instructions of the Majority Banks) or the Security Agent granting any time, indulgence or concession to, or compounding with, discharging, releasing or varying the liability of, a Borrower or any other person liable or renewing, determining, varying or increasing any accommodation, facility or transaction or otherwise dealing with the same in any manner whatsoever or concurring in, accepting, varying any compromise, arrangement or settlement or omitting to claim or enforce payment from a Borrower or any other person liable; or
- (c) anything done or omitted which but for this provision might operate to exonerate the Borrowers or either of them.

17.5.5 Recourse to other security

The Creditors shall not be obliged to make any claim or demand or to resort to any Security Document or other means of payment now or hereafter held by or available to it for enforcing this Agreement or any of the Security Documents against a Borrower or any other person liable and no action taken or omitted by any Creditor in connection with any such Security Document or other means of payment will discharge, reduce, prejudice or affect the liability of the Borrowers under this Agreement and the Security Documents to which either of them is, or is to be, a party.

17.5.6 Waiver of Borrowers' rights

Each Borrower agrees with each Creditor that, from the date of this Agreement and so long as any moneys are owing under any of the Security Documents and while all or any part of the Total Commitment remains outstanding, it will not, without the prior written consent of the Agent (acting on the instructions of the Majority Banks):

- (a) exercise any right of subrogation, reimbursement and indemnity against the other Borrower or any other person liable under the Security Documents;
- (b) demand or accept repayment in whole or in part of any Indebtedness now or hereafter due to such Borrower from the other Borrower or from any other person liable or demand or accept any guarantee, indemnity or other assurance against financial loss or any document or instrument created or evidencing an Encumbrance in respect of the same or dispose of the same;
- (c) take any steps to enforce any right against any other Borrower or any other person liable in respect of any such moneys; or
- (d) claim any set-off or counterclaim against the other Borrower or any other person liable or claiming or proving in competition with any Creditor in the liquidation of any other Borrower or any other person liable or have the benefit of, or share in, any payment from or composition with, the other Borrower or any other person liable or any other Security Document now or hereafter held by any Creditor for any moneys owing under this Agreement or for the obligations or liabilities of any other person liable but so that, if so directed by the Agent, it will prove for the whole or any part of its claim in the liquidation of any other Borrower or other person liable on terms that the benefit of such proof and all money received by it in respect thereof shall be held on trust for the Banks and applied in or towards discharge of any moneys owing under this Agreement in such manner as the Agent (acting on the instructions of the Majority Banks) shall deem appropriate.

18 Governing law and jurisdiction

18.1 Law

This Agreement and any non-contractual obligations connected with it are governed by, and shall be construed in accordance with, English law.

18.2 Submission to jurisdiction

The Borrowers jointly and severally agree, for the benefit of each Creditor, that any legal action or proceedings arising out of or in connection with this Agreement (including any non-contractual obligations connected with this Agreement) against the Borrowers or either of them or any of their assets may be brought in the English courts. Each of the Borrowers irrevocably and unconditionally submits to the jurisdiction of such courts and irrevocably designates, appoints and empowers A. Nicolaou & Co at present of Heath Drive, Potters Road, Herts EN6 1EN, England to receive for it and on its behalf, service of process issued out of the English courts in any such legal action or proceedings. The submission to such jurisdiction shall not (and shall not be construed so as to) limit the right of any Creditor to take proceedings against either of the Borrowers in the courts of any other competent jurisdiction nor shall the taking of proceedings in any one or more jurisdictions preclude the taking of proceedings in any other jurisdiction, whether concurrently or not.

The parties further agree that only the courts of England and not those of any other State shall have jurisdiction to determine any claim which either of the Borrowers may have against any Creditor arising out of or in connection with this Agreement (including any non-contractual obligations connected with this Agreement).

18.3 Contracts (Rights of Third Parties) Act 1999

No term of this Agreement is enforceable under the Contracts (Rights of Third Parties) Act 1999 by a person who is not a party to this Agreement.

IN WITNESS whereof the parties to this Agreement have caused this Agreement to be duly executed on the date first above written.

SIGNED by Andre-Nikolaos)	
Michalopoulos)	
for and on behalf of	)	<u>/s/ Andre-Nikolaos Michalopoulos</u>
LAE SHIPPING COMPANY INC.	)	Attorney-in-fact
as Borrower)	

SIGNED by Ioannis Zafirakis)	
for and on behalf of	)	<u>/s/ Ioannis Zafirakis</u>
NAMU SHIPPING COMPANY INC.	)	Attorney-in-fact
as Borrower)	

SIGNED by Yianni Cheilas)	
for and on behalf of	)	<u>/s/ Yianni Cheilas</u>
DNB NOR BANK ASA	)	Attorney-in-fact
as Arranger, Agent, Security Agent,)	
Swap Provider and Account Bank)	

SIGNED by Yianni Cheilas)	
for and on behalf of	)	<u>/s/ Yianni Cheilas</u>
DNB NOR BANK ASA	)	Attorney-in-fact
as Bank)	

SIGNED by Li Ruogu)	
for and on behalf of	)	<u>/s/ Li Ruogu</u>
THE EXPORT-IMPORT BANK OF CHINA	)	Chairman and President
as Arranger)	

SIGNED by Li Ruogu)	
for and on behalf of)	<u>/s/ Li Ruogu</u>
THE EXPORT-IMPORT BANK OF CHINA)	Chairman and President
as Bank)	

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SUBSIDIARIES AS AT DECEMBER 31, 2010

Subsidiary	Country of Incorporation
Ailuk Shipping Company Inc.	Marshall Islands
Bikini Shipping Company Inc.	Marshall Islands
Diana Containerships Inc. (*)	Marshall Islands
Gala Properties Inc.	Marshall Islands
Jaluit Shipping Company Inc.	Marshall Islands
Kili Shipping Company Inc.	Marshall Islands
Knox Shipping Company Inc.	Marshall Islands
Lae Shipping Company Inc.	Marshall Islands
Lib Shipping Company Inc.	Marshall Islands
Majuro Shipping Company Inc.	Marshall Islands
Namu Shipping Company Inc.	Marshall Islands
Taka Shipping Company Inc.	Marshall Islands
Husky Trading, S.A.	Panama
Buenos Aires Compania Armadora S.A.	Panama
Cerada International S.A.	Panama
Changame Compania Armadora S.A.	Panama
Chorrera Compania Armadora S.A.	Panama
Cypres Enterprises Corp.	Panama
Darien Compania Armadora S.A.	Panama
Diana Shipping Services S.A.	Panama
Eaton Marine S.A.	Panama
Panama Compania Armadora S.A.	Panama
Skyvan Shipping Company S.A.	Panama
Texford Maritime S.A.	Panama
Urbina Bay Trading, S.A.	Panama
Vesta Commercial, S.A.	Panama
Marfort Navigation Company Limited	Cyprus
Silver Chandra Shipping Company Limited	Cyprus
Bulk Carriers (USA) LLC	United States (Delaware)

(*) No longer a significant subsidiary as of the date of this filing. Diana Containerships Inc. wholly owns Likiep Shipping Company Inc., Orangina Inc. and Lemongina Inc., all of which are incorporated in the Marshall Islands.

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**CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO RULE 13a-14(a) AND 15d-14(a), AS AMENDED**

I, Simeon Palios, certify that:

1. I have reviewed this annual report on Form 20-F of Diana Shipping Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 30, 2011

/s/ Simeon Palios

Simeon Palios

Chairman and Chief Executive Officer (Principal Executive Officer)

**CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER
PURSUANT TO RULE 13a-14(a) AND 15d-14(a), AS AMENDED**

I, Andreas Michalopoulos, certify that:

1. I have reviewed this annual report on Form 20-F of Diana Shipping Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: March 30, 2011

/s/ Andreas Michalopoulos
Andreas Michalopoulos
Chief Financial Officer (Principal Financial Officer)

**PRINCIPAL EXECUTIVE OFFICER CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with this Annual Report of Diana Shipping Inc. (the "Company") on Form 20-F for the year ended December 31, 2010, as filed with the Securities and Exchange Commission (the "SEC") on or about the date hereof (the "Report"), I, Simeon Palios, the Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

A signed original of this written statement has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

Date: March 30, 2011

/s/ Simeon Palios

Simeon Palios

Chairman and Chief Executive Officer (Principal Executive Officer)

**PRINCIPAL FINANCIAL OFFICER CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with this Annual Report of Diana Shipping Inc. (the "Company") on Form 20-F for the year ended December 31, 2010, as filed with the Securities and Exchange Commission (the "SEC") on or about the date hereof (the "Report"), I, Andreas Michalopoulos, the Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

A signed original of this written statement has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

Date: March 30, 2011

/s/ Andreas Michalopoulos

Andreas Michalopoulos

Chief Financial Officer (Principal Financial Officer)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form F-3D No. 333-150406) of Diana Shipping Inc., and
- (2) Registration Statement (Form F-3ASR No. 333-159016) of Diana Shipping Inc.

of our report dated March 30, 2011, with respect to the consolidated financial statements of Diana Shipping Inc. and our report dated March 30, 2011 with respect to the effectiveness of internal control over financial reporting of Diana Shipping Inc. included in this Annual Report (Form 20-F) of Diana Shipping Inc. for the year ended December 31, 2010.

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

March 30, 2011
Athens, Greece

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