

Ardmore Shipping Corp  
Form 20-F  
March 29, 2018

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 20-F**

(Mark One)

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

**OR**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended **December 31, 2017**

**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**

OR

Edgar Filing: Ardmore Shipping Corp - Form 20-F

Date of event requiring this shell company report

Commission file number: 001-36028

# **ARDMORE SHIPPING CORPORATION**

(Exact name of Registrant as specified in its charter)

## **Republic of the Marshall Islands**

(Jurisdiction of incorporation or organization)

**Belvedere Building, 69 Pitts Bay Road, Ground Floor,  
Pembroke, HM08, Bermuda**

(Address of principal executive offices)

**Mr. Anthony Gurnee  
Belvedere Building, 69 Pitts Bay Road, Ground Floor,  
Pembroke, HM08, Bermuda  
+ 1 441 292-9332  
info@ardmoreshipping.com**

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

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

Title of each class

**Common stock, par value \$0.01 per share**

Name of each exchange on which registered

**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**

(Title of class)

---

TABLE OF CONTENTS

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, 2017, there were 32,139,956 shares of common stock outstanding, par value \$0.01 per share.**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes  No

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, a non-accelerated filer or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, and emerging growth company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

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

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

International Financial Reporting Standards as issued by the international Accounting Standards Board  
 U.S. GAAP  
 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

TABLE OF CONTENTS

**TABLE OF CONTENTS**

PART I

Item 1.

3

Identity of Directors, Senior Management and Advisors

Item 2.

3

Offer Statistics and Expected Timetable

Item 3.

3

Key Information

Item 4.

25

Information on the Company

Item 4.A.

52

Unresolved Staff Comments

Item 5.

52

Operating and Financial Review and Prospects

Item 6.

65

Directors, Senior Management and Employees

Item 7.

70

Major Shareholders and Related Party Transactions

Item 8.

73

Financial Information

Item 9.

73

The Offer and Listing

Item 10.

74

Additional Information

Item 11.

82

Quantitative and Qualitative Disclosures about Market Risks

Item 12.

83

Description of Securities Other than Equity Securities

PART II  
Item 13.

83

Defaults, Dividend Arrearages and Delinquencies

<u>Item 14.</u>	<u>83</u>
<u>Material Modifications to the Rights of Shareholders and Use of Proceeds</u>	
<u>Item 15.</u>	<u>83</u>
<u>Controls and Procedures</u>	
<u>Item 16.</u>	<u>84</u>
<u>Reserved</u>	
<u>Item 16.A.</u>	<u>84</u>
<u>Audit Committee Financial Expert</u>	
<u>Item 16.B.</u>	<u>84</u>
<u>Code of Ethics</u>	
<u>Item 16.C.</u>	<u>84</u>
<u>Principal Accountant Fees and Services</u>	
<u>Item 16.D.</u>	<u>84</u>
<u>Exemptions from the Listing Standards for Audit Committees</u>	
<u>Item 16.E.</u>	<u>84</u>
<u>Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	
<u>Item 16.F.</u>	<u>85</u>
<u>Change in Registrant's Certifying Accountant</u>	
<u>Item 16.G.</u>	<u>85</u>
<u>Corporate Governance</u>	
<u>Item 16.H.</u>	<u>85</u>
<u>Mine Safety Disclosures</u>	
<u>Item 17.</u>	<u>85</u>
<u>Financial Statements</u>	
<u>Item 18.</u>	<u>85</u>
<u>Financial Statements</u>	
<u>Item 19.</u>	<u>86</u>
<u>Exhibits</u>	
<u>INDEX TO FINANCIAL STATEMENTS OF ARDMORE SHIPPING CORPORATION</u>	<u>F-1</u>

TABLE OF CONTENTS

## FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides safe harbor protections for forward-looking statements in order to encourage companies to provide prospective information about their business. We desire to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and are including this cautionary statement in connection with such safe harbor legislation.

This Annual Report and any other written or oral statements made by us or on our behalf may include forward-looking statements which reflect our current views and assumptions with respect to future events and financial performance and are subject to risks and uncertainties. Forward-looking statements include statements concerning plans, objectives, goals, expectations, projections, strategies, beliefs about future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts. In some cases, words such as believe, anticipate, intends, estimate, forecast, project, plan, potential, will, may, should, expect and intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

Forward-looking statements in this Annual Report include, among others, such matters as:

- our future operating or financial results;
- global and regional economic and political conditions;
- the strength of national economies and currencies;
- general market conditions;
- our vessel acquisitions and upgrades, our business strategy and expected capital spending or operating expenses, including bunker prices, drydocking and insurance costs;
- competition in the tanker industry;
- shipping market trends and general market conditions, including fluctuations in charter rates and vessel values and changes in demand for and the supply of tanker vessel capacity;
- charter counterparty performance;
- changes in governmental rules and regulations or actions taken by regulatory authorities;
- our financial condition and liquidity, including our ability to obtain financing in the future to fund capital expenditures, acquisitions, refinancing of existing indebtedness and other general corporate activities;
- our ability to comply with covenants in financing arrangements;
- our exposure to inflation;
- vessel breakdowns and instances of off-hires;
- future dividends;
- our ability to enter into fixed-rate charters in the future and our ability to earn income in the spot market; and
- our expectations of the availability of vessels to purchase, the time it may take to construct new vessels, and vessels useful lives.

Many of these statements are based on our assumptions about factors that are beyond our ability to control or predict and are subject to risks and uncertainties that are described more fully under the Risk Factors section of this Annual Report. Any of these factors or a combination of these factors could materially affect our business, results of operations and financial condition and the ultimate accuracy of the forward-looking statements. Factors that might cause future results to differ include, among others, the following:

- changes in the markets in which we operate;

TABLE OF CONTENTS

changes in governmental rules and regulations or actions taken by regulatory authorities;  
changes in economic and competitive conditions affecting our business, including market fluctuations in charter rates;  
potential liability from future litigation and potential costs due to environmental damage and vessel collisions;  
the length and number of off-hire periods and dependence on third-party managers; and  
other factors discussed under the Risk Factors section of this Annual Report.

You should not place undue reliance on forward-looking statements contained in this Annual Report, because they are statements about events that are not certain to occur as described or at all. All forward-looking statements in this Annual Report are qualified in their entirety by the cautionary statements contained in this Annual Report. These forward-looking statements are not guarantees of our future performance, and actual results and future developments may vary materially from those projected in the forward-looking statements.

Except to the extent required by applicable law or regulation, we undertake no obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date of this Annual Report or to reflect the occurrence of unanticipated events.



TABLE OF CONTENTS**PART I****Item 1. Identity of Directors, Senior Management and Advisors**

Not applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not applicable.

**Item 3. Key Information**

*Unless the context otherwise requires, when used in this Annual Report, the terms Ardmore , Ardmore Shipping , the Company , we , our , and us refer to Ardmore Shipping Corporation and its subsidiaries. Ardmore Shipping Corporation refers only to Ardmore Shipping Corporation and not its subsidiaries. Unless otherwise indicated, all references to dollars , U.S. dollars and \$ in this annual report are to the lawful currency of the United States. Our consolidated financial statements are prepared in accordance with United States generally accepted accounting principles (or U.S. GAAP). We use the term deadweight tons, or dwt, expressed in metric tons, each of which is equivalent to 1,000 kilograms, in describing the size of tankers.*

**A. Selected Financial Data**

The following table sets forth our selected consolidated financial data and other operating data. The selected financial data as of December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015 are derived from our audited consolidated financial statements, included elsewhere in this Annual Report. The selected consolidated financial data set forth below as of December 31, 2015, 2014 and 2013 and for the years ended December 31, 2014 and 2013 have been derived from our audited consolidated financial statements, which are not included in this Annual Report. The financial statements have been prepared in accordance with U.S. GAAP. The data set forth below should be read in conjunction with Item 5. Operating and Financial Review and Prospects.

INCOME STATEMENT DATA	For the years ended				
	Dec 31, 2017	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014	Dec 31, 2013
<b>REVENUE</b>					
Revenue	\$ 195,935,392	164,403,938	157,882,259	67,326,634	35,867,356
<b>OPERATING EXPENSES</b>					
Commissions and voyage expenses <sup>(1)</sup>	72,737,902	37,121,398	30,137,173	7,004,045	2,523,842
Vessel operating expenses	62,890,401	56,399,979	46,416,510	29,447,876	18,215,487
Depreciation	34,271,091	30,091,237	24,157,022	14,854,885	8,388,208
Amortization of deferred drydock expenditure	2,924,031	2,715,109	2,120,974	2,031,100	1,420,814
General and administrative expenses:					
Corporate	11,979,017	12,055,725	10,418,876	8,178,666	5,699,935
Commercial and chartering <sup>(2)</sup>	2,619,748	2,021,487	329,746		
<b>Total operating expenses</b>	<b>187,422,190</b>	<b>140,404,935</b>	<b>113,580,301</b>	<b>61,516,572</b>	<b>36,218,286</b>

Edgar Filing: Ardmore Shipping Corp - Form 20-F

<b>Profit/(loss) from operations</b>	<b>8,513,202</b>	<b>23,999,003</b>	<b>44,301,958</b>	<b>5,810,062</b>	<b>(350,930 )</b>
Interest expense and finance costs	(21,380,165 )	(17,754,118 )	(12,282,704 )	(4,119,283 )	(3,464,006 )
Interest income	436,195	164,629	15,571	16,444	6,059
Loss on disposal of vessels		(2,601,148 )			
<b>(Loss)/profit before taxes</b>	<b>(12,430,768 )</b>	<b>3,808,366</b>	<b>32,034,825</b>	<b>1,707,223</b>	<b>(3,808,877 )</b>
Income tax	(59,567 )	(60,434 )	(79,860 )	(46,749 )	(33,726 )
<b>Net (loss)/profit</b>	<b>\$(12,490,335 )</b>	<b>3,747,932</b>	<b>31,954,965</b>	<b>1,660,474</b>	<b>(3,842,603 )</b>
(Loss)/earnings per share, basic and diluted	\$(0.37 )	0.12	1.23	0.07	(0.31 )
Weighted average number of common shares outstanding, basic and diluted	33,441,879	30,141,891	26,059,122	24,547,661	12,241,599

---

TABLE OF CONTENTS

BALANCE SHEET DATA	As at				
	Dec 31, 2017	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014	Dec 31, 2013
Cash and cash equivalents	\$39,457,407	55,952,873	40,109,382	59,879,596	56,860,845
Net vessels (including drydock assets)	\$755,935,008	788,693,708	662,359,307	489,833,626	292,054,606
Total assets	\$845,539,989	883,642,723	778,197,608	562,214,991	357,965,633
Net assets	\$380,973,760	404,269,799	347,611,278	327,200,093	232,358,111
Senior debt and capital leases	\$446,917,589	462,343,756	415,014,315	224,902,715	119,239,015
Paid in capital	\$390,541,689	401,347,393	337,211,121	338,064,585	244,883,077
Accumulated (deficit)/surplus	\$(9,567,929 )	2,922,406	10,400,157	(10,864,492 )	(12,524,966 )
CASH FLOW DATA	For the years ended				
	Dec 31, 2017	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014	Dec 31, 2013
Net cash provided by operating activities	\$18,416,228	42,634,500	37,659,686	12,421,127	8,120,173
Net cash used in investing activities	\$(2,282,251 )	(122,311,231)	(232,849,734)	(209,741,529)	(144,637,558)
Net cash used in/provided by financing activities	\$(32,629,443)	95,520,221	175,419,834	200,339,153	178,044,107
FLEET OPERATING DATA	For the years ended				
	Dec 31, 2017	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014	Dec 31, 2013
<b>Time Charter Equivalent<sup>(3)</sup></b>					
MR Tankers Eco-design	\$12,902	15,098	19,149	15,913	15,838
MR Tankers Eco-mod	\$12,975	14,318	20,223	14,793	13,732
Chemical Tankers Eco-design	\$11,949	15,395	17,507		
Chemical Tankers Eco-mod	\$	11,839	13,417	11,404	10,483
Fleet weighted average TCE <sup>(4)</sup>	\$12,709	14,785	18,309	14,393	12,850
<b>Operating expenditure</b>					
Fleet operating expenses per day <sup>(5)</sup>	\$5,914	6,017	5,976	6,197	6,152
Technical management fees per day <sup>(6)</sup>	\$384	388	357	359	379
<b>Total fleet operating costs per day</b>	<b>\$6,298</b>	<b>6,405</b>	<b>6,333</b>	<b>6,556</b>	<b>6,531</b>
<b>Expenditures for drydock<sup>(7)</sup></b>	<b>\$3,809,906</b>	<b>3,099,805</b>	<b>3,314,568</b>	<b>4,921,479</b>	<b>242,263</b>
<b>On-hire utilization<sup>(8)</sup></b>	<b>99.61 %</b>	<b>99.52 %</b>	<b>99.70 %</b>	<b>99.90 %</b>	<b>99.54 %</b>

(1) Voyage expenses are all expenses related to a particular voyage, including any bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls and agency fees.

(2) Commercial and chartering related general and administrative expenses are the expenses attributable to our chartering and commercial operations department in connection with our spot trading activities.

Time Charter Equivalent ( TCE ) daily rate is the gross charter rate or gross pool rate, as applicable, per revenue day plus allowances paid by charterers to owners for communications, victualing and entertainment costs for crew.

(3) Revenue days are the total number of calendar days the vessels are in our possession less off-hire days generally associated with drydocking or repairs. For vessels employed on voyage charters, TCE is the net rate after deducting voyage expenses incurred by commercial managers.

Fleet weighted average TCE is total gross revenue for the fleet, after deducting voyage expenses incurred on voyage charters divided by the number of revenue days. Voyage expenses are all expenses related to a particular (4) voyage, including any bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls and agency fees.

Fleet operating expenses per day are routine operating expenses and include crewing, repairs and maintenance, (5) insurance, stores, lube oils and communication costs. They do not include additional costs related to upgrading or enhancement of the vessels that are not capitalized.

(6) Technical management fees per day are fees paid to any third-party technical manager as well as to our 4

---

TABLE OF CONTENTS

newly created 50%-owned joint venture entity, Anglo Ardmore Ship Management Limited, which provides technical management services to a number of our vessels.

(7) Drydock costs, which include costs for in-water surveys, represent direct costs that are incurred as part of vessel drydocking to meet regulatory requirements, expenditures during drydocking that add economic life to the vessel, and expenditures during drydocking that increase the vessel's earnings capacity or improve the vessel's operating efficiency.

(8) On-hire utilization represents revenue days divided by net operating days (i.e. operating days less scheduled off-hire days).

## **B. Capitalization and Indebtedness**

Not applicable.

## **C. Reasons for the Offer and Use of Proceeds**

Not applicable.

TABLE OF CONTENTS

**D. Risk Factors**

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

**RISKS RELATED TO OUR INDUSTRY**

**The tanker industry is cyclical and volatile in terms of charter rates and profitability, which may affect our results of operations.**

The tanker industry is both cyclical and volatile in terms of charter rates and profitability. A prolonged downturn in the tanker industry could adversely affect our ability to recharter our vessels or to sell them on the expiration or termination of their charters. In addition, the rates payable in respect of any of our vessels operating in a commercial pool, or any renewal or replacement charters that we enter into, may not be sufficient for us to operate our vessels profitably. Fluctuations in charter rates and tanker values result from changes in the supply and demand for tanker capacity and changes in the supply and demand for oil, oil products and chemicals. The factors affecting the supply and demand for tankers are outside of our control, and the nature, timing and degree of changes in industry conditions are unpredictable.

Factors that influence demand for tanker capacity include:

- supply of and demand for oil, oil products and chemicals;
- regional availability of refining capacity;
- global and regional economic and political conditions;
- the distance oil, oil products and chemicals are to be moved by sea;
- changes in seaborne and other transportation patterns;
- environmental and other legal and regulatory developments;
- currency exchange rates;
- weather;
- competition from alternative sources of energy; and
- international sanctions, embargoes, import and export restrictions, nationalizations and wars.

Factors that influence the supply of tanker capacity include:

- the number of newbuilding deliveries;
- the scrapping rate of older vessels;
- conversion of tankers to other uses;
- the price of steel and other raw materials;
- the number of vessels that are out of service; and
- environmental concerns and regulations.

Historically, the tanker markets have been volatile as a result of a variety of conditions and factors that can affect the price, supply and demand for tanker capacity. Demand for transportation of oil products and chemicals over longer distances was significantly reduced during the last economic downturn. More recently, since 2015 vessel oversupply contributed to continuing low charter rates in the tanker industry. As at March 27, 2018, none of our vessels were on time charter, four of our vessels operated in a spot market oriented commercial pool and 24 vessels operated in the

spot market directly. If charter rates decline, we may be unable to achieve a level of charter hire sufficient for us to operate our vessels profitably or we may have to operate our vessels at a greater loss.

TABLE OF CONTENTS

**Any decrease in spot charter rates in the future or continuation of current rates may adversely affect our results of operations.**

As at March 27, 2018, four of our vessels were employed in a spot market-oriented commercial pool and 24 of our vessels operated directly in the spot market. The earnings of these vessels are based on the spot market charter rates of the pool or the particular voyage charter. We may seek to employ other vessels directly in the spot market upon re-delivery from the current charterers.

We may employ in the spot charter market additional vessels that we may acquire in the future. Where we plan to employ a vessel in the spot charter market, we generally intend to place such vessel in a commercial pool that pertains to that vessel's size class or to employ the vessel in the spot market directly. Although spot chartering is common in the tanker industry, the spot charter market may fluctuate significantly based upon tanker and oil product/chemical supply and demand, and there have been periods when spot rates have declined below the operating cost of vessels. The successful operation of our vessels in the competitive spot charter market, including within commercial pools, depends upon, among other things, spot-charter rates and minimizing, to the extent possible, time spent waiting for charters and time spent traveling unladen to pick up cargo. If spot charter rates decline, we may be unable to operate our vessels trading in the spot market profitably or meet our obligations, including payments on indebtedness. A decline in spot charter rates may also affect our ability to pay dividends in the future. In addition, as charter rates for spot charters are fixed for a single voyage that may last up to several weeks, during periods in which spot charter rates are rising, we will generally experience delays in realizing the benefits from such increases.

Our ability to renew the charters on our vessels on the expiration or termination of our current charters, or to enter into charters on vessels that we may acquire in the future, the charter rates payable under any replacement charters and vessel values will depend upon, among other things, economic conditions in the sectors in which our vessels operate at that time, changes in the supply and demand for vessel capacity and changes in the supply and demand for the seaborne transportation of oil and chemical products.

**Declines in oil prices may adversely affect our growth prospects and results of operations.**

Global crude oil prices have previously experienced significant declines and such declines may reoccur. Any meaningful decrease in oil prices may adversely affect our business, results of operations and financial condition and our ability to service our indebtedness and pay dividends, as a result of, among other things:

a possible reduction in exploration for or development of new oil fields or energy projects, or the delay or cancelation of existing projects as energy companies lower their capital expenditures budgets, which may reduce our growth opportunities;

potential lower demand for tankers, which may reduce available charter rates and revenue to us upon chartering or rechartering of our vessels;

customers failing to extend or renew contracts upon expiration;

the inability or refusal of customers to make charter payments to us due to financial constraints or otherwise; or declines in vessel values, which may result in losses to us upon vessel sales or impairment charges against our earnings.



**We have limited current liquidity.**

As at December 31, 2017, we had total liquidity of \$39.5 million in cash and cash equivalents. Our short-term liquidity requirements include the payment of operating expenses, drydocking expenditures, debt servicing costs, any dividends on our shares of common stock, scheduled repayments of long-term debt, as well as funding our other working capital requirements. Our short-term spot charters, including our participation in spot charter pooling arrangements, contribute to the volatility of our net operating cash flow, and thus our ability to generate sufficient cash flows to meet our short-term liquidity needs. We expect to manage our near-term liquidity needs from our working capital, together with expected cash flows from operations and availability under credit facilities. Our existing long-term debt facilities require, among other things, that we maintain minimum cash and cash equivalents based on the greater of a set amount per number of vessels

7

---

TABLE OF CONTENTS

owned and 5% of outstanding debt. The required minimum cash balance as of December 31, 2017, was \$22.3 million. Should we not meet this financial covenant or other covenants in our debt facilities, the lenders may declare our obligations under the applicable agreements immediately due and payable, and terminate any further loan commitments, which would significantly affect our short-term liquidity requirements. A default under financing agreements could also result in foreclosure on any of our vessels and other assets securing the related loans.

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

We evaluate the carrying amounts of our vessels to determine if events have occurred that would require an impairment of their carrying amounts. The recoverable amount of vessels is reviewed based on events and changes in circumstances that would indicate that the carrying amount of the assets might not be recovered. The review for potential impairment indicators and projection of future cash flows related to our vessels is complex and requires us to make various estimates, including future charter rates, operating expenses and drydock costs. Historically, each of these items has been volatile. An impairment charge is recognized if the carrying value is in excess of the estimated future undiscounted net operating cash flows. The impairment loss is measured based on the excess of the carrying amount over the fair market value of the asset. An impairment loss could adversely affect our results of operations.

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

The market values of tankers have historically experienced high volatility. The market prices for tankers declined significantly from historically high levels reached in early 2008 and remain at relatively low levels. The market value of our vessels will fluctuate depending on general economic and market conditions affecting the shipping industry and prevailing charter hire rates, competition from other shipping companies and other modes of transportation, the types, sizes and ages of vessels, applicable governmental regulations and the cost of new buildings. If the market value of our fleet declines, we may not be able to obtain other financing or to incur debt on terms that are acceptable to us or at all. A decrease in vessel values could also cause us to breach certain loan-to-value covenants that are contained in our credit facilities and in future financing agreements that we may enter into from time to time. If we breach such covenants due to decreased vessel values and we are unable to remedy the relevant breach, our lenders could accelerate our debt and foreclose on vessels in our fleet, which would adversely affect our business, results of operations and financial condition.

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

The market supply of tankers is affected by a number of factors, such as demand for energy resources, oil, petroleum and chemical products, as well as the level of global and regional economic growth. If the capacity of new ships delivered exceeds the capacity of tankers being scrapped and lost, tanker capacity will increase. In addition, the global newbuilding orderbook for LR product tankers, which extends to 2021, and the global newbuilding orderbooks for MR product tankers and chemical tankers, which each extend to 2020, equaled approximately 8.5%, 4.5% and 7.5% of their respective fleets as of February 28, 2018. These orderbooks may also increase further in proportion to their respective existing fleets. If the supply of LR product, MR product or chemical tanker capacity increases and if the demand for such respective tanker capacity does not increase correspondingly, charter rates and vessel values could materially decline. A reduction in charter rates and the value of our vessels may have a material adverse effect on our

business, results of operations and financial condition.

**Global financial markets and economic conditions may adversely impact our ability to obtain additional financing on acceptable terms, if at all, and otherwise negatively impact our business.**

Global financial markets and economic conditions have been, and continue to be, volatile. In the last economic downturn, operating businesses in the global economy faced tightening credit, weakening demand for goods and services, deteriorating international liquidity conditions and declining markets. There was a general decline in the willingness of banks and other financial institutions to extend credit, particularly in the shipping industry due to the historically volatile asset values of vessels. Since 2008, lending by financial

TABLE OF CONTENTS

institutions worldwide decreased significantly compared to the period preceding 2008 and lending to the shipping industry remains restrictive. As the shipping industry is highly dependent on the availability of credit to finance and expand operations, it was negatively affected by this decline.

Also, as a result of concerns about the stability of financial markets generally and the solvency of counterparties specifically, the cost of borrowing funds during the last economic downturn increased as many lenders increased interest rates, enacted tighter lending standards, refused to refinance then existing debt at all or on terms similar to those for the then existing debt and, in some cases, ceased to provide funding to borrowers. Due to these factors, additional financing may not be available if needed by us on acceptable terms or at all. If additional financing is not available when needed or is available only on unfavorable terms, we may be unable to meet our obligations as they come due or we may be unable to enhance our existing business, complete additional vessel acquisitions or otherwise take advantage of business opportunities as they arise.

**Changes in fuel, or bunkers, prices may adversely affect our results of operation.**

Fuel, or bunkers, is a significant expense for our vessels employed in the spot market and can have a significant impact on pool earnings. For any vessels which may be employed on time charters, the charterer is generally responsible for the cost and supply of fuel; however, such cost may affect the charter rates we may be able to negotiate for our vessels. Changes in the price of fuel may adversely affect our profitability. The price and supply of fuel is unpredictable and fluctuates based on events outside our control, including geopolitical developments, supply and demand for oil and gas, actions by the Organization of Petroleum Exporting Countries (OPEC) and other oil and gas producers, war and unrest in oil producing countries and regions, regional production patterns and environmental concerns. In addition, fuel price increases may reduce the profitability and competitiveness of our business versus other forms of transportation, such as truck or rail.

**Changes in the oil, oil products and chemical markets could result in decreased demand for our vessels and services.**

Demand for our vessels and services in transporting oil, oil products and chemicals depends upon world and regional oil markets. Any decrease in shipments of oil, oil products and chemicals in those markets could have a material adverse effect on our business, financial condition and results of operations. Historically, those markets have been volatile as a result of the many conditions and events that affect the price, production and transport of oil, oil products and chemicals, including competition from alternative energy sources. Past slowdowns of the U.S. and world economies have resulted in reduced consumption of oil and oil products and decreased demand for our vessels and services, which reduced vessel earnings. Additional slowdowns could have similar effects on our operating results and may limit our ability to expand our fleet.

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

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. Compliance with such laws and regulations, where applicable, may require installation of costly equipment or

Global financial markets and economic conditions may adversely impact our ability to obtain additional financing on

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 costs relating to, among other things: air emissions including greenhouse gases; the management of ballast and bilge waters; maintenance and inspection; elimination of tin-based paint; development and implementation of emergency procedures and insurance coverage or other financial assurance of our ability to address pollution incidents. Environmental or other initiatives or incidents (such as the 2010 Deepwater Horizon oil spill in the Gulf of Mexico) may result in additional regulatory initiatives or statutes or changes to existing laws that may affect our operations or require us to incur additional expenses to comply with such regulatory initiatives, statutes or laws. These costs could have a material adverse effect on our business, results of operations 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

TABLE OF CONTENTS

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 the U.S. Oil Pollution Act of 1990, for example, owners, operators and bareboat charterers are jointly and severally strictly liable for the discharge of oil in U.S. waters, including the 200-nautical mile exclusive economic zone around the United States. An oil spill could also result in significant liability, including fines, penalties, criminal liability, remediation costs and natural resource damages under international and U.S. federal, state and local laws, as well as third-party damages, and could harm our reputation with current or potential charterers of our tankers. 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 and financial condition.

**If we fail to comply with international safety regulations, we may be subject to increased liability, which may adversely affect our insurance coverage and may result in a denial of access to, or detention in, certain ports.**

The operation of our vessels is affected by the requirements set forth in the International Maritime Organization's International Safety Management Code for the Safe Operation of Ships and Pollution Prevention ( ISM Code ). The ISM Code requires ship owners, ship managers and bareboat charterers to develop and maintain an extensive Safety Management System that includes the adoption of safety and environmental protection policies setting forth instructions and procedures for safe operation and describing procedures for dealing with emergencies. If we fail to comply with the ISM Code or similar regulations, we may be subject to increased liability or our existing insurance coverage may be invalidated or decreased for our affected vessels. Such failure may also result in a denial of access to, or detention of our vessels in, certain ports. The United States Coast Guard ( USCG ) and European Union ( EU ) authorities have indicated that vessels not in compliance with the ISM Code will be prohibited from trading in U.S. and EU ports, which could have an adverse effect on our future performance, results of operations, cash flows and financial position.

**If our vessels suffer damage due to the inherent operational risks of the shipping industry, we may experience unexpected drydocking costs and delays or total loss of our vessels, which may adversely affect our business and financial condition.**

The operation of an ocean-going vessel carries inherent risks. Our vessels and their cargoes will be at risk of being damaged or lost because of events, such as marine disasters, bad weather, climate change, business interruptions caused by mechanical failures, grounding, fire, explosions, collisions, human error, war, terrorism, piracy, cargo loss, latent defects, acts of God and other circumstances or events. Changing economic, regulatory and political conditions in some countries, including political and military conflicts, have from time to time resulted in attacks on vessels, mining of waterways, piracy, terrorism, labor strikes and boycotts. These hazards may result in death or injury to persons, loss of revenues or property, environmental damage, higher insurance rates, damage to our customer relationships, market disruptions, delays or rerouting. In addition, the operation of tankers has unique operational risks associated with the transportation of oil and chemical products. An oil or chemical spill may cause significant environmental damage and the associated costs could exceed the insurance coverage available to us. Compared to other types of vessels, tankers are exposed to a higher risk of damage and loss by fire, whether ignited by a terrorist attack, collision or other causes, due to the high flammability and high volume of the oil or chemicals transported in tankers.

If we fail to comply with international safety regulations, we may be subject to increased liability, which may have an adverse effect on our business, results of operations 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 may be substantial. We may have to pay drydocking costs if our insurance does not cover them in full. The loss of revenues while these vessels are being repaired and repositioned, as well as the actual cost of these repairs, may adversely affect our business, results of operations and financial condition. In addition, space at drydocking facilities is sometimes limited and not all drydocking facilities are conveniently located. We may be unable to find space at a suitable drydocking facility or our vessels may be forced to travel to a drydocking facility that is not conveniently located to our vessels' positions. The loss of earnings while such vessels wait for space or travel or are towed to more distant drydocking facilities may be significant. The total loss of any of our vessels could harm our reputation as a safe and reliable vessel owner

TABLE OF CONTENTS

and operator. If we are unable to adequately maintain or safeguard our vessels, we may be unable to prevent any such damage, costs or loss which could negatively impact our business, results of operations and financial condition.

**We operate our vessels worldwide and, as a result, our vessels are exposed to international risks which may reduce revenue or increase expenses.**

The international shipping industry is an inherently risky business involving global operations. Our vessels are at risk of damage or loss because of events such as marine disasters, bad weather, climate change, business interruptions caused by mechanical failures, grounding, fire, explosions, collisions, human error, war, terrorism, piracy, cargo loss, latent defects, acts of God and other circumstances or events. In addition, changing economic, regulatory and political conditions in some countries, including political and military conflicts, have from time to time resulted in attacks on vessels, mining of waterways, piracy, terrorism, labor strikes and boycotts. These sorts of events could interfere with shipping routes and result in market disruptions, which may reduce our revenue and increase our expenses. Our worldwide operations also expose us to the risk that an increase in restrictions on global trade will harm our business.

The adoption of trade barriers by governments may reduce global shipping demand and reduce our revenue.

International shipping is subject to various security and customs inspection and related procedures in countries of origin and destination and transshipment points. Inspection procedures can result in the seizure of the cargo or vessels, delays in the loading, offloading or delivery and the levying of customs duties, fines or other penalties against vessel owners. It is possible that changes to inspection procedures could impose additional financial and legal obligations on us. In addition, 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, results of operations and financial condition.

**Acts of piracy on ocean-going vessels could adversely affect our business.**

Acts of piracy have historically affected ocean-going vessels trading in regions of the world such as the South China Sea, the Indian Ocean and in the Gulf of Aden. Sea piracy incidents continue to occur, particularly in the South China Sea, the Indian Ocean, the Red Sea, the Gulf of Aden, the Gulf of Guinea, Venezuela, and in certain areas of the Middle East, and increasingly the Sulu Archipelago and Indonesia in the South China Sea, with tankers particularly vulnerable to such attacks. If piracy attacks result in the characterization of regions in which our vessels are deployed as war risk zones or Joint War Committee war and strikes listed areas by insurers, premiums payable for such coverage could increase significantly and such insurance coverage may be more difficult to obtain. In addition, crew costs, including costs which may be incurred to the extent we employ onboard security guards, could increase in such circumstances. We may not be adequately insured to cover losses from these incidents, which could have a material adverse effect on us. In addition, detention or hijacking as a result of an act of piracy against our vessels, or an increase in cost, or unavailability of insurance for our vessels, could have a material adverse impact on our business, results of operations, cash flows and financial condition and may result in loss of revenues, increased costs and decreased cash flows to our customers, which could impair their ability to make payments to us under our charters.

**Political instability, terrorist or other attacks, war or international hostilities can affect the tanker industry, which may adversely affect our business.**

We conduct most of our operations outside of the United States, and our business, results of operations, cash flows, financial condition and available cash may be adversely affected by the effects of political instability, terrorist or other



attacks, war or international hostilities. Continuing conflicts and recent developments in the Middle East, and the presence of the United States and other armed forces in regions of conflict, may lead to additional acts of terrorism and armed conflict around the world, which may contribute to further world economic instability and uncertainty in global financial markets. As a result of these factors, insurers have increased premiums and reduced or restricted coverage for losses caused by terrorist acts generally. Future terrorist attacks could result in increased volatility of the financial markets and negatively impact the United States and global economy. These uncertainties could also adversely affect our ability to obtain additional financing on terms acceptable to us or at all.

TABLE OF CONTENTS

In the past, political instability has 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 West of Africa, South China Sea, South-East Asia and the Gulf of Aden including off the coast of Somalia. Any of these occurrences could have a material adverse impact on our business, results of operations and financial condition.

**If our vessels call on ports located in countries that are subject to restrictions imposed by the U.S. government, our reputation and the market for our securities could be adversely affected.**

Although no vessels owned or operated by us have called on ports located in countries subject to sanctions and embargoes imposed by the U.S. government and other authorities or countries identified by the U.S. government or other authorities as state sponsors of terrorism, such as Iran, Sudan, Syria and North Korea, in the future our vessels may call on ports in these countries from time to time on charterers' instructions in violation of contractual provisions that prohibit them from doing so. 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.

Although we believe that we have been in compliance with all applicable sanctions and embargo laws and regulations, and intend to maintain such compliance, there can be no assurance that we will be in compliance in the future, particularly as the scope of certain laws may be unclear and may be subject to changing interpretations. Any such violation could result in fines, penalties or other sanctions that could severely impact the market for our common shares, our ability to access U.S. capital markets and conduct our business and could result in some investors deciding, or being required, to divest their interest, or not to invest, in us.

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 or the ability of our charters to meet their obligations to us or result in fines, penalties or sanctions.

**The smuggling of drugs or other contraband onto our vessels may lead to governmental claims against us.**

We expect that our vessels will call on ports where smugglers may attempt to hide drugs and other contraband on vessels, with or without the knowledge of crew members. To the extent our vessels are found with contraband, whether inside or attached to the hull of our vessel and whether with or without the knowledge of any of our crew, we may face governmental or other regulatory claims which could have an adverse effect on our business, results of operations and financial condition.

**Maritime claimants could arrest our vessels, which would have a negative effect on our business and results of operations.**

Crew members, suppliers of goods and services to a vessel, shippers of cargo and other parties may be entitled to a maritime lien against a vessel for unsatisfied debts, claims or damages. In many jurisdictions, a maritime lien holder may enforce its lien by arresting or attaching a vessel through foreclosure proceedings. The arrest or attachment of one or more of our vessels could interrupt our business or require us to pay significant amounts to have the arrest lifted, which would have a negative effect on our business, results of operations and financial condition.

If our vessels call on ports located in countries that are subject to restrictions imposed by the U.S. government, our

In addition, in some jurisdictions, such as South Africa, under the sister ship theory of liability, a claimant may arrest both the vessel that is subject to the claimant's maritime lien and any associated vessel, which is any vessel owned or controlled by the same owner. Claimants could try to assert sister ship liability against one vessel in our fleet for claims relating to another of our vessels.

**Governments could requisition our vessels during a period of war or emergency, which may adversely affect our business and results of operations.**

A government could requisition for title or seize our vessels. Requisition for title occurs when a government takes control of a vessel and becomes the owner. Also, a government could requisition our vessels for hire. Requisition for hire occurs when a government takes control of a vessel and effectively becomes the charterer

TABLE OF CONTENTS

at dictated charter rates. Generally, requisitions occur during a period of war or emergency. Government requisition of one or more of our vessels could adversely affect our business, results of operations and financial condition.

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

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

**If labor or other interruptions are not resolved in a timely manner, they could have a material adverse effect on our business.**

We, indirectly through our technical managers, employ masters, officers and crews to operate our vessels, exposing us to the risk that industrial actions or other labor unrest may occur. A significant portion of the seafarers that crew our vessels are employed under collective bargaining agreements. We may suffer labor disruptions if relationships deteriorate with the seafarers or the unions that represent them. The collective bargaining agreements may not prevent labor disruptions, particularly when the agreements are being renegotiated. If not resolved in a timely and cost-effective manner, industrial action or other labor unrest could prevent or hinder our operations from being carried out as we expect and could have a material adverse effect on our business, results of operations and financial condition.

**RISKS RELATED TO OUR BUSINESS**

**Delays in deliveries of vessels we may purchase or order, our decision to cancel an order for purchase of a vessel or our inability to otherwise complete the acquisitions of additional vessels for our fleet, could harm our operating results.**

We expect to purchase and order additional vessels from time to time. The delivery of these vessels could be delayed, not completed or cancelled, which would delay or eliminate our expected receipt of revenues from the employment of these vessels. The seller could fail to deliver these vessels to us as agreed, or we could cancel a purchase contract because the seller has not met its obligations. The delivery of any vessels we may propose to acquire could be delayed because of, among other things, hostilities or political disturbances, non-performance of the purchase agreement with respect to the vessels by the seller, our inability to obtain requisite permits, approvals or financings or damage to or destruction of vessels while being operated by the seller prior to the delivery date.

If the delivery of any vessel is materially delayed or cancelled, especially if we have committed the vessel to a charter under which we become responsible for substantial liquidated damages to the customer as a result of the delay or

Governments could requisition our vessels during a period of war or emergency, which may adversely affect our bus

cancellation, our business, financial condition and results of operations could be adversely affected.

The delivery of vessels we may purchase or order could be delayed because of, among other things:

work stoppages or other labor disturbances or other events that disrupt the operations of the shipyard building the vessels;

quality or other engineering problems;

changes in governmental regulations or maritime self-regulatory organization standards;

lack of raw materials;

bankruptcy or other financial crisis of the shipyard building the vessels;

TABLE OF CONTENTS

our inability to obtain requisite financing or make timely payments;  
a backlog of orders at the shipyard building the vessels;  
hostilities or political or economic disturbances in the countries where the vessels are being built;  
weather interference or catastrophic event, such as a major earthquake or fire;  
our requests for changes to the original vessel specifications;  
shortages or delays in the receipt of necessary construction materials, such as steel;  
our inability to obtain requisite permits or approvals; or  
a dispute with the shipyard building the vessels.

**We will be required to make substantial capital expenditures to expand the number of vessels in our fleet and to maintain all our vessels, which will depend on our ability to obtain additional financing.**

Our business strategy is based in part upon the expansion of our fleet through the purchase and ordering of additional vessels. We will be required to make substantial capital expenditures to expand the size of our fleet. We also have incurred significant capital expenditures in previous years to upgrade secondhand vessels we have acquired to Eco-Mod standards.

In addition, we will incur significant maintenance costs for our current fleet and any additional vessels we acquire. A newbuilding vessel must be drydocked within five years of its delivery from a shipyard and vessels are typically drydocked every 30 to 60 months thereafter depending on the vessel, not including any unexpected repairs. We estimate the cost to drydock a vessel is between \$0.75 million and \$1.5 million, depending on the size and condition of the vessel and the location of drydocking relative to the location of the vessel.

We may be required to incur additional debt or raise capital through the sale of equity securities to fund the purchasing of vessels or for drydocking costs from time to time. However, we may be unable to access the required financing if conditions change and we may be unsuccessful in obtaining financing for future fleet growth. Use of cash from operations will reduce available cash. Our ability to obtain bank financing or to access the capital markets for future offerings may be limited by our financial condition at the time of any such financing or offering as well as by adverse market conditions resulting from, among other things, general economic conditions and contingencies and uncertainties that are beyond our control. If we finance our expenditures by incurring additional debt, our financial leverage could increase. If we finance our expenditures by issuing equity securities, our shareholders' ownership interest in us could be diluted.

**We will not be able to take advantage of favorable opportunities in the spot market with respect to vessels employed on medium to long-term time charters, if any.**

As at March 27, 2018, none of our vessels were employed under fixed rate time charter agreements. However, in the future we may enter into fixed rate time charter agreements with respect to our vessels. Vessels committed to medium and long-term time charters may not be available for spot charters during periods of increasing charter hire rates, when spot charters might be more profitable.

**If we do not identify suitable vessels or shipping companies for acquisition or successfully integrate any acquired vessels or shipping companies, we may not be able to grow or effectively manage our growth.**

We will be required to make substantial capital expenditures to expand the number of vessels in our fleet and to ma

One of our principal strategies is to continue expanding our operations and our fleet. Our future growth will depend upon a number of factors, some of which may not be within our control. These factors include our ability to:

- identify suitable tankers and/or shipping companies for acquisitions at attractive prices;
- identify businesses engaged in managing, operating or owning tankers for acquisitions or joint ventures;
- integrate any acquired tankers or businesses successfully with our existing operations;

TABLE OF CONTENTS

hire, train and retain qualified personnel and crew to manage and operate our growing business and fleet;  
identify additional new markets;

improve or expand our operating, financial and accounting systems and controls; and  
obtain required financing for our existing and new vessels and operations.

Our failure to effectively identify, purchase, develop and integrate any tankers or businesses could adversely affect our business, financial condition and results of operations. The number of employees that perform services for us and our current operating and financial systems may not be adequate as we implement our plan to expand the size of our fleet and we may not be able to effectively hire more employees or adequately improve those systems. In addition, acquisitions may require additional equity issuances or the incurrence of additional debt (which may require additional amortization payments or impose more restrictive covenants). If we are unable to successfully accommodate any growth, our business, results of operations and financial condition may be adversely affected.

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

**If we purchase and operate second-hand vessels, we will be exposed to increased operating costs that could adversely affect our earnings and, as our fleet ages, the risks associated with older vessels could adversely affect our ability to obtain profitable charters.**

Our current business strategy includes additional growth through the acquisition of new and second-hand vessels. While we typically inspect second-hand vessels prior to purchase, this does not provide us with the same knowledge about their condition that we would have had if these vessels had been built for and operated exclusively by us. Generally, we do not receive the benefit of warranties from the builders of the second-hand vessels that we acquire. These factors could increase the ultimate cost of any second-hand vessel acquisitions by us.

In general, the costs to maintain a vessel in good operating condition increase with the age of the vessel. Older vessels are typically less fuel-efficient than more recently constructed vessels due to improvements in engine technology. Cargo insurance rates increase with the age of a vessel, making older vessels less desirable to charterers.

Governmental regulations, safety or other equipment standards related to the age of vessels may require expenditures for alterations or the addition of new equipment, to our vessels and may restrict the type of activities in which the vessels may engage. As our vessels age, market conditions may not justify those expenditures or enable us to operate our vessels profitably during the remainder of their useful lives.

**An increase in operating or voyage expenses would decrease our earnings and cash flows.**

As at March 27, 2018, none of our vessels were employed under fixed rate time charter agreements. However, in the future we may enter into fixed rate time charter agreements with respect to our vessels. For all vessels operating under time charters, the charterer is primarily responsible for voyage expenses and we are responsible for the vessel

If we purchase and operate second-hand vessels, we will be exposed to increased operating costs that could adversely



operating expenses. We may seek to employ vessels in the spot market following expiration of any such time charters. Under spot chartering arrangements, we will be responsible for all cost associated with operating the vessel, including operating expenses, voyage expenses, bunkers, port and canal costs.

Our vessel operating expenses include the costs of crew, provisions, deck and engine stores, insurance and maintenance, repairs and spares, which depend on a variety of factors, many of which are beyond our control.

15

---

TABLE OF CONTENTS

If our vessels suffer damage, they may need to be repaired at a drydocking facility. The costs of drydocking repairs are unpredictable and can be substantial. Increases in any of these expenses would decrease earnings and cash flow.

**We may be unsuccessful in competing in the highly competitive international tanker market, which would negatively affect our results of operations and financial condition and our ability to expand our business.**

The operation of tanker vessels and transportation of petroleum and chemical products is extremely competitive, and our industry is capital intensive and highly fragmented. Competition arises primarily from other tanker owners, including major oil companies as well as independent tanker companies, some of which have substantially greater resources than we do. Competition for the transportation of oil products and chemicals can be intense and depends on price, location, size, age, condition and the acceptability of the tanker and its operators to the charterers. We may be unable to compete effectively with other tanker owners, including major oil companies and independent tanker companies.

Our market share may decrease in the future. We may not be able to compete profitably as we seek to expand our business into new geographic regions or provide new services. New markets may require different skills, knowledge or strategies than those we use in our current markets, and the competitors in those new markets may have greater financial strength and capital resources than we do.

**We derive a significant portion of our revenues from a limited number of customers, and the loss of any such customers could result in a significant loss of revenues and cash flow.**

We have derived, and we may continue to derive, a significant portion of our revenues and cash flow from a limited number of customers. Vitol Group accounted for more than 10% of our consolidated revenues from continuing operations during 2017; each of Vitol Group, Navig8 Group and Trafigura accounted for more than 10% of our consolidated revenues from continuing operations during 2016; and each of Vitol Group and Navig8 Group accounted for more than 10%, of our consolidated revenues from continuing operations during 2015. No other customer accounted for 10% or more of revenues from continuing operations during any of these periods. The identity of customers which may account for 10% or more of revenues from continuing operations may vary from time to time.

If we lose a key customer or if a customer exercises its right under some charters to terminate the charter, we may be unable to enter into an adequate replacement charter for the applicable vessel or vessels. The loss of any of our significant customers or a reduction in revenues from them could have a material adverse effect on our business, results of operations, cash flows and financial condition.

**Our charterers may terminate or default on their charters, which could adversely affect our business, results of operations and cash flow.**

Our charters may terminate earlier than their scheduled expirations. The terms of our charters vary as to which events or occurrences will cause a charter to terminate or give the charterer the option to terminate the charter, but these generally include: a total or constructive loss of the relevant vessel; the governmental requisition for hire of the relevant vessel; the drydocking of the relevant vessel for a certain period of time; and the failure of the relevant vessel to meet specified performance criteria. In addition, the ability of each of our charterers to perform its obligations under a charter will depend on a number of factors that are beyond our control. These factors may include general economic

We may be unsuccessful in competing in the highly competitive international tanker market, which would ~~64~~negatively

conditions, the condition of the tanker industry, the charter rates received for specific types of vessels and various operating expenses. The costs and delays associated with the default by a charterer under a charter of a vessel may be considerable and may adversely affect our business, results of operations, cash flows and financial condition and our available cash.

We cannot predict whether our charterers will, upon the expiration of their charters, re-charter our vessels on favorable terms or at all. If our charterers are unable or decide not to re-charter our vessels, we may not be able to re-charter them on terms similar to our current charters or at all. In addition, the ability and willingness of each of our counterparties to perform its obligations under a time charter agreement 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 tanker shipping industry and the overall financial condition of the counterparties. Charterers are sensitive to the commodity markets and may be impacted by market forces

TABLE OF CONTENTS

affecting commodities. In depressed market conditions, there have been reports of charterers renegotiating their charters or defaulting on their obligations under charters. Our customers may fail to pay charter hire or attempt to renegotiate charter rates. If a counterparty fails to honor its obligations under agreements with us, it may be difficult for us to secure substitute employment for such vessel, and any new charter arrangements we secure in the spot market or on time charters may be at lower rates. Any failure by our charterers to meet their obligations to us or any renegotiation of our charter agreements could have a material adverse effect on our business, financial condition and results of operations.

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

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

**Servicing our debt, including debt which we may incur in the future, limits funds available for other purposes and if we cannot service our debt, we may lose our vessels.**

Borrowing under our existing credit facilities requires us to dedicate a significant part of our cash flow from operations to paying principal and interest on our indebtedness, and we intend to incur additional debt in the future. These payments limit funds available for working capital, capital expenditures and other purposes.

Amounts borrowed under our credit facilities bear interest at variable rates. Currently, we do not have any hedge arrangements in place to reduce our exposure to interest rate variability on variable rate debt. Increases in prevailing rates could increase the amounts that we would have to pay to our lenders, even though the outstanding principal amount remains the same, and our net income and cash flows would decrease. We expect our earnings and cash flow to vary from year to year due to the cyclical nature of the tanker industry. If we do not generate or reserve enough cash flow from operations to satisfy our debt obligations, we may have to:

- seek to raise additional capital;
- refinance or restructure our debt;
- sell tankers; or
- reduce or delay capital investments.

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

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

We are a holding company and our subsidiaries which are all directly and indirectly wholly owned by us, conduct our operations and own all of our operating assets. As a result, our ability to satisfy our financial obligations and to pay dividends to our shareholders depends on the ability of our subsidiaries to generate profits available for distribution to us and, to the extent that they are unable to generate profits, we will be unable to pay our creditors or dividends to our shareholders.

**Our ability to grow may be adversely affected by our dividend policy.**

Under our dividend policy, we expect to distribute on a quarterly basis as dividends on our shares of common stock an amount equal to 60% of Earnings from Continuing Operations (which represents our earnings per share reported under U.S. GAAP as adjusted for unrealized and realized gains and losses and extraordinary items). Accordingly, our growth, if any, may not be as fast as businesses that do not distribute quarterly

TABLE OF CONTENTS

dividends. To the extent we do not have sufficient cash reserves or are unable to obtain financing from external sources, our dividend policy may significantly impair our ability to meet our financial needs or to grow. Since the quarter ended June 30, 2016, we have not paid cash dividends on our shares of common stock due to losses from continuing operations.

**Our credit facilities contain restrictive covenants that limit our business and financing activities, which could negatively affect our growth and results of operations.**

Our credit facilities and capital leases impose operating and financial restrictions on us. These restrictions may limit our ability, or the ability of our subsidiaries to:

pay dividends and make capital expenditures if we do not repay amounts drawn under our credit facilities or if there is a default under our credit facilities;

incur or guarantee additional indebtedness;

create liens on our assets;

change the flag, class or management of our vessels or terminate or materially amend the management agreement relating to each vessel;

sell our vessels;

merge or consolidate with, or transfer all or substantially all our assets to, another person; or

enter into a new line of business.

Certain of our credit facilities and capital leases require us to maintain specified financial ratios and satisfy financial covenants. These financial ratios and covenants require us, among other things, to maintain minimum solvency, cash and cash equivalents, corporate net worth, working capital, loan-to-value and interest coverage levels and to avoid exceeding corporate leverage maximum.

As a result of these restrictions, we may need to seek consent from our lenders in order to engage in some corporate actions. Our lenders' interests may be different from ours and we may not be able to obtain our lenders' consent when needed. This may limit our ability to finance our future operations or capital requirements, make acquisitions or pursue business opportunities. Our ability to comply with covenants and restrictions contained in debt instruments may be affected by events beyond our control, including prevailing economic, financial and industry conditions. If market or other economic conditions deteriorate, we may fail to comply with these covenants. If we breach any of the restrictions, covenants, ratios or tests in our financing agreements, our obligations may become immediately due and payable, and the lenders' commitment under our credit facilities, if any, to make further loans may terminate. A default under financing agreements could also result in foreclosure on any of our vessels and other assets securing related loans.

**If interest rates increase, it will affect the interest rates under our credit facilities, which could affect our results of operations.**

Amounts borrowed under our existing credit facilities bear interest at an annual rate ranging from 2.50% to 3.50% above LIBOR. Interest rates have recently been at historic lows and any normalization in interest rates would lead to an increase in LIBOR, which would affect the amount of interest payable on amounts that we borrow under our credit facilities, which in turn could have an adverse effect on our results of operations.

**If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results or prevent fraud. As a result, shareholders could lose confidence in our financial and other public reporting, which would harm our business and the trading price of our common stock.**

Effective internal controls over financial reporting are necessary for us to provide reliable financial reports and, together with adequate disclosure controls and procedures, are designed to prevent fraud. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could cause us to fail to meet our reporting obligations. In addition, any testing we conduct in connection with Section 404 of the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act ), or any subsequent testing by our

TABLE OF CONTENTS

independent registered public accounting firm, may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses or that may require prospective or retroactive changes to our financial statements or identify other areas for further attention or improvement. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our securities.

We are required to disclose changes made in our internal controls and procedures and our management is required to assess the effectiveness of these controls annually. However, for as long as we are an emerging growth company, as defined in the U.S. Securities Act of 1933, as amended (the Securities Act), our independent registered public accounting firm will not be required to attest to the effectiveness of our internal controls over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act. We could be an emerging growth company until December 31, 2018 after which period our auditors will provide such attestation. An independent assessment of the effectiveness of our internal controls could detect problems that our management's assessment might not. Undetected material weaknesses in our internal controls could lead to financial statement restatements and require us to incur the expense of remediation.

**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 results of operation.**

We have entered into spot charter contracts, commercial pool agreements, ship management agreements, credit facilities and capital lease arrangements and other commercial arrangements. Such agreements and arrangements 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. For example, the combination of a reduction of cash flow resulting from declines in world trade, a reduction in borrowing bases under reserve-based credit facilities and the lack of availability of debt or equity financing may result in a significant reduction in the ability of our charterers to make charter payments to us. In addition, in depressed market conditions, our charterers and customers may no longer need a vessel that is currently under charter or contract or may be able to obtain a comparable vessel at lower rates. As a result, charterers and customers may seek to renegotiate the terms of their existing charter agreements 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 and results of operation.

**Our business depends upon key members of our senior management team who may not necessarily continue to work for us.**

Our future success depends to a significant extent upon certain members of our senior management team. Our management team includes members who have substantial experience in the product tanker and chemical shipping industries and have worked with us since inception. Our management team is crucial to the execution of our business strategies and to the growth and development of our business. If the individuals were no longer affiliated with us, we may be unable to recruit other employees with equivalent talent and experience, and our business and financial condition may suffer as a result.



**Our insurance may not be adequate to cover our losses that may result from our operations due to the inherent risks of the tanker industry.**

We carry insurance to protect us against most of the accident-related risks involved in the conduct of our business, including marine hull and machinery insurance, protection and indemnity insurance, which includes pollution risks, crew insurance and war risk insurance. However, we may not be adequately insured to cover losses from our operational risks, which could have a material adverse effect on us. Additionally, our insurers may refuse to pay particular claims and our insurance may be voidable by the insurers if we take, or fail to take, certain action, such as failing to maintain certification of our vessels with applicable maritime regulatory organizations. Any significant uninsured or under-insured loss or liability could have a material adverse effect on our business, results of operations and financial condition. In addition, we may not be able to obtain

TABLE OF CONTENTS

adequate insurance coverage at reasonable rates in the future during adverse insurance market conditions. Changes in the insurance markets attributable to terrorist attacks may also make certain types of insurance more difficult for us to obtain due to increased premiums or reduced or restricted coverage for losses caused by terrorist acts generally.

**Because we obtain some of our insurance through protection and indemnity associations, we may be required to make additional premium payments.**

We receive insurance coverage for tort liability, including pollution-related liability, from protection and indemnity associations. We may be subject to increased premium payments, or calls, in amounts based on our claim records, the claim records of our managers, as well as the claim records of other members of the protection and indemnity associations. In addition, our protection and indemnity associations may not have enough resources to cover claims made against them. Our payment of these calls could result in significant expense to us, which could have a material adverse effect on our business, results of operations and financial condition.

**Exposure to currency exchange rate fluctuations could result in fluctuations in our operating results.**

We operate within the international shipping market, which utilizes the U.S. Dollar as its functional currency. As a consequence, the majority of our revenues and the majority of our expenses are in U.S. Dollars.

However, we incur certain general and operating expenses, including vessel operating expenses and general and administrative expenses, in foreign currencies, the most significant of which are the Euro, Singapore Dollar, and British Pound Sterling. This partial mismatch in revenues and expenses could lead to fluctuations in net income due to changes in the value of the U.S. Dollar relative to other currencies.

**Climate change and greenhouse gas restrictions may adversely affect our operating results.**

A number of countries have adopted, or are considering the adoption of, regulatory frameworks to reduce greenhouse gas emissions due to the concern about climate change. These regulatory measures in various jurisdictions include the adoption of cap and trade regimes, carbon taxes, increased efficiency standards, and incentives or mandates for renewable energy. In November 2016, the Paris Agreement that deals with greenhouse gas emission reduction measures and targets to limit global temperature increases came into force. Compliance with changes in laws, regulations and obligations relating to climate change, including as a result of such international negotiations, could increase our costs related to operating and maintaining our vessels and require us to install new emission controls, acquire allowances or pay taxes related to our greenhouse gas emissions, or administer and manage a greenhouse gas emissions program. Revenue generation and strategic growth opportunities may also be adversely affected.

The effects upon the oil industry relating to climate change and the resulting regulations may also include declining demand for our services. We do not expect that demand for oil will lessen dramatically over the short-term, but in the long-term climate change may reduce the demand for oil or increased regulation of greenhouse gases may create greater incentives for use of alternative energy sources. Any long-term material adverse effect on the oil industry could adversely affect the financial and operational aspects of our business, which we cannot predict with certainty at this time.

**We are incorporated in the Marshall Islands, which does not have a well-developed body of corporate case law or bankruptcy law and, as a result, shareholders may have fewer rights and protections under Marshall Islands law than under a typical jurisdiction in the United States.**

Our corporate affairs are governed by our articles of incorporation and bylaws and by the Marshall Islands Business Corporations Act (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 law 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 certain U.S. jurisdictions. Shareholder rights may differ as well. While the BCA does specifically incorporate the non-statutory law, or judicial case law, of the State of Delaware and other states with substantially similar legislative provisions, our shareholders may have more

TABLE OF CONTENTS

difficulty in protecting their interests in the face of actions by management, directors or controlling shareholders than would shareholders of a corporation incorporated in a U.S. jurisdiction. In addition, the Marshall Islands does not have a well-developed body of bankruptcy law. As such, in the case of a bankruptcy involving us, there may be a delay of bankruptcy proceedings and the ability of securityholders and creditors to receive recovery after a bankruptcy proceeding, and any such recovery may be less predictable.

**It may be difficult to serve process on or enforce a U.S. judgment against us, our officers and our directors.**

We are a Marshall Islands corporation and several of our executive offices are located outside of the United States. Most of our directors and officers reside outside the United States. In addition, a substantial portion of our assets and the assets of our directors, officers and experts are located outside of the United States. As a result, you may have difficulty serving legal process upon us or any of these persons within the United States. You may also have difficulty enforcing, both in and outside the United States, judgments you may obtain in U.S. courts against us or any of these persons in any action, including actions based upon the civil liability provisions of U.S. federal or state securities laws. In addition, there is substantial doubt that the courts of the Marshall Islands or of non-U.S. jurisdictions in which our offices are located would enter judgments in original actions brought in those courts predicated on U.S. federal or state securities laws.

**Our ability to pay dividends may be limited by the amount of cash we generate from operations following the payment of fees and expenses, by the establishment of any reserves by our board of directors and by additional factors unrelated to our profitability.**

Although we generally intend to pay regular quarterly dividends on our common shares, we have not paid dividends on our common stock since August 31, 2016, when we paid a cash dividend of \$0.11 per share for the quarter ended June 30, 2016, and we may not pay dividends in the future. The amount of dividends we pay will depend in part upon the amount of cash we generate from our operations. We may not, however, have sufficient cash available each quarter to pay dividends, as a result of insufficient levels of profit, restrictions on the payment of dividends contained in our financing arrangements or under applicable law and the decisions of our management and directors. The amount of cash we have available for dividends may fluctuate upon, among other things:

- the rates we obtain from our charters, as well as the rates obtained following expiration of our existing charters;
- the level of our operating costs;
- the number of unscheduled off-hire days and the timing of, and number of days required for, scheduled drydocking of our vessels;
- vessel acquisitions and related financings, such as restrictions in our credit facilities and in any future debt arrangements;
- prevailing global and regional economic and political conditions;
- the effect of governmental regulations and maritime self-regulatory organization standards, including with respect to environmental and safety matters, on the conduct of our business; and
- changes in the bases of taxation of our activities in various jurisdictions.

The actual amount of cash we will have available for dividends will also depend on many factors, including:

- changes in our operating cash flows, capital expenditure requirements, working capital requirements and other cash needs;

It may be difficult to serve process on or enforce a U.S. judgment against us, our officers and our directors. 44

our fleet expansion strategy and associated uses of our cash and our financing requirements;  
modification or revocation of our dividend policy by our board of directors;  
the amount of any cash reserves established by our board of directors; and  
restrictions under our credit facilities and Marshall Islands law.

TABLE OF CONTENTS

The amount of cash we generate from our operations may differ materially from our net income or loss for the period, which may be affected by non-cash items. We may incur other expenses or liabilities that could reduce or eliminate the cash available for distribution as dividends. Our credit facilities also restrict our ability to declare and pay dividends if an event of default has occurred and is continuing or if the payment of the dividend would result in an event of default. In addition, Marshall Islands law generally prohibits the payment of dividends other than from surplus (retained earnings in excess of consideration received for the sale of stock above the par value of the stock), or while a company is insolvent or if it would be rendered insolvent by the payment of such a dividend, and any dividend may be discontinued at the discretion of our board of directors. As a result of these or other factors, we may pay dividends during periods when we record losses and may not pay dividends during periods when we record income.

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

The market price for our common shares could decline as a result of sales by existing shareholders of large numbers of our common shares, or as a result of the perception that such sales may occur. Sales of our common shares by these shareholders also might make it more difficult for us to sell equity or equity-related securities in the future at a time and at the prices that we deem appropriate.

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

Several provisions of our 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 the 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 two-thirds of the outstanding shares of our common stock entitled to vote for the directors;
  - limiting the persons who may call special meetings of shareholders; and
  - establishing advance notice requirements for nominating candidates for election to our board of directors or for proposing matters that can be acted on by shareholders at shareholder meetings.
- These anti-takeover provisions could substantially impede the ability of public shareholders to benefit from a change in control and, as a result, may adversely affect the market price of our common stock and your ability to realize any potential change of control premium.

**We are an emerging growth company, and we cannot be certain if the reduced reporting requirements applicable to emerging growth companies will make our common shares less attractive to investors.**

Edgar Filing: Ardmore Shipping Corp - Form 20-F

We are an emerging growth company, as defined in the Securities Act, and we may take advantage of certain exemptions from various reporting requirements applicable to other public companies that are not emerging growth companies. Investors may find our common shares less attractive because we rely on certain of these exemptions. If some investors find our common shares less attractive as a result, there may be a less active trading market for our common shares and our share price may be more volatile.

Because of our status as an emerging growth company under the Jumpstart Our Business Startups Act status, our independent registered public accounting firm will not be required to attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act for so long as we are an emerging growth company. As long as we take advantage of the reduced reporting obligations, the information that we provide shareholders may be different from information provided by other public

TABLE OF CONTENTS

companies. We may take advantage of these provisions until December 31, 2018 or such earlier time that we are no longer an emerging growth company. We will cease to be an emerging growth company if, among other things, we have more than \$1.0 billion in total annual gross revenues during the most recently completed fiscal year.

## **Tax Risks**

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

A foreign corporation will be treated as a passive foreign investment company ( PFIC ), for U.S. federal income tax purposes if either (1) at least 75% of its gross income for any taxable year consists 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 passive income . For purposes of these tests, passive income generally includes dividends, interest, and gains from the sale or exchange of investment property and rents and royalties other than rents and royalties which are received from unrelated parties in connection with the active conduct of a trade or business. For purposes of these tests, income derived from the performance of services generally does not constitute passive income . U.S. shareholders of a PFIC are subject to an adverse 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 upon our operations as described herein, we do not have material income from time charters, however we may have income from time charters in future taxable years. We do not believe that our income from such time charters should be treated as passive income for purposes of determining whether we are a PFIC. Consequently, the assets that we own and operate in connection with the production of that income should not constitute passive assets.

Accordingly, based on our current operations, we do not believe we will be treated as a PFIC with respect to any taxable year.

There is substantial legal authority supporting this position consisting of case law and U.S. Internal Revenue Service ( IRS ), pronouncements concerning the characterization of income derived from time charters and voyage charters as services income for other tax purposes. However, there is also authority which characterizes time charter income as rental income rather than services income for other tax purposes.

Accordingly, 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 change.

If the IRS were successful in asserting that we are or have been a PFIC for any taxable year, U.S. shareholders would face adverse U.S. federal income tax consequences. Under the PFIC rules, unless a shareholder makes an election available under the U.S. Internal Revenue Code of 1986, as amended, ( the Code ), (which election could itself have adverse consequences for such shareholders, as discussed below under Item 10.E ( Taxation of Holders U.S. Federal Income Tax Considerations U.S. Federal Income Taxation of United States Holders )), excess distributions and any gain from the disposition of such shareholder's common shares would be allocated ratably over the shareholder's holding period of the common shares and the amounts allocated to the taxable year of the excess distribution or sale or other disposition and to any year before we became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for that taxable year, and an interest charge would be imposed with respect to such tax. See Item 10.E



( Taxation of Holders U.S. Federal Income Tax Considerations U.S. Federal Income Taxation of United States Holders ) for a more comprehensive discussion of the U.S. federal income tax consequences to United States shareholders if we are treated as a PFIC.

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

Under the U.S. Internal Revenue Code of 1986, as amended (the Code ), 50% of the gross shipping income of a corporation that owns or charters vessels, as we and our subsidiaries do, that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States will be subject to

TABLE OF CONTENTS

a 4% U.S. federal income tax without allowance for deduction, unless that corporation qualifies for exemption from tax under Section 883 of the Code and the applicable Treasury Regulations promulgated thereunder or that corporation is entitled to an exemption from such tax under an applicable U.S. income tax treaty.

We intend to take the position that we qualified for this statutory exemption for U.S. federal income tax return reporting purposes for our 2017 taxable year and we intend to so qualify for future taxable years. However, there are factual circumstances beyond our control that could cause us to lose the benefit of this tax exemption and thereby cause us to become subject to U.S. federal income tax on our U.S. source shipping income. For example, there is a risk that we could no longer qualify for exemption under Section 883 of the Code for a particular taxable year if non-qualified shareholders with a 5% or greater interest in our stock were, in combination with each other, to own 50% or more of the outstanding shares of our stock on more than half the days during the taxable year. Due to the factual nature of the issues involved, we can give no assurances on our tax-exempt status or that of any of our subsidiaries.

If we or our subsidiaries were not entitled to exemption under Section 883 of the Code for any taxable year, we or our subsidiaries would be subject for such year to an effective 4% U.S. federal income tax on the shipping income we or our subsidiaries derive during the year which is attributable to the transport of cargoes to or from the United States.

The imposition of this taxation would have a negative effect on our business and would decrease our earnings available for distribution to our shareholders.

**We may be subject to additional taxes, which could adversely impact our business and financial results.**

We and our subsidiaries are subject to tax in certain jurisdictions in which we or our subsidiaries are organized, own assets or have operations. In computing our tax obligations in these jurisdictions, we are required to take various tax accounting and reporting positions on matters that are not entirely free from doubt and for which we have not received rulings from the governing authorities. We cannot assure you that, upon review of these positions, the applicable authorities will agree with our positions. A successful challenge by a tax authority could result in additional tax imposed on us or our subsidiaries, which could adversely impact our business and financial results.

TABLE OF CONTENTS

## **Item 4. Information on the Company**

### **A. History and Development of the Company**

We are Ardmore Shipping Corporation. We provide seaborne transportation of petroleum products and chemicals worldwide to oil majors, national oil companies, oil and chemical traders, and chemical companies, with our modern, fuel-efficient fleet of mid-size product and chemical tankers. Our current fleet consists of 28 vessels, all of which are in operation.

Ardmore Shipping Corporation was incorporated under the laws of the Republic of the Marshall Islands on May 14, 2013. We commenced business operations through our predecessor company, Ardmore Shipping LLC, on April 15, 2010. On August 6, 2013, we completed our initial public offering ( IPO ) of 10,000,000 shares of our common stock. Prior to our IPO, GA Holdings LLC, who was our sole shareholder, exchanged its 100% interest in Ardmore Shipping LLC for 8,049,500 shares of Ardmore Shipping Corporation, and Ardmore Shipping LLC became a wholly owned subsidiary of Ardmore Shipping Corporation. In March 2014, we completed a follow-on public offering of 8,050,000 common shares. In November 2015, GA Holdings LLC sold 4,000,000 of its shares of our common stock in an underwritten public offering. In June 2016, we completed a public offering of 7,500,000 common shares, of which GA Holdings LLC purchased 1,277,250 shares. In November 2017, GA Holdings LLC disposed the balance of its remaining 5,787,942 common shares, of which 5,579,978 shares were sold in an underwritten public secondary offering, 85,654 shares were repurchased by us in a private transaction, and 122,310 shares were distributed to certain of its members, including Anthony Gurnee, our chief executive officer and a member of our board of directors. In addition to the 85,654 shares we repurchased from GA Holdings LLC in a private transaction, we also purchased from the underwriter 1,350,000 shares of our common stock that were sold by GA Holdings LLC in the underwritten public secondary offering. The price we paid for all such repurchases was equal to the price per share at which GA Holdings LLC sold shares to the underwriters in the public offering. As of November 30, 2017, GA Holdings LLC no longer owned any shares in Ardmore. As of February 28, 2018, 32,445,415 shares of our common stock were outstanding.

We have 50 wholly owned subsidiaries, the substantial majority of which represent single ship-owning companies for our fleet, and a newly formed 50%-owned joint venture entity, Anglo Ardmore Ship Management Limited ( AASML ), which provides technical management services to the majority of our fleet. A list of our subsidiaries is included as Exhibit 8.1 to this Annual Report.

We maintain our principal executive and management offices at Belvedere Building, 69 Pitts Bay Road, Ground Floor, Pembroke, HM08, Bermuda. Our telephone number at these offices is +1 441 292 9332. Ardmore Shipping (Bermuda) Limited ( ASBL ), a wholly-owned subsidiary incorporated in Bermuda, carries out our management services and associated functions. Ardmore Shipping Services (Ireland) Limited ( ASSIL ), a wholly-owned subsidiary incorporated in Ireland, provides our corporate, accounting, fleet administration and operations services. Ardmore Shipping (Asia) Pte. Limited ( ASA ), a wholly-owned subsidiary incorporated in Singapore, performs commercial management and chartering services for us. Ardmore Shipping (Americas) LLC ( ASUS ), a wholly-owned subsidiary incorporated in Delaware, performs commercial management and chartering services for us.

### **Vessel Acquisitions**

Our current fleet consists of 28 double-hulled product and chemical tankers, all of which are in operation. We acquired 14 of our vessels as second-hand vessels, seven of which we have upgraded to increase efficiency and improve performance. In 2014, 2015, 2016 and 2017, we paid an aggregate of \$209.7 million, \$232.5 million, \$174.0

We may be subject to additional taxes, which could adversely impact our business and financial results. 51

million and \$1.6 million (as a deposit, the balance of \$14.8 million being payable in 2018), respectively, in capital expenditures for vessel acquisitions, vessel equipment, and newbuilding orders.

As of December 31, 2010, our operating fleet consisted of four vessels. During 2011, 2012, 2013, 2014, 2015 and 2016 we acquired or took delivery (on a net basis) of two, none, two, six, ten and three vessels respectively. In 2017, we took no vessel deliveries; however we did pay \$1.6 million as a deposit for a vessel, the *Ardmore Sealancer*, that was delivered in January 2018.

TABLE OF CONTENTS

## Implications of Being an Emerging Growth Company

We continue to qualify as an emerging growth company as defined in the Jumpstart Our Business Startups Act (the JOBS Act ). An emerging growth company may take advantage of specified reduced reporting and other burdens that are otherwise applicable generally to public companies. These provisions include:

exemption from the auditor attestation requirement in the assessment of the emerging growth company's internal control over financial reporting; and  
exemption from new or revised financial accounting standards applicable to public companies until such standards are also applicable to private companies.

We may take advantage of these provisions until December 31, 2018 or such earlier time that we are no longer an emerging growth company. We will cease to be an emerging growth company if we have more than \$1.0 billion in total annual gross revenues during our most recently completed fiscal year, if we become a large accelerated filer with market capitalization of more than \$700 million, or as of any date on which we have issued more than \$1.0 billion in non-convertible debt over the three year period to such date. When we no longer qualify as an emerging growth company, our auditors will provide the auditor attestations of our internal control over financial reporting; however, for as long as we take advantage of the reduced reporting obligations, the information that we provide shareholders may be different from information provided by other public companies. We have irrevocably chosen to opt out of the extended transition period relating to the exemption from new or revised financial accounting standards and, as a result, we comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies.

## B. Business Overview

We commenced business operations in April 2010 with the goal of building an enduring product and chemical tanker company that emphasizes disciplined capital allocation, service excellence, innovation, and operational efficiency through our focus on high quality, fuel-efficient vessels. We are led by a team of experienced senior managers who have previously held senior management positions with highly regarded public shipping companies and financial institutions.

We are strategically focused on modern, fuel-efficient, mid-size product and chemical tankers. We actively pursue opportunities to exploit the overlap we believe exists between the clean petroleum product ( CPP ) and chemical sectors in order to enhance earnings, and also seek to engage in more complex CPP trades, such as multi-grade and multi-port loading and discharging operations, where our knowledge of chemical operations is beneficial to our CPP customers.

Our fuel-efficient operations are designed to enhance our investment returns and provide value-added service to our customers. We believe we are at the forefront of fuel efficiency and emissions reduction trends and are well positioned to capitalize on these developments with our fleet of Eco-design and Eco-mod vessels. Our acquisition strategy is to continue to build our fleet with Eco-design newbuildings and modern second-hand vessels that can be upgraded to Eco-mod.

We are an integrated shipping company. The majority of our fleet is technically managed by a combination of ASSIL and AASML and we also retain a third-party technical manager for a number of vessels. We have a resolute focus on both high-quality service and efficient operations, and we believe that our corporate overhead and operating expenses are among the lowest of our peers.

Moreover, we are commercially independent, as we have no blanket employment arrangements with third-party or related-party commercial managers. Through our in-house chartering and commercial team, we market our services directly to a broad range of customers, including oil majors, national oil companies, oil and chemical traders, chemical companies, and pooling service providers. We monitor the tanker markets to understand and best utilize our vessels and may change our chartering strategy to take advantage of changing market conditions.

We have no related-party transactions concerning our vessel operations or vessel sale and purchase activities. Certain of our wholly-owned subsidiaries carry out our management and administrative services, with ASBL

TABLE OF CONTENTS

providing our management services and associated functions, ASSIL providing our corporate, accounting, fleet administration and operations services and ASA and ASUS performing our commercial management and chartering services.

We believe that the market for mid-size product and chemical tankers is recovering from cyclical lows, resulting from strong underlying demand growth driven by both cyclical and secular trends, as well as a reduction in the supply overhang due to reduced ordering activity and an extended period of fleet growth at a rate below that of demand growth. We believe that we are well positioned to benefit from the market recovery with a modern, fuel-efficient fleet, access to capital for growth, a diverse and high-quality customer base, an emphasis on service excellence in an increasingly demanding regulatory environment and a relative cost advantage in assets, operations and corporate overhead.

**Fleet List**

Our current fleet consists of 28 vessels, including 21 Eco-design and seven Eco-mod vessels, all of which are in operation. The average age of our vessels at February 28, 2018, was 5.6 years.

Vessel Name	Type	Dwt Tonnes	IMO	Built	Country	Flag	Specification
<i>Ardmore Seavalliant</i>	Product/Chemical	49,998	2/3	Feb-13	Korea	MI	Eco-design
<i>Ardmore Seaventure</i>	Product/Chemical	49,998	2/3	Jun-13	Korea	MI	Eco-design
<i>Ardmore Seavantage</i>	Product/Chemical	49,997	2/3	Jan-14	Korea	MI	Eco-design
<i>Ardmore Seavanguard</i>	Product/Chemical	49,998	2/3	Feb-14	Korea	MI	Eco-design
<i>Ardmore Sealion</i>	Product/Chemical	49,999	2/3	May-15	Korea	MI	Eco-design
<i>Ardmore Seafox</i>	Product/Chemical	49,999	2/3	Jun-15	Korea	MI	Eco-design
<i>Ardmore Seawolf</i>	Product/Chemical	49,999	2/3	Aug-15	Korea	MI	Eco-design
<i>Ardmore Seahawk</i>	Product/Chemical	49,999	2/3	Nov-15	Korea	MI	Eco-design
<i>Ardmore Endeavour</i>	Product/Chemical	49,997	2/3	Jul-13	Korea	MI	Eco-design
<i>Ardmore Enterprise</i>	Product/Chemical	49,453	2/3	Sep-13	Korea	MI	Eco-design
<i>Ardmore Endurance</i>	Product/Chemical	49,466	2/3	Dec-13	Korea	MI	Eco-design
<i>Ardmore Encounter</i>	Product/Chemical	49,478	2/3	Jan-14	Korea	MI	Eco-design
<i>Ardmore Explorer</i>	Product/Chemical	49,494	2/3	Jan-14	Korea	MI	Eco-design
<i>Ardmore Exporter</i>	Product/Chemical	49,466	2/3	Feb-14	Korea	MI	Eco-design
<i>Ardmore Engineer</i>	Product/Chemical	49,420	2/3	Mar-14	Korea	MI	Eco-design
<i>Ardmore Seafarer</i>	Product/Chemical	45,744	3	Aug-04	Japan	MI	Eco-mod
<i>Ardmore Seatrader</i>	Product	47,141		Dec-02	Japan	MI	Eco-mod
<i>Ardmore Seamaster</i>	Product/Chemical	45,840	3	Sep-04	Japan	MI	Eco-mod
<i>Ardmore Seamariner</i>	Product/Chemical	45,726	3	Oct-06	Japan	MI	Eco-mod
<i>Ardmore Sealancer</i>	Product	47,451		Jun-08	Japan	MI	Eco-mod
<i>Ardmore Sealeader</i>	Product	47,463		Aug-08	Japan	MI	Eco-mod
<i>Ardmore Sealifter</i>	Product	47,472		Jun-08	Japan	MI	Eco-mod
<i>Ardmore Dauntless</i>	Product/Chemical	37,764	2	Feb-15	Japan	MI	Eco-design
<i>Ardmore Defender</i>	Product/Chemical	37,791	2	Feb-15	Japan	MI	Eco-design
<i>Ardmore Cherokee</i>	Product/Chemical	25,215	2	Jan-15	Japan	MI	Eco-design
<i>Ardmore Cheyenne</i>	Product/Chemical	25,217	2	Mar-15	Japan	MI	Eco-design
<i>Ardmore Chinook</i>	Product/Chemical	25,217	2	Jul-15	Japan	MI	Eco-design

<i>Ardmore Chippewa</i>	Product/Chemical	25,217	2	Nov-15	Japan	MI	Eco-design
<b>Total</b>	<b>28</b>	<b>1,250,019</b>					

27

---



TABLE OF CONTENTS

## **Business Strategy**

Our objective is to solidify our position as a market leader in modern, fuel-efficient, mid-size product and chemical tankers by engaging in well-timed growth and utilizing our operational expertise and quality-focused approach to provide value-added services to our customers. The key elements of our business strategy include:

*Disciplined capital allocation and well-timed growth.* We have a diligent and patient approach to capital allocation and expanding our fleet and we are selective as to the quality of ships we seek to acquire. We believe that our commitment and selectivity in growing our fleet has been instrumental in building our reputation for quality and service excellence. We also believe that financial flexibility and well-timed growth of quality ships is key to delivering superior returns for shareholders.

*Focus on modern high quality, mid-size product and chemical tankers.* We maintain a very modern fleet, all built in high quality yards in South Korea or Japan. The average sizes of our product and chemical tankers are substantially similar to the median sizes of the global fleets for product tankers and chemical tankers. We have developed our strategic focus around mainstream tanker sizes that are readily employed and actively traded worldwide in broad and deep markets. Additionally, as a result of the overlap between the product and chemical sectors, we believe that our fleet composition enables us to take advantage of opportunities, both operationally and strategically, while also providing investment diversification.

*Commercial independence, flexibility and customer service.* Through our in-house chartering and commercial team and our ship management joint venture arrangement, we have an integrated operating platform resulting in leading commercial and operational performance. We maintain a broad range of existing and potential spot customers, as well as pooling alternatives and potential time-charter customers, to maximize commercial flexibility and customer diversification. Maintaining outstanding customer service is a cornerstone of our business and we seek customers who value our active approach to fuel efficiency and service delivery.

*Low cost structure.* We have established a solid foundation for growth while cost-effectively managing our operating expenses and corporate overhead. We intend to grow our staff as needed and to realize further economies of scale as our fleet expands. At the core of our business philosophy is the belief that well-run companies can deliver high quality service and achieve efficiency simultaneously, through hands-on management, effective communication with employees, and constant re-evaluation of budgets and operational performance.

## **Corporate Officers, Staff and Seafarers**

Biographical information with respect to each of our directors and executive officers is set forth in Item 6 ( Directors, Senior Management and Employees ) of this Annual Report.

As at December 31, 2017, we employed 46 permanent staff onshore. Through AASML, our 50%-owned joint venture ship manager, and Thome Ship Management, our third party technical manager, we currently employ approximately 1,060 seafarers, including 569 officers and cadets and 491 crew.

Commercial management is provided directly by our in-house chartering and commercial team, and by third-party commercial pool managers, in the case of vessels participating in pooling arrangements. Commercial pools can provide many benefits for vessels operating in the spot market, including the ability to generate higher returns due to the economies of scale derived by operating a larger fleet.

## Customers

Our customers include national, regional, and international companies and our fleet is employed directly on the tanker spot market through our in-house chartering and commercial team or via third party commercial pool employment.

We may in the future seek to deploy our vessels on time charter arrangements. We believe that developing strong relationships with the end users of our services allows us to better satisfy their needs with appropriate and capable vessels.

A prospective charterer's financial condition, creditworthiness, and reliability track record are important factors in negotiating our vessels' employment.

28

---

TABLE OF CONTENTS**Competition**

We operate in markets that are highly competitive and based primarily on supply and demand. We compete for charters on the basis of price, vessel location, size, age and condition of the vessel, as well as our reputation. Ownership of tanker vessels is highly fragmented and is divided among publicly listed companies, state-controlled owners and private ship-owners.

**The International Product and Chemical Tanker Industry**

*The information and data contained in this section relating to the international product and chemical tanker shipping industries have been provided by Drewry Maritime Research ( Drewry ), and is taken from Drewry s database and other sources. Drewry has advised that: (i) some information in their database is derived from estimates or subjective judgments; (ii) the information in the databases of other maritime data collection agencies may differ from the information in their database. We believe that all third-party data provided in this section, The International Product and Chemical Tanker Industry, is reliable.*

The world tanker fleet is generally divided into four main categories of vessels based on the main type of cargo carried. These categories are crude oil, refined petroleum products (both clean and dirty products), hereinafter referred to as products, chemicals, (including vegetable oils and fats) and specialist products such as bitumen. There is some overlap between the main tanker types and the cargoes carried which is explained in the table below.

**Principal Tanker Types and Main Cargoes Carried**

Vessel Type	Ship Size	Dwt	Tank Type	IMO Status	Principal Cargo	Other Cargoes
<b>UL/VLCC</b>	200,000+		Uncoated	Non IMO	Crude Oil	
<b>Suezmax</b>	120,000	199,999	Uncoated	Non IMO	Crude Oil	
<b>Aframax</b>	80,000	119,999	Uncoated	Non IMO	Crude Oil	Refined Products Dirty
<b>Panamax</b>	60,000	79,999	Uncoated	Non IMO	Crude Oil	Refined Products Dirty
<b>Long Range 3 (LR3)</b>	120,000	199,999	Coated	Non IMO	Refined Products	Crude; Chemicals/Veg Oils
<b>Long Range 2 (LR2)</b>	80,000	119,999	Coated	Non IMO	Refined Products	Crude; Chemicals/Veg Oils
<b>Long Range 1 (LR1)</b>	60,000	79,999	Coated	Non IMO	Refined Products	Crude; Chemicals/Veg Oils
<b>Medium Range (MR)</b>	25,000	59,999	Coated	IMO 2	Refined Products	Chemicals/Veg Oils
	25,000	59,999	Coated	IMO 3	Refined Products	Chemicals/Veg Oils
	25,000	59,999	Coated	Non IMO	Refined Products	
	25,000	59,999	Uncoated	Non IMO	Refined Products	
<b>Short Range (SR)</b>	10,000	24,999	Coated	Non-IMO	Refined Products	
	10,000	24,999	Coated	IMO 2	Refined Products	Chemicals/Veg Oils
	10,000+		Stainless	IMO 2		Refined Products

<b>Stainless Steel Tankers</b>				Chemicals/Veg Oils
<b>Specialist Tankers</b>	10,000+	Uncoated/ Coated	Non IMO	Various e.g Bitumen

*Source: Drewry*

In the product and chemical sectors there are a number of vessels that possess the ability to carry both products and some chemicals. These vessels, therefore, represent a swing element in supply in both of these markets. However, in practice many vessels will tend to trade in either refined products or chemicals/vegetable oils and fats.

In 2017, a total of 3.40 billion tons of crude oil, oil products and chemicals were moved by sea. This was an increase of 3.6% from 2016 (3.29 billion tons) and is the result of record crude oil imports by Asian economies and rising refining activity leading to further growth in seaborne product trades. In 2017, China became the largest crude oil importer surpassing the United States. Over the period from 2007 to 2017, seaborne trade in oil products grew at an annual average rate of 3.6% and in 2017 totaled 1.03 billion tons. The growth in seaborne products trade between 2016 and 2017 was 2.6%, based on provisional figures.

Between 2012 and 2017 seaborne trade grew by an annual rate of 1.3% for crude oil, 3.8% for oil products, and 3.9% for chemicals. Over the period from 2012 to 2017, seaborne trade in refined products and chemicals

TABLE OF CONTENTS

were two of the fastest growing sectors of international tanker shipping. Changes in world seaborne tanker trade volumes in the period 2007 to 2017 are shown in the table below.

## World Seaborne Tanker Trade Volumes

Year	Crude Oil		Oil Products		Chemicals		Total	Global GDP (IMF)	
	Mill T	% y-o-y	Mill T	% y-o-y	Mill T	% y-o-y	Mill T	% y-o-y	% y-o-y
<b>2007</b>	2,008	0.6 %	723	6.8 %	170	2.5 %	2,902	2.2 %	5.6 %
<b>2008</b>	2,014	0.3 %	765	5.8 %	169	-0.6 %	2,947	1.6 %	3.0 %
<b>2009</b>	1,928	-4.2 %	777	1.6 %	178	5.4 %	2,883	-2.2 %	-0.1 %
<b>2010</b>	1,997	3.6 %	810	4.3 %	189	6.2 %	2,996	3.9 %	5.4 %
<b>2011</b>	1,941	-2.8 %	860	6.3 %	194	2.6 %	2,996	0.0 %	4.3 %
<b>2012</b>	1,988	2.4 %	859	-0.2 %	202	4.2 %	3,049	1.8 %	3.5 %
<b>2013</b>	1,918	-3.6 %	904	5.3 %	211	4.1 %	3,033	-0.6 %	3.5 %
<b>2014</b>	1,893	-1.3 %	914	1.1 %	215	2.1 %	3,022	-0.3 %	3.6 %
<b>2015</b>	1,954	3.2 %	958	4.8 %	231	7.5 %	3,144	4.0 %	3.4 %
<b>2016</b>	2,042	4.5 %	1,008	5.2 %	235	1.6 %	3,285	4.5 %	3.2 %
<b>2017*</b>	2,125	4.1 %	1,034	2.6 %	245	4.1 %	3,404	3.6 %	3.6 %
<b>CAGR (2012 - 2017)</b>	1.3 %		3.8 %		3.9 %		2.2 %		
<b>CAGR (2007 - 2017)</b>	0.6 %		3.6 %		3.7 %		1.6 %		

\*

Provisional estimates

Source: Drewry

## The Product Tanker Industry

While crude oil tankers transport crude oil from points of production to points of consumption, typically oil refineries in consuming countries, product tankers can carry both refined and unrefined petroleum products, including some crude oil, as well as fuel oil and vacuum gas oil (often referred to as dirty products) and gas oil, gasoline, jet fuel, kerosene and naphtha (often referred to as clean products). Tankers with no International Maritime Organisation (IMO) certification but with coated cargo tanks are designed to carry products, while tankers with IMO certification (normally IMO 2 or IMO 3) and coated cargo tanks are capable to carry both products and chemicals/vegetable oils and fats. Given the above, a tanker with IMO 2 certification and with an average tank size in excess of 3,000 cubic meters is normally classified as a product tanker, while a tanker with IMO 2 certification and an average tank size of less than 3,000 cubic meters is normally categorized as a chemical tanker.

In essence, products can be carried in coated non IMO tankers and IMO rated coated tankers. By this definition the product capable tanker fleet comprises nearly 45% of the total tanker fleet (above 10,000 dwt) in numbers terms, and therefore plays a key part in global tanker trade.

Demand for product tankers is determined by world oil demand and trade, which is influenced by various factors including economic activity, geographic changes in oil production, consumption and refinery capacity, oil prices, the availability of transport alternatives (such as pipelines) and inventory policies of nations and oil trading companies.

Tanker demand is a product of (i) the volume of cargo transported in tankers, multiplied by (ii) the distance that cargo is transported.

Oil demand growth and changes in the location of oil supply have altered the structure of tanker markets in recent years. Between 2003 and 2008, more than half of new crude oil production was located in the Middle East and Africa, with these two regions still producing approximately one third of global supply in 2017. However, in recent years U.S. and Canadian crude oil production have significantly increased as a result of shale oil deposit development.

New technologies such as horizontal drilling and hydraulic fracturing have triggered a shale oil revolution in the U.S., and in 2013, for the first time in the previous two decades, the U.S. produced more oil than it imported. This has reduced U.S. seaborne crude import demand, while resulting in greater oil product exports from the U.S. Gulf, giving refiners access to competitively priced feedstock.

TABLE OF CONTENTS

As a result of rising surplus in oil production, in 2015 the U.S. Congress lifted a 40-year old ban on crude oil exports that was put in place after the Arab oil embargo in 1973, thereby allowing U.S. oil producers access to international markets. The first shipments of the U.S. crude were sent to Europe immediately after the lifting of ban, and since then other destinations have followed. The U.S. exported 0.5 mbpd of crude oil in 2015 and 2016. However, 2017 marked a very important development for the U.S. crude producers as the country exported crude to every major importer including China, India, South Korea and several European countries. In October 2017, U.S. crude export surpassed 2 mbpd and on average the country's crude exports more than doubled in 2017 to 1.1 mbpd.

## **U.S. Crude Oil Production and U.S. Product Exports**

*Source: Drewry*

Much of the increase in U.S. exports has gone to satisfying growing South American and African demand for oil products while other U.S. exports have been moving transatlantic into Europe, where local refinery shutdowns have supported the rise in import of products.

In terms of tonne-mile demand, a notable development in the patterns of world refining over the last five years has been the shift towards crude oil producing regions developing their own refinery capacity, while at the same time, poor refinery margins have led to closures of refineries in the developed world, most notably in Europe and on the U.S. east coast. In this context it is already apparent that the closures of refining capacity in the developed world are prompting longer haul imports to cater for product demand, for instance on routes such as the West Coast India to the U.S. eastern seaboard and Europe. Refinery closures close to consuming regions elsewhere in the world will also help to support product import demand. For example, in Australia, trade from Singapore has become increasingly important to compensate for the conversion of local producing refineries into storage depots. This is part of a general increase in intra-Asian trade which is already boosting product tanker demand.

The shift in the location of global oil production is also being accompanied by a shift in the location of global refinery capacity and throughput. In short, capacity and throughput are moving from the developed to the developing world. Between 2007 and 2017 total OECD refining throughput declined by 1.7%, largely as a result of cutbacks in OECD Europe and OECD Asia Oceania. Conversely, throughput in the OECD Americas in the same period moved up by 4.1% to 19.3 million bpd. In 2017, refining throughput of OECD countries stood at 38.5 million bpd and accounted for 47.8% of global refinery throughput.

TABLE OF CONTENTS**Refinery Throughput<sup>(1)</sup> 2007 2017**

( 000 Barrels Per Day)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
OECD Americas	18,524	17,973	17,480	17,931	17,898	18,190	18,492	18,934	18,850	18,960	19,290
OECD Europe	13,462	13,364	12,377	12,265	11,935	11,942	11,304	11,232	11,900	11,920	12,210
OECD Asia Oceania	7,136	7,049	6,549	6,697	6,586	6,609	6,720	6,652	6,700	6,890	6,960
FSU	6,017	6,188	6,170	6,401	6,592	6,683	6,831	7,069	6,850	6,880	6,780
Non-OECD Europe	767	699	641	658	627	587	559	557	500	500	520
China	7,085	7,299	7,762	8,630	9,041	9,749	10,427	10,864	10,400	10,790	11,200
Other Asia	7,762	7,695	8,224	8,598	8,637	8,792	8,588	8,541	10,000	10,380	10,420
Latin America	5,266	5,181	4,729	4,678	4,873	4,470	4,589	4,545	4,550	4,200	3,850
Middle East	6,213	6,211	6,069	6,164	6,324	6,257	6,202	6,501	6,450	6,810	7,160
Africa	2,372	2,457	2,292	2,451	2,168	2,202	2,182	2,255	2,250	2,090	2,050
<b>Total</b>	<b>74,604</b>	<b>74,116</b>	<b>72,293</b>	<b>74,471</b>	<b>74,682</b>	<b>75,482</b>	<b>75,894</b>	<b>77,149</b>	<b>78,450</b>	<b>79,420</b>	<b>80,440</b>

(1) The difference between oil consumption and refinery throughput is accounted for by condensates, output gains, direct burning of crude oil and other non-gas liquids.

*Source: Drewry*

Asia (excluding China) and the Middle East added over 0.74 million bpd of export-oriented refinery capacity in 2016. As a result of these developments countries such as India and Saudi Arabia have consolidated their positions as major exporters of products. It is also the case that export-oriented refineries in India and the Middle East, coupled with the closure of refining capacity in the developed world, have prompted longer-haul shipments to cater for product demand.

New refining capacity of 1.0 million bpd came online in 2017 and further new refinery capacity is currently scheduled for both the Middle East and Asia in the period 2018 to 2022. In the period 2018 to 2022 anticipated additions to refinery capacity on a regional basis (illustrated in the chart below) amount to 5.8 million bpd, or 6.0% of existing refinery capacity.



TABLE OF CONTENTS

## **Planned Additions to Global Refining Capacity<sup>(1)</sup>**

(Million Barrels Per Day)

(1) Assumes all announced plans go ahead as scheduled.

*Source: Drewry*

In developed economies, such as Europe, refinery capacity is on the decline and this trend is likely to continue as refinery development plans are concentrated in areas such as Asia and the Middle East or close to oil producing centers and where the new capacity coming on stream is export orientated. These new refineries are more competitive, as they can process sour crude oil and are technically more advanced as well as more environmentally friendly compared with existing European refineries. It is also the case that few new refineries or expansions are planned for Europe. By contrast Chinese and Indian refinery capacity, for example, has grown at faster rates than any other global region in the last decade, due to strong domestic oil consumption, and the construction of export-orientated refineries.

In the period 2007 to 2017, Chinese refining capacity increased by 80.7% and for India, the growth was 66.4%.

TABLE OF CONTENTS

## **China & India Refining Capacity<sup>(1)</sup>**

( 000 Barrels Per Day)

(1) *Capacity for 2018 to 2023 assumes all announced plans go ahead as scheduled*  
*Source: Drewry*

As a result of the growth in trade and the changes in the location of refinery capacity, demand for product tankers expressed in terms of tonne-miles grew by a CAGR of 4.3% between 2007 and 2017. Generally, growth in products trade and product tanker demand is more consistent and less volatile than crude oil trade.

## **Seaborne Product Trade and Ton Mile Demand**

\* *Provisional estimates*  
*Source: Drewry*

TABLE OF CONTENTS**Product Tanker Supply**

The global product tanker fleet is classified as any non stainless steel/specialized tanker between 10,000 dwt and 60,000 dwt, as well as coated and other product-capable vessels over 60,000 dwt. As of February 25, 2018, the world product tanker capable fleet consisted of 3,791 vessels with a combined capacity of 175.1 million dwt. Within the total tanker fleet, MR vessels account for 32.5% of total ship numbers and, in the global product tanker fleet, they account for 55.7% of total ship numbers. MR vessels are considered the workhorses of the fleet.

As of February 25, 2018, the MR product tanker orderbook was 87 vessels totaling 4.3 million dwt. The MR orderbook as a percentage of the existing MR fleet in terms of dwt was 4.5%, compared with 4.7% in February 2017 and close to 50% at the last peak in 2008. Based on scheduled deliveries, 2.2 million dwt of MR product tankers are due for delivery in the remainder of 2018 and a further 1.7 million dwt in 2019. Approximately 50% of the vessels on order in the MR category are scheduled to be delivered in 2018 and this would increase the MR fleet by 2.4%, assuming no vessel scrapping. In any year ships will be scrapped due to age and therefore in 2018 the growth in the MR fleet is likely to be less than 2.4%. Furthermore, in recent years the orderbook has been affected by the non-delivery of vessels or slippage as it is sometimes referred to. Current estimates suggest that in 2017, approximately 20% of vessels across the entire tanker orderbook scheduled for delivery in 2017 did not deliver during the year. Some of the non-delivery was a result of delays, either through mutual agreement or through shipyard problems, while some were due to vessel cancellations. Slippage is likely to remain an issue going forward and will continue to temper fleet growth.

The other factor that will affect future supply is vessel scrapping. The volume of scrapping is a function primarily of the age profile of the fleet, scrap prices in relation to current and prospective charter market conditions, as well as operating, repair and survey costs. In 2015, a total of 56 tankers of a combined capacity of 2.5 million dwt were sold for scrap, of which 22 tankers of approximately 0.7 million dwt were in the MR size range. In comparison, only 46 tankers with a combined capacity of 2.1 million dwt of tonnage were scrapped in 2016, of which 28 tankers with a total capacity of 1.1 million dwt were in the MR size range. Provisional data suggests that in 2017 a further 24 MR tankers of 1 million dwt were removed from the operating fleet. Demolition has slowed in the product tanker sector due to the fact that the global fleet is relatively young.

**World Tanker Fleet & Orderbook: February 25, 2018**

Vessel Type/Class	Fleet		Orderbook		% Fleet Dwt	Orderbook Delivery Schedule (M Dwt)					
	Number	M Dwt	Number	M Dwt		2018	2019	2020	2021+		
<b>Crude Tankers</b>											
UL/VLCC	736	226.4	200,000+	90	28.1	12.4%	13.7	11.2	2.5	0.6	
Suezmax	549	85.7	120,000	199,999	35	5.3	6.2 %	3.2	1.1	1.0	0.2
Aframax (Uncoated)	653	71.0	80,000	119,999	74	8.4	11.8%	4.7	2.3	0.8	0.6
Panamax (Uncoated)	81	5.6	60,000	79,999	5	0.3	5.4 %	0.0	0.0	0.3	0.0
<b>Crude Tankers</b>	<b>2,019</b>	<b>388.7</b>			<b>204</b>	<b>42.1</b>	<b>10.8 %</b>	<b>21.6</b>	<b>14.6</b>	<b>4.6</b>	<b>1.4</b>
Long Range 3 (LR3)	18	2.8	120,000	199,999	1	0.2	5.5 %	0.2	0.0	0.0	0.0
Long Range 2 (LR2)	345	37.7	80,000	119,999	35	4.0	10.6%	1.9	0.7	0.3	1.0
Long Range 1 (LR1)	363	26.7	60,000	79,999	21	1.6	6.0 %	1.0	0.4	0.2	0.0

Edgar Filing: Ardmore Shipping Corp - Form 20-F

<b>LR Product Tankers</b>	<b>726</b>	<b>67.2</b>			<b>57</b>	<b>5.7</b>	<b>8.5 %</b>	<b>3.1</b>	<b>1.1</b>	<b>0.5</b>	<b>1.0</b>
Medium Range (MR)											
Coated IMO 2	858	38.6	25,000	59,999	80	4.0	10.4%	1.9	1.7	0.4	0.0
Coated IMO 3 & Non IMO Coated/Uncoated	1,276	56.4	25,000	59,999	7	0.3	0.5 %	0.3	0.0	0.2	0.0
<b>Total MR</b>	<b>2,134</b>	<b>95.0</b>			<b>87</b>	<b>4.3</b>	<b>4.5 %</b>	<b>2.2</b>	<b>1.7</b>	<b>0.6</b>	<b>0.0</b>
Short Range	955	14.1	10,000	24,999	65	1.1	7.4 %	0.5	0.3	0.2	0.0
Stainless Steel Tankers	696	15.3	10,000+		62	1.6	10.3%	0.8	0.5	0.2	0.0
<b>Total All Tankers</b>	<b>6,530</b>	<b>580.4</b>			<b>475</b>	<b>54.7</b>	<b>9.4 %</b>	<b>28.2</b>	<b>18.1</b>	<b>6.2</b>	<b>2.4</b>

Source: Drewry

## TABLE OF CONTENTS

Two other important factors are likely to affect product tanker supply in the future. The first is the requirement to retrofit ballast water management systems ( BWMS ) to existing vessels. In February 2004, the IMO adopted the International Convention for the Control and Management of Ships Ballast Water and Sediments ( BWM Convention ). The BWM Convention contains an environmentally protective numeric standard for the treatment of ship s ballast water before it is discharged. This standard, detailed in Regulation D-2 of the BWM Convention, sets out the numbers of organisms allowed in specific volumes of treated discharge water. The IMO D-2 standard is also the standard that has been adopted by the USCG s ballast water regulations and the U.S. EPA s Vessel General Permit. The BWM Convention also contains an implementation schedule for the installation of IMO member state type approved treatment systems in existing ships and in new vessels, requirements for the development of vessel ballast water management plans, requirements for the safe removal of sediments from ballast tanks, and guidelines for the testing and type approval of ballast water treatment technologies. However, in July 2017 the IMO s Maritime Environment Protection Committee ( MEPC ) decided to extend the time for compliance with the BWM Convention. As a result, only vessels built after its entry into force on September 8, 2017 will immediately be subject to the new ballast water performance standard. Other vessels will be exempt until their first International Oil Pollution Prevention ( IOPP ) renewal survey, which will be conducted after September 8, 2019. Such surveys typically take place every five years, thus some vessels will have until 2024 to comply. For an MR2 tanker, the retrofit cost could be as much as \$1.0 million per vessel including labor. Expenditure of this kind will be another factor impacting on the decision to scrap older vessels.

The second factor that is likely to impact on future vessel supply is the drive to introduce low sulfur fuels. For many years heavy fuel oil ( HFO ) has been the main fuel of the shipping industry. The IMO, the governing body of international shipping, has made a decisive effort to diversify the industry away from HFO into cleaner fuels. Effective in 2015, ships operating within the Emission Control Areas ( ECAs ) covering the Economic Exclusive Zone of North America, the Baltic Sea, the North Sea, and the English Channel are required to use marine gas oil with allowable sulfur content up to 1,000 parts per million ( ppm ). From 2020, ships sailing outside ECAs will switch to marine diesel oil with permitted sulfur content up to 5,000 ppm. This will create openings for a variety of new fuels, or capital expenditure for scrubbers to be retrofitted on existing ships and as such it may hasten the demise of older ships.

## **The Product Tanker Freight Market**

Between 2003 and early 2008, the differential between demand and supply for tankers remained narrow and rates were generally very firm. Following the global financial crisis in 2009, tanker demand declined, coinciding with substantial tonnage entering the fleet, driving earnings down until the market started to recover in 2014. Product tanker fleet growth in 2015 was approximately 5.0% in capacity terms and with demand growing by approximately 5.2%, improved utilization rates in the sector have led to much stronger freight rates. The specific factors which have led to improved market conditions include:

- increased trade due to higher stocking activity and improved demand for oil products;
- longer voyage distances because of refining capacity additions in Asia;
- product tankers are also carrying crude oil encouraged by firm freight rates for dirty tankers; and
- lower bunker prices have also been a factor contributing to higher net earnings.

For example, the average time charter equivalent ( TCE ) of the spot rate for a Medium Range (MR) product tanker in 2015 was \$18,375/day, compared with an average of \$9,833/day in 2014. On a one-year time charter rate basis, average MR rates rose from \$14,438/day in 2014 to \$17,271/day in 2015.



TABLE OF CONTENTS

However, newbuild deliveries in 2016 and 2017 had a negative impact on vessel earnings. In 2017, the average one-year time charter rate for MR tankers was \$13,188/day, while on a TCE basis the average rate during 2017 was \$8,258/day. The trend in MR spot and time charter rates in the period from January 2007 to January 2018 is shown in the chart below.

## **MR Tanker Freight Rates**

(US\$ Per Day)

*Source: Drewry*

It should be noted that these rates are based on standard five-year old MR vessels, and there is some evidence that more recently built vessels constructed to particularly fuel-efficient Eco specifications are currently able to achieve an additional premium on these levels of up to 10%.

## **Asset Values**

Product tanker asset values have also fluctuated over time, and there is a relationship between changes in asset values and the charter market. Newbuilding prices increased significantly between 2003 and early 2008, primarily as a result of increased tanker demand and rising freight rates. Current newbuilding prices are significantly below the peaks reported at the height of the market in 2008, and in December 2017 the newbuilding price for an MR product tanker was estimated at \$33.0 million.

TABLE OF CONTENTS

The secondhand sale and purchase market has traditionally been relatively liquid, with tankers changing hands between owners on a regular basis. Secondhand prices peaked over the summer of 2008 and have since followed a similar path to both freight rates and newbuilding prices. In December 2017, a five-year old MR product tanker was estimated to have a value of \$24.0 million. The trends in newbuilding prices, second hand values and freight rates for an MR tanker in the period 2007 to December 2017 are summarized in the table below.

## MR Product Tankers: Freight Rate and Asset Value Summary

Period Averages	Spot (US\$/day)	Timecharter (US\$/day)		Asset Prices (US\$ million)	
		<i>1 Year</i>	<i>3 Year</i>	<i>Newbuild</i>	<i>5 Year Old</i>
2007	23,682	25,367	22,146	49.5	50.0
2008	21,156	23,092	21,500	52.1	51.0
2009	9,043	14,850	15,267	40.3	30.2
2010	10,568	12,388	13,646	35.9	26.4
2011	8,658	13,633	14,575	36.1	28.3
2012	8,000	13,325	14,500	33.2	25.2
2013	9,550	14,346	15,161	33.8	26.2
2014	9,833	14,438	15,417	36.9	27.1
2015	18,375	17,271	16,458	36.1	25.8
2016	9,767	15,125	15,354	33.1	24.8
2017	8,258	13,188	14,333	32.7	23.4
Dec-17	7,900	14,000	14,500	33.0	24.0
<b>2013 2017</b>					
5 Year Avg	11,157	14,873	15,345	34.5	25.5
5 Year Low	4,800	12,000	14,000	32.0	22.0
5 Year High	23,600	19,500	18,000	37.0	29.0
<b>2008 2017</b>					
10 Year Avg	11,321	15,165	15,621	37.0	28.8
10 Year Low	4,800	10,800	12,200	32.0	22.0
10 Year High	27,809	25,000	22,500	54.0	53.5

*Source: Drewry*

## The Chemical Tanker Industry

### Introduction

The world chemical industry is one of the largest and most diversified industries in the world with more than 1,000 large and medium-sized companies manufacturing over 70,000 different product lines. Although most specialist chemicals are used locally, world trade is becoming an increasingly prominent part of the global chemical industry for a number of reasons ranging from local stock imbalances to a lack of local production of particular chemicals in various parts of the world. In broad terms, seaborne trade growth in bulk liquid chemicals has tracked trends in economic activity and globalization.



The seaborne transportation of chemicals is technically and logistically complex compared with the transportation of crude oil and oil products, with cargoes ranging from hazardous and noxious chemicals to products such as edible oils and fats. Consequently, the chemical tanker sector comprises a wide array of specially constructed small and medium sized tankers designed to carry chemical products in various stages of production.

TABLE OF CONTENTS**Chemical Tanker Demand**

Demand for chemicals is affected by, among other things, general economic conditions (including increases and decreases in industrial production and transportation), chemical prices, feedstock costs and chemical production capacity. Given their industrial usage, chemical demand, and as a result demand for seaborne transport, is well-correlated with global GDP. Seaborne trade in chemicals is characterized by a wide range of individual cargoes and a relatively regionalized structure compared with crude and products. Given the geographical complexity and the diversity of cargoes involved and the way in which some cargoes are transported, estimating total seaborne trade in chemicals is difficult. Essentially, there are four main types of chemical transported by sea; organic chemicals, inorganic chemicals; vegetable oils and fats and other commodities such as molasses.

## Seaborne Chemical Trades (In Millions of Tons)

*Source: Drewry*

	Organics	Inorganics	Veg/Animal Oils & Fats	Other Chemical Cargoes	Total	% Change
2007	85.8	24.8	50.4	9.2	170.2	2.5
2008	81.0	26.5	52.8	8.9	169.2	-0.6
2009	89.0	25.3	55.0	9.1	178.4	5.4
2010	96.8	26.7	55.8	10.2	189.4	6.2
2011	99.0	28.2	56.8	10.2	194.3	2.6
2012	99.9	28.7	62.9	11.0	202.5	4.2
2013	106.2	27.3	65.8	11.6	210.8	4.1
2014	107.8	28.2	67.3	12.0	215.2	2.1
2015	109.8	29.7	78.2	13.7	231.3	7.5
2016	111.6	30.5	72.6	14.9	229.5	-0.8
2017	117.6	33.5	77.2	16.4	244.8	6.7

The U.S. is the largest exporter of organic chemicals, accounting for approximately one quarter of all exports, while China accounts for approximately one third of total organic chemical imports. The four organic chemicals most frequently traded by sea are methanol, styrene, benzene and para-xylene. Inorganic chemical trade accounts for approximately 10 – 15% of total seaborne movements. They are not traded geographically as widely as organic chemicals and they also present several transport problems; not only are they very dense, they are also highly corrosive. Palm oil accounts for about half of this, with the next top two commodities in this sector traded by sea being soybean oil and sunflower seed oil.

## TABLE OF CONTENTS

From a regional perspective, activity is focused on three main geographical areas. Europe is a mature, established producing region, contributing over one quarter of total chemical production. Much of Europe's production serves domestic requirements. This manifests itself in increased demand for short-sea services, rather than deep-sea trades.

North American (predominantly the U.S.) manufacturers produce approximately one fifth of the major chemical products in the world. Although the majority of the U.S. production is for domestic use, particularly where gasoline additives are involved, the country also produces above domestic requirements, which results in significant export volumes.

In the U.S. the chemicals industry will be affected by the development of shale gas. Increased supplies of natural gas in the U.S. have already served to push down domestic gas prices and the fall in natural gas prices has had a beneficial impact on feedstock costs for the petrochemical industry. In particular, the cost of ethane has fallen significantly since 2011 thereby increasing the competitiveness of the U.S. petrochemical industry within a global perspective.

Accordingly, U.S. ethylene production costs have fallen to levels where the U.S. can now compete with Middle Eastern suppliers, and this opens up new opportunities to expand U.S. ethylene cracking capacity and subsequently petrochemical capacity. Ethylene cracker utilization in the U.S. has improved and prior to the recent fall in oil prices plans had been announced for a number of new petrochemical plants. Ethylene is a precursor for many of the organic chemicals shipped by sea (e.g. ethylene dichloride, ethylene glycol), so increased production would lead to increased availability of downstream chemical products for export from the U.S. Although the Middle East will continue to be the largest supplier of organic chemicals, the U.S. will be a major exporter of methanol and ethylene derivatives to the Far East market. Meanwhile, the U.S. and Iran's new methanol projects may have a significant impact on global seaborne chemical trade.

## **Chemical Tanker Supply**

Chemical tankers are characterized mainly by cargo containment systems which are technically more sophisticated than those found in conventional oil and product tankers. Since chemical tankers are often required to carry many products which are typically hazardous and easily contaminated, cargo segregation and containment is an essential feature of these tankers.

Chemicals can only be carried in a tanker which has a current IMO Certificate of Fitness. The IMO regulates the carriage of chemicals by sea under the auspices of the International Bulk Chemical Code (IBC), which classifies potentially dangerous cargoes into three categories, typically referred to as IMO 1, IMO 2 and IMO 3. Specific IMO conventions govern the requirements for particular tanks to be classified as each grading, which the pertinent features of each tank being the internal volume and its proximity to the sides and bottom of the vessel's hull.

The carriage of 18 cargoes is restricted to IMO Type 1 classified vessels, while the majority of cargoes require IMO 2 vessels, including vegetable oils and palm oils. One concession to the IBC Code regulations is an allowance that IMO 3 tankers may carry other edible oils, an exemption introduced because of the tendency for such cargoes to be shipped in large bulk parcels. This often requires ships of up to MR size. Despite this exemption, these vessels are not true chemical tankers in the general sense of the word, as they are not able to carry IMO 2 cargoes.

As well as defining the chemical tanker fleet in terms of IMO type, it is also possible to further define the fleet according to the degree of tank segregation, tank size and tank coating as detailed below.

*Chemical parcel tankers:* Over 75% of the tanks are segregated with an average tank size less than 3,000 cbm, all of which are stainless steel. A typical chemical parcel tanker might be IMO 2 with a capacity of 20,000 dwt and have twenty fully segregated tanks which are of stainless steel.

*Chemical bulk tankers:* Vessels with a lower level of tank segregations (below 75%), with an average tank size below 3,000 cbm, and with coated tanks. A typical chemical bulk tanker might be 17,000 dwt with 16 coated tanks but 8 segregations and be IMO 2.

Given the above, a broad definition of a chemical tanker is any vessel with a current IMO certificate of fitness with coated/and or stainless steel tanks and an average tank size of less than 3,000 cbm.

TABLE OF CONTENTS

Overall, within the product and chemical tanker fleets it is important to recognize that there are a group of swing ships which can trade in either products or in chemicals, vegetable oils and fats. For example, a product tanker with IMO 2 certification may trade from time to time in easy chemicals such as caustic soda. Equally, an IMO 2 chemical tanker can in theory carry in products. The sector in which these swing ships trade will depend on a number of factors, with the main influences being the exact technical specifications of the ship; the last cargo carried; the state of the freight market in each sector and the operating policy of the ship owner/operator.

As of February 25, 2018, the world IMO 2 Coated and Stainless Steel tanker fleet consisted of 1,619 vessels with a combined capacity of 35 million dwt. The orderbook consisted of 116 vessels of 2.6 million dwt, or 7.5% of the existing fleet. In 2017, provisional data suggest that only four MR chemical tankers totaling 0.2 million dwt were sent for demolition. In addition, chemical tankers are relatively complex vessel types to build and this increases the barriers to entry for shipyards and the pool of yards that owners are willing to consider is small.

## World Coated IMO 2 and Stainless Steel Tanker Fleet and Orderbook: February 25, 2018

Ship Type	Size (DWT)	Fleet		Orderbook Feb 2018			Orderbook Delivery Schedule (M Dwt)			
		Number	M Dwt	Number	M Dwt	% Fleet	2018	2019	2020	2021+
Coated IMO 2	10,000+	923	19.7	54	1.0	5 %	0.5	0.2	0.3	0.1
Stainless Steel	10,000+	696	15.3	62	1.6	10 %	0.8	0.5	0.2	0.0
<b>Total</b>		<b>1,619</b>	<b>35.0</b>	<b>116</b>	<b>2.6</b>	<b>7.5 %</b>	<b>1.3</b>	<b>0.8</b>	<b>0.5</b>	<b>0.1</b>

Source: Drewry

## The Chemical Tanker Freight Market

Some 50% of all chemical movements are covered by COAs, while the spot market covers 35% to 40%. The remainder is made up by other charter arrangements and cargoes moved in tonnage controlled by exporters or importers. In the chemical tanker freight market, the level of reporting of fixture information is far less widespread than for the oil tanker market. Furthermore, it is not always possible to establish a monthly series of rates for an individual cargo, on a given route, as fixing is often sporadic, or more often than not covered by contract business. For these reasons, the assessment of spot freight rate trends in the freight market is made by using a small number of routes where there is sufficient fixture volume to produce meaningful measurements.

Following an increase in rates in 2011 after the decline in 2009 and 2010, freight rates on most major trade lanes declined during 2012 as market sentiment eroded. In 2013 spot rates on most routes strengthened and in 2014 rates continued to record small gains on the back of increased vessel demand. In 2015, freight rates moved up by 4.6% on account of improved seaborne chemical trade. However, the freight rates on average declined by 4.5% in 2016 as a result of a slowdown in demand growth. Provisional data for 2017 suggest that global seaborne chemical trade grew by 4.1%, whereas, average time charter rates dropped further by 14.2%.

## Chemical Tanker Asset Values

As in other shipping sectors, chemical tanker sale and purchase values show a relationship to the charter market and newbuilding prices. Newbuilding prices are influenced by shipyard capacity and increased steel prices; secondhand vessel values may vary because of the country of construction and the level of outfitting of such vessels. Although there has been a relatively high level of activity in recent years, chemical vessels can be difficult to market to buyers due to the complexity of operations in the chemical market and they may not always achieve their initial newbuilding premium. Newbuilding price trends in the chemical tanker sector are more difficult to track than product tankers due to the lower volume of ordering and variation in specification. However, at the end of 2017 prices were generally 30% to 40% lower than the market peak in early 2008. Similarly, in the secondhand market, asset values in some cases have dropped by nearly 50% since 2008.

## **Environmental and Other Regulations**

Government laws and regulations significantly affect the ownership and operation of our tankers. We are subject to international conventions, national, state and local laws and regulations in force in the countries in

## TABLE OF CONTENTS

which our vessels may operate or are registered. Compliance with such laws, regulations and other requirements entails significant expense, including vessel modifications and implementation of certain operating procedures.

A variety of governmental, quasi-governmental and private organizations subject our tankers to both scheduled and unscheduled inspections. These organizations include local port authorities, national authorities, harbor masters, classification societies, flag state administrations, labor organizations, charterers, terminal operators and oil companies. Some of these entities require us to obtain permits, licenses, certificates and approvals for the operation of our tankers. Our failure to maintain necessary permits, licenses, certificates or approvals could require us to incur substantial costs or temporarily suspend operation of one or more of the vessels in our fleet, or lead to the invalidation or reduction of our insurance coverage.

We believe that the heightened levels of environmental and quality concerns among insurance underwriters, financial institutions, regulators and charterers have led to greater inspection and safety requirements on all vessels and may accelerate the scrapping of older vessels throughout the tanker industry. Increasing environmental concerns have created a demand for tankers that conform to stricter environmental standards and these standards are expected to increase in stringency. We are required to maintain operating standards for all of our vessels that emphasize operational safety, quality maintenance, and procedural compliance, together with continuous training of officers and crews to maintain compliance with applicable local, national and international environmental laws and regulations. Such laws and regulations frequently change and may impose increasingly strict requirements. We cannot predict the ultimate cost of complying with these or future requirements, or the impact of these requirements on the resale value or useful lives of our tankers. In addition, a future serious marine incident that results in significant oil pollution, release of hazardous substances, loss of life or otherwise causes significant adverse environmental impact, such as the 2010 *Deepwater Horizon* oil spill in the Gulf of Mexico, could result in additional legislation, regulation or other requirements that could negatively affect our business, results of operations or financial position.

## **International Maritime Organization ( IMO )**

The IMO, the United Nations agency for maritime safety and the prevention of pollution, has adopted the International Convention for the Prevention of Pollution from Ships of 1973 ( MARPOL ), which has been updated through various amendments. MARPOL establishes environmental standards relating to oil leakage or spilling, garbage management, sewage, air emissions, handling and disposal of noxious liquids and the handling of harmful substances in packaged forms.

In 2012, the IMO s Marine Environmental Protection Committee ( MEPC ) adopted a resolution amending the International Code for the Construction and Equipment of Ships Carrying Dangerous Chemicals in Bulk (the IBC Code ). The provisions of the IBC Code are mandatory under MARPOL and SOLAS. These amendments, which entered into force in June 2014, pertain to revised international certificates of fitness for the carriage of dangerous chemicals in bulk and identifying new products that fall under the IBC Code. As of January 1, 2016, amendments to Annex I, the IBC Code, require that all chemical tankers must be fitted with approved stability instruments capable of verifying compliance with both intact and damage stability. We may need to make certain financial expenditures to comply with these amendments.

In 2013, the MEPC adopted a resolution amending MARPOL Annex I Conditional Assessment Scheme ( CAS ). The amendments, which became effective on October 1, 2014, pertain to revising references to the inspections of bulk carriers and tankers after the 2011 International Code on the Enhanced Programme of Inspections during Surveys of Bulk Carriers and Oil Tankers ( ESP Code ), which provides for enhanced inspection programs, became mandatory. We may need to make certain financial expenditures to comply with these amendments.

## **Air Emissions**

In September 1997, the IMO adopted Annex VI to MARPOL to address air pollution from vessels. Effective May 2005, Annex VI sets limits on sulfur oxide and nitrogen oxide emissions from all commercial vessel exhausts and prohibits deliberate emissions of ozone depleting substances (such as halons and chlorofluorocarbons), emissions of volatile compounds from cargo tanks, and the shipboard incineration of specific substances. Annex VI also includes a global cap on the sulfur content of fuel oil and allows for

42

---



TABLE OF CONTENTS

special areas to be established with more stringent controls on sulfur emissions, as explained below. Emissions of volatile organic compounds from certain tankers, and the shipboard incineration (from incinerators installed after January 1, 2000) of certain substances (such as polychlorinated biphenyls, or PCBs) are also prohibited. We believe that all our vessels are currently compliant in all material respects with these regulations.

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

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

Amended Annex VI also establishes new tiers of stringent nitrogen oxide emissions standards for marine diesel engines, depending on their date of installation. At the MEPC meeting held from March to April 2014, amendments to Annex VI were adopted which address the date on which Tier III Nitrogen Oxide (NOx) standards in ECAs will go into effect. Under the amendments, Tier III NOx standards apply to ships that operate in the North American and U.S. Caribbean Sea ECAs designed for the control of NOx with a marine diesel engine installed and constructed on or after January 1, 2016. Tier III requirements could apply to areas that will be designated for Tier III NOx in the future. At MEPC 70 and MEPC 71, the MEPC approved the North Sea and Baltic Sea as ECAs for nitrogen oxide for ships built after January 1, 2021. The U.S. Environmental Protection Agency promulgated equivalent (and in some respects stricter) emissions standards in late 2009. As a result of these designations or similar future designations, we may be required to incur additional operating or other costs.

As determined at the MEPC 70, the new Regulation 22A of MARPOL Annex VI is effective as of March 1, 2018 and requires ships above 5,000 gross tonnage to collect and report annual data on fuel oil consumption to an IMO database, with the first year of data collection commencing on January 1, 2019.

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

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

business, results of operations, cash flows and financial condition.

## **Safety Management System Requirements**

The IMO also adopted the International Convention for the Safety of Life at Sea of 1974 ( SOLAS ) and the International Convention on Load Lines ( LL Convention ), which impose a variety of standards that regulate

## TABLE OF CONTENTS

the design and operational features of ships. The IMO periodically revises the SOLAS and LL Convention standards. The May 2012 SOLAS amendments that relate to the safe manning of vessels entered into force on January 1, 2014. Several SOLAS regulations also came into effect in 2016, including regulations regarding adequate vessel integrity maintenance, structural requirements, and construction.

The IMO Legal Committee also adopted the 1996 Protocol to the Convention on Limitation of Liability for Maritime Claims (the LLMC ), which specifies limits of liability for loss of life or personal injury claims and property claims against ship-owners. The limits of liability are periodically amended to adjust to inflation. Amendments to the LLMC, which were adopted in April 2012, went into effect on June 8, 2015.

Our operations are also subject to environmental standards and requirements contained in the International Management Code for the Safe Operation of Ships and for Pollution Prevention ( ISM Code ), promulgated by the IMO under SOLAS. The ISM Code requires the party with operational control of a vessel to develop an extensive safety management system that includes, among other things, the adoption of safety and environmental protection policies 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 has been developed for our vessels for compliance with the ISM Code.

The ISM Code requires that vessel operators also obtain a safety management certificate for each vessel they operate.

This certificate evidences compliance by a vessel s management with code requirements for a safety management system. No vessel can obtain a certificate unless its manager has been awarded a document of compliance, issued by each flag state, under the ISM Code. Our technical managers have obtained documents of compliance for its offices and safety management certificates for all of our vessels for which the certificates are required by the ISM Code.

These documents of compliance and safety management certificates are renewed as required.

Noncompliance with the ISM Code and other IMO regulations may subject the ship-owner or bareboat charterer to increased liability, may lead to decreases in, or invalidation of, available insurance coverage for affected vessels and may result in the denial of access to, or detention in, some ports. The USCG and EU authorities have indicated that vessels not in compliance with the ISM Code by the applicable deadlines will be prohibited from trading in United States and EU ports, as the case may be.

## **Pollution Control and Liability Requirements**

Many countries have ratified and follow the liability plan adopted by the IMO and set out in the International Convention on Civil Liability for Oil Pollution Damage of 1969, as from time to time amended ( CLC ), although the United States is not a party. Under the CLC and depending on whether the country in which the damage results is a party to the 1992 Protocol to the CLC, a vessel s registered owner is strictly liable, subject to certain affirmative defenses, for pollution damage caused in the territorial waters of a contracting state by discharge of persistent oil. The limits on liability outlined in the 1992 Protocol use the International Monetary Fund currency unit of Special Drawing Rights ( SDR ). The limits on liability have since been increased.

The right to limit liability is forfeited under the CLC where the spill is caused by the ship owner s personal fault and under the 1992 Protocol where the spill is caused by the ship owner s personal act or omission or by intentional or reckless conduct. Vessels trading in the territory of a state that is a party to these conventions must provide evidence of insurance covering the liability of the owner. In jurisdictions where the CLC has not been adopted, various legislative schemes or common law govern, and liability is imposed either on the basis of fault or in a manner similar to that of the CLC. We believe that our protection and indemnity insurance will cover the liability under the plan

adopted by the IMO.

The IMO adopted the International Convention on Civil Liability for Bunker Oil Pollution Damage of 2001 (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, or other financial security, 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

TABLE OF CONTENTS

respect to non-ratifying states, liability for spills or releases of oil carried as fuel in a ship's bunkers typically is determined by the national or other domestic laws in the jurisdiction where the events or damages occur.

In 1996, the IMO International Convention on Liability and Compensation for Damage in Connection with the Carriage of Hazardous and Noxious Substances by Sea (HNS), was adopted and subsequently amended by the 2010 Protocol. If it enters into force, the HNS Convention will provide for compensation to be paid out to victims of accidents involving HNS, such as chemicals. The HNS Convention introduces strict liability for the ship-owner and covers pollution damage as well as the risks of fire and explosion, including loss of life or personal injury and damage to property. HNS are defined by reference to lists of substances included in various IMO Conventions and Codes and include oils, other liquid substances defined as noxious or dangerous, liquefied gases, liquid substances with a flashpoint not exceeding 60°C, dangerous, hazardous and harmful materials and substances carried in packaged form, solid bulk materials defined as possessing chemical hazards, and certain residues left by the previous carriage of HNS.

The HNS Convention introduces strict liability for the ship-owner and a system of compulsory insurance and insurance certificates. However, the HNS Convention lacked the ratifications required to come into force. In April 2010, a consensus at the Diplomatic Conference convened by the IMO adopted the 2010 Protocol. Under the 2010 Protocol, if damage is caused by bulk HNS, compensation would first be sought from the ship-owner. The 2010 Protocol has not yet entered into effect. It will enter into force 18 months after the date on which certain consent and administrative requirements are satisfied. While a majority of the necessary number of states has indicated their consent to be bound by the 2010 Protocol, the required minimum has not been met.

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

On December 4, 2013, the IMO Assembly passed a resolution revising the application dates of BWM Convention so that the dates are triggered by the entry into force date and not the dates originally in the BWM Convention. This, in effect, makes all vessels delivered before the entry into force date existing vessels and allows for the installation of ballast water management systems on such vessels at the first International Oil Pollution Prevention (IOPP) renewal survey following entry into force of the convention. The Marine Environment Protection Committee (MEPC) adopted updated guidelines for approval of ballast water management systems (G8) at MEPC 70. At MEPC 71, the schedule regarding the BWM Convention's implementation dates was also discussed and amendments were introduced to extend the date existing vessels are subject to certain ballast water standards. Ships over 400 gross tons generally must comply with a D-1 standard, requiring the exchange of ballast water only in open seas and away from coastal waters. The D-2 standard specifies the maximum amount of viable organisms allowed to be discharged, and compliance dates vary depending on the IOPP renewal dates. Depending on the date of the IOPP renewal survey, existing vessels must comply with the D2 standard on or after September 8, 2019. For most ships, compliance with the D2 standard will involve installing on-board systems to treat ballast water and eliminate unwanted organisms. Costs of compliance may be substantial.

Once mid-ocean ballast exchange or ballast water treatment requirements become mandatory under the BWM Convention, the cost of compliance could increase for ocean carriers and may be material. However, many countries already regulate the discharge of the ballast water carried by vessels from country to country to prevent the

introduction of invasive and harmful species via such discharges. The United States, for example, requires vessels entering its waters from another country to conduct mid-ocean ballast exchange, or undertake some alternative measure and to comply with certain reporting requirements. The costs of such compliance could be material, and it is difficult to predict the overall impact of such requirements on our operations.

TABLE OF CONTENTS

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

## **United States Regulations**

The United States Oil Pollution Act of 1990 ( OPA ) established an extensive regulatory and liability regime for the protection and clean-up 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 United States waters, which includes the United States territorial sea and its 200 nautical mile exclusive economic zone. The United States has also enacted the Comprehensive Environmental Response, Compensation and Liability Act ( 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:

injury to, destruction or loss of, or loss of use of, natural resources damage and related assessment costs;  
injury to, economic loss resulting from, real and personal property damage;  
net loss of taxes, royalties, rents, fees and other lost revenues resulting from injury, destruction or loss of real or personal property, or natural resources;  
lost profits or impairment of earning capacity due to property or natural resources damage; and  
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.

OPA contains statutory caps on liability and damages, which caps do not apply to direct clean-up costs. Effective December 21, 2015, the USCG adjusted the limits of OPA liability to the greater of \$2,200 per gross ton or \$18,796,800 for any double-hull tanker that is over 3,000 gross tons (subject to possible adjustment for inflation), and our fleet is entirely composed of vessels of this size class. These limits of liability do not apply if an incident was proximately caused by the violation of an applicable U.S. federal safety, construction or operating regulation by a responsible party (or its agent, employee or a person acting pursuant to a contractual relationship), or a responsible party's gross negligence or willful misconduct. The limitation on liability similarly does not apply if the responsible party fails or refuses to (i) report the incident where the responsibility party knows or has reason to know of the incident; (ii) reasonably cooperate and assist as requested in connection with oil removal activities; or (iii) without sufficient cause, comply with an order issued under the Federal Water Pollution Act (Section 311 (c), (e)) or the Intervention on the High Seas Act.

OPA and CERCLA each preserve the right to recover damages under existing law, including maritime tort law.

OPA and CERCLA also require owners and operators of vessels to establish and maintain with the USCG evidence of financial responsibility sufficient to meet the limit of their potential liability under OPA and CERCLA. Vessel owners and operators may satisfy their financial responsibility obligations by providing proof of insurance, a surety bond, self-insurance or a guaranty. We comply with the USCG's financial responsibility regulations by providing a certificate of responsibility evidencing sufficient self-insurance.

OPA permits individual states to impose their own liability regimes with regard to oil pollution incidents occurring within their boundaries, provided they accept, at a minimum, the levels of liability established under OPA. Some

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

The 2010 Deepwater Horizon oil spill in the Gulf of Mexico may also result in additional regulatory initiatives or statutes, including the raising of liability caps under OPA. However, the status of several of these initiatives and regulations is currently in flux. For example, the U.S. Bureau of Safety and Environmental



TABLE OF CONTENTS

Enforcement ( BSEE ) announced a new Well Control Rule in April 2016, but pursuant to orders by the U.S. president in early 2017, the BSEE announced in August 2017 that this rule would be revised. In January 2018, the U.S. president proposed leasing new sections of U.S. waters to oil and gas companies for offshore drilling, vastly expanding the U.S. waters that are available for such activity over the next five years. The effects of the proposal are currently unknown. Compliance with any new requirements of OPA may substantially impact our cost of operations or require us to incur additional expenses to comply with any new regulatory initiatives or statutes. Additional legislation or regulations applicable to the operation of our vessels that may be implemented in the future could adversely affect our business.

We have and expect to 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 or if our insurance providers were to not respond, it could have a material adverse effect on our business, financial condition, results of operations and cash flows.

The United States Clean Water Act ( CWA ) prohibits the discharge of oil or hazardous substances in United States 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, many U.S. states that border a navigable waterway have enacted environmental pollution laws that impose strict liability on a person for removal costs and damages resulting from a discharge of oil or a release of a hazardous substance. These laws may be more stringent than United States federal law.

The EPA and USCG have enacted rules relating to ballast water discharge, compliance with which requires the installation of equipment on our vessels to treat ballast water before it is discharged or the implementation of other port facility disposal arrangements or procedures at potentially substantial cost, or otherwise restrict our vessels from entering United States waters.

The EPA regulates the discharge of ballast and bilge water and other substances in United States waters under the CWA. The EPA regulations require vessels 79 feet in length or longer (other than commercial fishing vessels and recreational vessels) to comply with a permit that regulates ballast water discharges and other discharges incidental to the normal operation of certain vessels within United States waters the Vessel General Permit for Discharges Incidental to the Normal Operation of Vessels ( VGP ). For a new vessel delivered to an owner or operator after September 19, 2009 to be covered by the VGP, the owner must submit a Notice of Intent at least 30 days before the vessel operates in United States waters. In March 2013 the EPA re-issued the VGP for another five years, and the new VGP took effect in December 2013. The VGP focuses on authorizing discharges incidental to operations of commercial vessels and the 2013 VGP contains ballast water discharge limits for most vessels to reduce the risk of invasive species in United States waters, more stringent requirements for exhaust gas scrubbers and the use of environmentally acceptable lubricants.

USCG regulations adopted and proposed for adoption under the U.S. National Invasive Species Act ( NISA ) also impose mandatory ballast water management practices for all vessels equipped with ballast water tanks entering or operating in United States waters, which 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, or otherwise restrict our vessels from entering United States waters. The USCG must approve any technology before it is placed on a vessel, but has not yet approved the technology necessary for vessels to meet the foregoing standards.

However, as of January 1, 2014, vessels became technically subject to the phasing-in of these standards. As a result, the USCG has provided waivers to vessels which cannot install the as-yet unapproved technology. The EPA, on the

other hand, has taken a different approach to enforcing ballast discharge standards under the VGP. In December 2013, the EPA issued an enforcement response policy in connection with the new VGP in which the EPA indicated that it would take into account the reasons why vessels do not have the requisite technology installed, but will not grant any waivers.

## TABLE OF CONTENTS

It should also be noted that in October 2015, the U.S. Second Circuit Court of Appeals issued a ruling that directed the EPA to redraft the sections of the 2013 VGP that address ballast water. However, the Second Circuit stated that 2013 VGP will remain in effect until the EPA issues a new VGP.

Compliance with the EPA and the USCG 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 United States waters.

## **European Union Regulations**

In October 2009, the EU amended a directive to impose criminal sanctions for illicit ship-source discharges of polluting substances, including minor discharges, if committed with intent, recklessly or with serious negligence and the discharges individually or in the aggregate result in deterioration of the quality of water.

Aiding and abetting the discharge of a polluting substance may also lead to criminal penalties. Member States were required to enact laws or regulations to comply with the directive by the end of 2010. Criminal liability for pollution may result in substantial penalties or fines and increased civil liability claims.

From January 2011, new EU legislation came into effect which bans from EU member states' waters manifestly sub-standard vessels (vessels which have been detained twice by EU port authorities) and created obligations on EU member port states to inspect vessels using EU member ports annually, as well as increasing surveillance of vessels posing a high risk to maritime safety or the marine environment. The legislation also gave the EU port authorities great powers and control over classification societies, including the ability to request a suspension or revocation of any negligent societies continuing to have a right to retain their classification authority. In addition, new legislation also came into effect in January 2011 which introduced a ranking system displaying shipping companies which had low safety records. These records would be published on a public website updated daily. This ranking would be based upon the results of technical inspections carried out on vessels and those shipping companies with positive safety records would be rewarded by being subjected to fewer inspections and in turn those shipping companies with safety or technical failings or shortcomings would be subjected to more frequent inspections.

The EU has adopted new low sulphur fuel legislation which came into effect from January 2015. This requires vessels to only burn fuel with a sulphur content which does not exceed 0.1% while they are in the territorial waters of EU member states, or EU exclusive economic zones, pollution control zones, or Sulphur Oxide Emissions Control Areas (SOx Emissions Control Areas). The IMO designated ECAs in other jurisdictions, such as the United States, and similar regulations also came into effect in January 2015, as discussed above under International Maritime Organization Air Emissions.

Recently, the EU has adopted regulations in relation to recycling and management of hazardous materials on all ships.

Parts of such regulations concerning carrying statements of compliance and an inventory of hazardous materials, became effective starting on December 31, 2015 and EU newbuilds must be compliant by December 31, 2018 (certain provisions also come into effect between December 31, 2014 and December 31, 2020 respectively). These recycling regulations apply to any vessels which are flagged under an EU member. None of our vessels are flagged under an EU member state. However, even though a vessel is flagged in a country outside of the EU, the vessel will still have to keep a record on-board an inventory of any hazardous materials on vessels and be able to submit to the relevant authorities a copy of a statement of compliance verifying this inventory.

## **Greenhouse Gas Regulation**

Currently, the emissions of greenhouse gases from international shipping are not subject to the Kyoto Protocol to the United Nations Framework Convention on Climate Change, which entered into force in 2005 and pursuant to which adopting countries have been required to implement national programs to reduce greenhouse gas emissions with targets extended through 2020. International negotiations are continuing with respect to a successor to the Kyoto Protocol, and restrictions on shipping emissions may be included in any new treaty. In December 2009, more than 27 nations, including the U.S. and China, signed the Copenhagen Accord, which includes a non-binding commitment to reduce greenhouse gas emissions. The 2015 United Nations Climate Change Conference in Paris resulted in the Paris Agreement, which entered into force

## TABLE OF CONTENTS

on November 4, 2016 and does not directly limit greenhouse gas emissions from ships. On June 1, 2017, the U.S. president announced that the U.S. is withdrawing from the Paris Agreement. The timing and effect of such action has yet to be determined.

At MEPC 70 and MEPC 71, a draft outline of the structure of the initial strategy for developing a comprehensive IMO strategy on reduction of greenhouse gas emissions from ships was approved. In accordance with this roadmap, an initial IMO strategy for reduction of greenhouse gas emissions is expected to be adopted at MEPC 72 in April 2018. The IMO may implement market-based mechanisms to reduce greenhouse gas emissions from ships at the upcoming MEPC session.

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

In the United States, the EPA issued a finding that greenhouse gases endanger the public health and safety, adopted regulations to limit greenhouse gas emissions from certain mobile sources, and proposed regulations to limit greenhouse gas emissions from large stationary sources. However, in March 2017, the U.S. president signed an executive order to review and possibly eliminate the EPA's plan to cut greenhouse gas emissions. The outcome of this order is not yet known. Although the mobile source emissions regulations do not apply to greenhouse gas emissions from vessels, the EPA or individual U.S. states could enact environmental regulations that would affect our operations. For example, California has introduced a cap-and-trade program for greenhouse gas emissions, aiming to reduce emissions 40% by 2030.

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

## **International Labour Organization**

The International Labour Organization ( ILO ) is a specialized agency of the UN with headquarters in Geneva, Switzerland. The ILO has adopted the Maritime Labour Convention 2006 ( MLC 2006 ).

A Maritime Labour Certificate and a Declaration of Maritime Labour Compliance will be required to ensure compliance with the MLC 2006 for all ships above 500 gross tons in international trade. Amendments to the MLC 2006 were adopted in 2014 and more amendments were proposed in 2016. The MLC 2006 entered into force on August 20, 2013. The MLC 2006 requires us to develop new procedures to ensure full compliance with its requirements.

### **Vessel Security Regulations**

Since the terrorist attacks of September 11, 2001, there have been a variety of initiatives intended to enhance vessel security. On November 25, 2002, the United States Maritime Transportation Security Act of 2002 (the MTSA ) came into effect. To implement certain portions of the MTSA, in July 2003, the USCG issued regulations requiring the

implementation of certain security requirements aboard vessels operating in waters subject to the jurisdiction of the United States. The regulations also impose requirements on certain ports and facilities, some of which are regulated by the EPA. Similarly, in December 2002, amendments to SOLAS created a new chapter of the convention dealing specifically with maritime security. The new chapter became effective in July 2004 and imposes various detailed security obligations on vessels and port authorities, most of which are contained in the International Ship and Port Facilities Security Code (the ISPS Code ).

The ISPS Code is designed to protect ports and international shipping against terrorism. To trade internationally, a vessel must attain an International Ship Security Certificate ( ISSC ) from a recognized security organization approved by the vessel s flag state. Among the various requirements, some of which are found in SOLAS, are:

## TABLE OF CONTENTS

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 owners and their registered address;

and

compliance with flag state security certification requirements.

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

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

## **Inspection by Classification Societies**

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

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

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

*Annual Surveys.* For seagoing ships, annual surveys are conducted for the hull and the machinery, including the electrical plant and, where applicable, for special equipment classed, within three months before or after each anniversary date of the date of commencement of the class period indicated in the certificate.

*Intermediate Surveys.* Extended annual surveys are referred to as intermediate surveys and typically are conducted two and one-half years after commissioning and each class renewal. Intermediate surveys may be carried out on the occasion of the second or third annual survey.

*Class Renewal or Special Surveys.* Class renewal surveys, also known as special surveys, are carried out for the ship's hull, machinery, including the electrical plant and for any special equipment classed, at the intervals indicated by the character of classification for the hull. At the special survey, the vessel is

thoroughly examined, including audio-gauging to determine the thickness of the steel structures. Should the thickness be found to be less than class requirements, the classification society would prescribe steel renewals. The classification society may grant a one-year grace period for completion of the special survey. Substantial amounts of money may have to be spent for steel renewals to pass a special survey if the vessel experiences excessive wear and



## TABLE OF CONTENTS

tear. In lieu of the special survey every four or five years, depending on whether a grace period was granted, a ship owner has the option of arranging with the classification society for the vessel's hull or machinery to be inspected on a continuous survey cycle, in which every part of the vessel would be surveyed within a five year cycle. At an owner's application, the surveys required for class renewal may be split according to an agreed schedule to extend over the entire period of class. This process is referred to as continuous class renewal.

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

Vessels have their underwater parts inspected every 30 to 36 months. Depending on the vessel's classification status and constructed notation and other factors, this inspection can often be done afloat with minimal disruption to the vessel's commercial deployment. However, vessels are required to be drydocked, meaning physically removed from the water, for inspection and related repairs at least once every five years from delivery. If any defects are found, the classification surveyor will issue a condition of class or recommendation which must be rectified by the ship owner within prescribed time limits.

Most insurance underwriters make it a condition for insurance coverage that a vessel be certified as in-class by a classification society which is a member of the International Association of Classification Societies ( IACS ). All our vessels are certified as being in-class by American Bureau of Shipping and Lloyds Register. In December 2013 the

IACS adopted new harmonized Common Structural Rules, which apply to oil tankers and bulk carriers to be constructed on or after July 1, 2015. All new and second-hand vessels that we purchase must be certified prior to their delivery to us. If the vessel is not certified on the scheduled date of closing, we have no obligation to take delivery of the vessel.

In addition to the classification inspections, many of our customers regularly inspect our vessels as a precondition to chartering them for voyages. We believe that our well-maintained, high-quality vessels provide us with a competitive advantage in the current environment of increasing regulation and customer emphasis on quality.

## **Risk of Loss and Liability Insurance**

### **General**

The operation of any cargo 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, labor strikes and acts of God. In addition, there is always an inherent possibility of marine disaster, including oil spills and other environmental incidents, and the liabilities arising from owning and operating vessels in international trade. OPA, which in certain circumstances imposes virtually unlimited liability upon owners, operators and demise charterers of any vessel trading in the U.S. exclusive economic zone for certain oil pollution accidents in the United States, and other regulations have made liability insurance more expensive for vessel owners and operators trading in the U.S. market and elsewhere. While we believe that our present insurance coverage is adequate, not all risks can be insured against, 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.

### **Marine and War Risks Insurance**

We have in force marine and war risks insurance for all of our vessels. Our marine hull and machinery insurance covers risks of particular average and actual or constructive total loss from collision, fire, grounding, engine

breakdown and other insured named perils up to an agreed amount per vessel. Our war risks insurance covers the risks of particular average and actual or constructive total loss from confiscation, seizure, capture, vandalism, sabotage, and other war-related named perils. We have also arranged coverage for increased value for each vessel. Under this increased value coverage, in the event of total loss of a vessel, we will be able to recover amounts in excess of those recoverable under the hull and machinery policy in order to compensate for additional costs associated with replacement of the vessel. Each vessel is covered up to at least its fair market value at the time of the insurance attachment and is subject to a fixed deductible per accident or occurrence, but excluding actual or constructive total loss.

TABLE OF CONTENTS

## **Protection and Indemnity Insurance**

Our current protection and indemnity insurance coverage for pollution is \$1.0 billion per vessel per incident. We are a member of a P&I Club that is a member of the International Group of P&I Clubs ( International Group ). The P&I Clubs 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.

Although the P&I Clubs compete with each other for business, they have found it beneficial to pool their larger risks under the auspices of the International Group. This pooling is regulated by a contractual agreement which defines the risks that are to be pooled and exactly how these risks are to be shared by the participating P&I Clubs. The pool provides a mechanism for sharing all claims in excess of \$10.0 million up to approximately \$7.5 billion. We are subject to calls payable to the associations based on its claim record, as well as the claim records of all other members of the individual associations and members of the pool of P&I Clubs comprising the International Group.

## **Exchange Controls**

Under Marshall Islands 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 shares.

## **C. Organizational Structure**

Please see Item 4.A ( Information on the Company History and Development of the Company ) in this Annual Report for information about our organizational structure. We have 50 wholly owned subsidiaries and one 50%-owned joint venture entity. A list of our subsidiaries is included as Exhibit 8.1 to this Annual Report.

## **D. Property, Plant and Equipment**

Other than our vessels, a description of which is included in Item 4.B Business Overview Fleet List of this Annual Report and is incorporated herein by reference, we own no material property. We have entered into a lease with a third party for our office space in Cork, Ireland. The lease commenced in March 2016 and is for a period of 15 years, with an option to terminate the lease after ten years. We have entered into a lease which commenced in December 2017 with a third party for office space at Pembroke, Bermuda. This lease is for an initial period of six months, with an option for an additional two year term. We have entered into leases for our offices in Singapore and Houston, Texas with third parties which commenced on March 2018 and April 2016, respectively. These leases are for periods of two years and one year respectively, with an option for a one year further term in Singapore, and automatically for successive one year terms in Houston until terminated. Average aggregate payments under these leases are approximately \$0.3 million per annum.

As at February 28, 2018, all of our 28 vessels are subject to liens relating to our credit facilities.

## **Item 4.A. Unresolved Staff Comments**

None.

## Item 5. Operating and Financial Review and Prospects

*The following discussion and analysis should be read in conjunction with our consolidated financial statements, accompanying notes thereto and other financial information, appearing elsewhere in this Annual Report. The consolidated financial statements as of and for the years ended December 31, 2017, 2016, and 2015 have been prepared in accordance with U.S. GAAP. The consolidated financial statements are presented in U.S. dollars unless otherwise indicated.*

### General

We are Ardmore Shipping Corporation, a company incorporated in the Republic of the Marshall Islands. We provide seaborne transportation of petroleum products and chemicals worldwide to oil majors, national oil companies, oil and chemical traders, and chemical companies, with our modern, fuel-efficient fleet of mid-size product and chemical tankers.

We are commercially independent as we have no blanket employment arrangements with third-party or related-party commercial managers. We market our services directly to our broad range of customers and commercial pool operators.

TABLE OF CONTENTS**Our Charters**

We generate revenues by charging customers for the transportation of their petroleum or chemical products using our vessels. Historically, these services generally have been provided under the following basic types of contractual arrangements:

*Commercial Pools.* Our vessels are pooled together with a group of other similar vessels for economies of scale and the earnings are pooled and distributed to the vessel owners according to a prearranged agreement.

*Spot Charter.* We arrange spot employment for our vessels in-house. We are responsible for all costs associated with operating the vessel, including vessel operating expenses and voyage expenses.

*Time Charter.* Vessels we operate, and for which we are responsible for crewing and for paying other vessel operating expenses (such as repairs and maintenance, insurance, stores, lube oils, communication expenses) and technical management fees, are chartered to customers for a fixed period of time at rates that are generally fixed, but may contain a variable component based on inflation, interest rates, or current market rates. As at March 27, 2018, none of our vessels were on time charter.

The table below illustrates the primary distinctions among these types of charters and contracts.

	Time Charter	Commercial Pool	Spot Charter
Typical contract length	1 - 5 years	Indefinite	Single voyage
Hire rate basis <sup>(1)</sup>	Daily	Varies (daily rate reported)	Varies
Voyage expenses <sup>(2)</sup>	Charterer pays	Pool pays	We pay
Vessel operating expenses <sup>(3)</sup>	We pay	We pay	We pay
Off-hire <sup>(4)</sup>	We pay	We pay	We pay

(1) Hire rate refers to the basic payment from the charterer for the use of the vessel.

(2) Voyage expenses are all expenses related to a particular voyage, including any bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls and agency fees.

(3) Vessel operating expenses are costs of operating a vessel that are incurred during a charter, including costs of crewing, repairs and maintenance, insurance, stores, lube oils, communication expenses, and technical management fees.

(4) Off-hire refers to the time a vessel is not available for service, due primarily to scheduled and unscheduled repairs or drydocking.

**A. Operating Results****Important Financial and Operational Terms and Concepts**

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

**Vessel Revenues.** Vessel revenues primarily include revenues from time charters, spot charters and commercial pooling arrangements. Vessel revenues are affected by hire rates and the number of days a vessel operates. Vessel revenues are also affected by the mix of business among vessels on time charter, spot charter and vessels in pools.

Revenues from vessels in pools or employed in the spot market are more volatile, as they are typically tied to prevailing market rates.

***Voyage Expenses.*** Voyage expenses are all expenses related to a particular voyage, including any bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls and agency fees. These expenses are subtracted from shipping revenues to calculate TCE rates (as defined below).

***Vessel Operating Expenses.*** We are responsible for vessel operating expenses, which include crewing, repairs and maintenance, insurance, stores, lube oils, communication expenses, and technical management fees. The largest components of our vessel operating expenses are generally crews and repairs and maintenance. Expenses for repairs and maintenance tend to fluctuate from period to period because most repairs and maintenance typically occur during periodic drydockings. We expect these expenses to increase as our fleet matures and to the extent that it expands.

TABLE OF CONTENTS

**Drydocking.** We must periodically drydock each of our vessels for inspection, and any modifications to comply with industry certification or governmental requirements. Generally, each vessel is drydocked every 30 to 60 months. The capitalized costs of drydockings for a given vessel are amortized on a straight line basis to the next scheduled drydocking of the vessel.

**Depreciation.** Depreciation expense typically consists of charges related to the depreciation of the historical cost of our fleet (less an estimated residual value) over the estimated useful lives of the vessels and charges relating to the depreciation of upgrades to vessels, which are depreciated over the shorter of the vessel's remaining useful life or the life of the renewal or upgrade. We depreciate our vessels over an estimated useful life of 25 years on a straight line basis to their residual scrap value. The rate we use to calculate the residual scrap value is \$300 per lightweight ton.

**Amortization of Deferred Drydock Expenditure.** Amortization of deferred drydock expenditure relates to the amortization of drydocking expenditures over the estimated number of years to the next scheduled drydocking.

**Time Charter Equivalent ( TCE ) Rates.** TCE rates are a standard industry measure of the average daily revenue performance of a vessel. The TCE rate is the gross charter rate or gross pool rate, as applicable, per revenue day plus allowances paid by charterers to owners for communications, victualing and entertainment costs for crew. Revenue days are the total number of calendar days the vessels are in our possession less off-hire days generally associated with drydocking or repairs. For vessels employed on voyage charters, TCE is the net rate after deducting voyage expenses incurred by commercial managers.

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

**Operating Days.** Operating days are the number of days our vessels are in operation during the year. Where a vessel is under our ownership for a full year, operating days will generally equal calendar days. Days when a vessel is in drydock are included in the calculation of operating days, as we incur operating expenses while in drydock.

**Net Voyage Revenues.** Net voyage revenues represent revenues less voyage expenses. Because the amount of voyage expenses we incur for a particular charter depends upon the type of the charter, we use net voyage revenues to improve the comparability between periods of reported revenues that are generated by the different types of charters and contracts. We principally use net voyage revenues, a non-GAAP financial measure, because it provides more meaningful information to us about the deployment of our vessels and their performance than revenues, the most directly comparable financial measure under U.S. GAAP.

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

## **Factors You Should Consider When Evaluating Our Results**

We face a number of risks associated with our business and industry and must overcome a variety of challenges to utilize our strengths and implement our business strategy. These risks include, among others: the highly cyclical tanker industry; partial dependence on spot charters; fluctuating charter values; changing economic, political and governmental conditions affecting our industry and business, including changes in energy prices; material changes in applicable laws and regulations; level of performance by counterparties, particularly charterers; acquisitions and dispositions; increased operating expenses; increased capital expenditures; taxes; maintaining customer relationships; maintaining sufficient liquidity; financing availability and terms; and management turnover.



TABLE OF CONTENTS

Ship-owners base economic decisions regarding the deployment of their vessels upon actual and anticipated TCE rates, and industry analysts typically measure rates in terms of TCE rates. This is because under time charters the customer typically pays the voyage expenses, while under voyage charters, also known as spot market charters, the shipowner usually pays the voyage expenses. Accordingly, the discussion of revenue below focuses on TCE rates where applicable.

## Recent Fleet Growth

Our current fleet consists of 28 double-hulled product and chemical tankers all of which are in operation. We acquired 14 of our vessels as second-hand vessels, of which seven of our vessels were upgraded to increase efficiency and improve performance. In 2014, 2015, 2016 and 2017 we paid an aggregate of \$209.7 million, \$232.5 million, \$174.0 million and \$1.6 million (as a deposit, the balance of \$14.8 million being payable in 2018), respectively, for vessel acquisitions, vessel equipment and newbuilding orders.

As of December 31, 2010, our operating fleet consisted of four vessels. During 2011, 2012, 2013, 2014, 2015 and 2016, our fleet grew on a net basis by two, none, two, six, ten and three vessels, respectively.

In 2017, we took no deliveries, however we did pay \$1.6 million as a deposit for a vessel, the *Ardmore Sealancer*, that was delivered in January 2018.

## Operating Results

The following tables present our operating results for the years ended December 31, 2017 and 2016.

### Statement of Operations for the Year Ended December 31, 2017 and December 31, 2016

INCOME STATEMENT DATA	Year Ended		Variance	Variance
	Dec. 31, 2017	Dec 31, 2016		(%)
<b>REVENUE</b>				
Revenue	\$ 195,935,392	164,403,938	31,531,454	19 %
<b>OPERATING EXPENSES</b>				
Commissions and voyage related costs	72,737,902	37,121,398	(35,616,504)	(96 )%
Vessel operating expenses	62,890,401	56,399,979	(6,490,422 )	(12 )%
Depreciation	34,271,091	30,091,237	(4,179,854 )	(14 )%
Amortization of deferred drydock expenditure	2,924,031	2,715,109	(208,922 )	(8 )%
General and administrative expenses:				
Corporate	11,979,017	12,055,725	(76,708 )	(1 )%
Commercial and chartering	2,619,748	2,021,487	598,261	30 %
<b>Total operating expenses</b>	<b>187,422,190</b>	<b>140,404,935</b>	<b>(47,017,255)</b>	<b>(33 )%</b>
<b>Profit from operations</b>	<b>8,513,202</b>	<b>23,999,003</b>	<b>(15,485,801)</b>	<b>(65 )%</b>
Interest expense and finance costs	(21,380,165 )	(17,754,118 )	(3,626,047 )	(20 )%
Interest income	436,195	164,629	271,566	165 %
Loss on disposal of vessels		(2,601,148 )	2,601,148	N/A
<b>(Loss)/profit before taxes</b>	<b>(12,430,768 )</b>	<b>3,808,366</b>	<b>(16,239,134)</b>	<b>(426)%</b>

Edgar Filing: Ardmore Shipping Corp - Form 20-F

Income tax	(59,567 )	(60,434 )	867	1 %
<b>Net (loss)/profit</b>	<b>\$(12,490,335 )</b>	<b>3,747,932</b>	<b>(16,238,267)</b>	<b>(433)%</b>

**Revenue.** Revenue for the year ended December 31, 2017 was \$195.9 million, an increase of \$31.5 million from \$164.4 million for the year ended December 31, 2016.

The average number of owned vessels increased to 27.0 for the year ended December 31, 2017, from 24.1 for the year ended December 31, 2016, resulting in revenue days of 9,741 for the year ended December 31, 2017, as compared to 8,635 for the year ended December 31, 2016.

We had eight and ten vessels employed under time charter and pool arrangements as at December 31, 2017 and December 31, 2016, respectively. Revenue days derived from time charter and pool arrangements were 2,987 for the year ended December 31, 2017, as compared to 4,477 for the year ended December 31, 2016.

TABLE OF CONTENTS

The decrease in revenue days derived from time charter and pool arrangements resulted in a decrease in revenue of \$23.7 million compared to the year ended December 31, 2016, while a decrease in pool earnings for the year ended December 31, 2017 resulted in a decrease in revenue of \$7.5 million compared to the year ended December 31, 2016.

We had 19 and 17 vessels employed directly in the spot market as at December 31, 2017 and December 31, 2016, respectively. For spot chartering arrangements, we had 6,754 revenue days for the year ended December 31, 2017, as compared to 4,158 for the year ended December 31, 2016. This increase in revenue days derived from spot chartering arrangements resulted in an increase in revenue of \$58.2 million compared to the year ended December 31, 2016, while changes in spot rates resulted in an increase in revenue of \$4.5 million compared to the year ended December 31, 2016.

For vessels employed directly in the spot market, revenue is recognized on a gross freight basis, while under time chartering and pool arrangements, the charterer typically pays voyage expenses and revenue is recognized on a net basis.

**Commissions and voyage related costs.** Commissions and voyage related costs were \$72.7 million for the year ended December 31, 2017, an increase of \$35.6 million from \$37.1 million for the year ended December 31, 2016. Revenue days increased to 9,741 for the year ended December 31, 2017, as compared to 8,635 for the year ended December 31, 2016. For spot chartering arrangements, we had 6,754 revenue days for the year ended December 31, 2017, as compared to 4,158 for the year ended December 31, 2016. This increase in revenue days derived from spot chartering arrangements resulted in an increase in commissions and voyage related expenses. For vessels employed directly in the spot market, all voyage expenses are borne by us as opposed to the charterer, while under time chartering and pool arrangements, the charterer typically pays voyage expenses.

**TCE rate.** The TCE rate for our fleet was \$12,709 per day for the year ended December 31, 2017, a decrease of \$2,076 per day from \$14,785 per day for the year ended December 31, 2016.

**Vessel operating expenses.** Vessel operating expenses were \$62.9 million for the year ended December 31, 2017, an increase of \$6.5 million from \$56.4 million for the year ended December 31, 2016. This increase is primarily due to an increase in the number of vessels in operation for 2017. Due to the nature of this expenditure, vessel operating expenses are prone to fluctuations between periods. Average operating costs per vessel per day, including technical management fees, were \$6,298 for the year ended December 31, 2017, as compared to \$6,405 for the year ended December 31, 2016.

**Depreciation.** Depreciation expense for the year ended December 31, 2017 was \$34.3 million, an increase of \$4.2 million from \$30.1 million for the year ended December 31, 2016. The increase is due to an increase in the average number of owned vessels to 27.0 for 2017 from 24.1 for 2016.

**Amortization of deferred drydock expenditure.** Amortization of deferred drydock expenditure for the year ended December 31, 2017 was \$2.9 million, as compared to \$2.7 million for the year ended December 31, 2016. There were five drydockings in 2017 which was consistent with 2016. The capitalized costs of drydockings for a given vessel are amortized on a straight-line basis to the next scheduled drydocking of the vessel.

**General and administrative expenses: Corporate.** Corporate related general and administrative expenses for the year ended December 31, 2017 were \$12.0 million, in line with \$12.1 million for the year ended December 31, 2016. Average headcount increased to 30 for the year ended December 31, 2017 as compared to 29 for the year ended December 31, 2016.

**General and administrative expenses: Commercial and Chartering.** Commercial and chartering related general and administrative expenses are the expenses attributable to our chartering and commercial operations departments in connection with our spot market trading activities. These commercial and chartering expenses for the year ended December 31, 2017 were \$2.6 million compared to \$2.0 million for the year ended December 31, 2016. This increase reflects the expansion of chartering and commercial activities in our

TABLE OF CONTENTS

Singapore and Houston offices, and an increased headcount in the commercial and chartering departments for the year ended December 31, 2017. Average headcount increased to 16 as compared to seven for the year ended December 31, 2016.

**Interest expense and finance costs.** Interest expense and finance costs (which include loan interest, capital lease interest, amortization of deferred finance fees and are net of capitalized interest) for the year ended December 31, 2017 were \$21.4 million, as compared to \$17.8 million for the year ended December 31, 2016. Cash interest expense increased by \$4.0 million to \$18.3 million for 2017 from \$14.3 million for 2016. The increase in interest expense and finance costs was primarily due to an increased average LIBOR rate during the year as well as a change in debt structure due to the new capital leases. Amortization of deferred finance charges for 2017 was \$3.1 million, compared to \$3.4 million for 2016. The 2016 amount includes a write-off of deferred finance fees of \$0.6 million relating to the sale of the *Ardmore Calypso*, the *Ardmore Capella* and the *Ardmore Centurion*.

## Statement of Operations for the Year Ended December 31, 2016 and December 31, 2015

INCOME STATEMENT DATA	Year Ended		Variance	Variance
	Dec. 31, 2016	Dec 31, 2015		(%)
<b>REVENUE</b>				
Revenue	\$ 164,403,938	157,882,259	6,521,679	4 %
<b>OPERATING EXPENSES</b>				
Commissions and voyage related costs	37,121,398	30,137,173	(6,984,225 )	(23 )%
Vessel operating expenses	56,399,979	46,416,510	(9,983,469 )	(22 )%
Depreciation	30,091,237	24,157,022	(5,934,215 )	(25 )%
Amortization of deferred drydock expenditure	2,715,109	2,120,974	(594,135 )	(28 )%
General and administrative expenses:				
Corporate	12,055,725	10,418,876	1,636,849	16 %
Commercial and chartering	2,021,487	329,746	1,691,741	513 %
<b>Total operating expenses</b>	<b>140,404,935</b>	<b>113,580,301</b>	<b>(26,824,634)</b>	<b>(24 )%</b>
<b>Profit from operations</b>	<b>23,999,003</b>	<b>44,301,958</b>	<b>(20,302,955)</b>	<b>(46 )%</b>
Interest expense and finance costs	(17,754,118 )	(12,282,704 )	(5,471,414 )	(45 )%
Interest income	164,629	15,571	149,058	957 %
Loss on disposal of vessels	(2,601,148 )		(2,601,148 )	N/A
<b>Profit before taxes</b>	<b>3,808,366</b>	<b>32,034,825</b>	<b>(28,226,459)</b>	<b>(88 )%</b>
Income tax	(60,434 )	(79,860 )	19,426	24 %
<b>Net profit</b>	<b>\$ 3,747,932</b>	<b>31,954,965</b>	<b>(28,207,033)</b>	<b>(88 )%</b>

**Revenue.** Revenue for the year ended December 31, 2016 was \$164.4 million, an increase of \$6.5 million from \$157.9 million for the year ended December 31, 2015.

The average number of owned vessels increased to 24.1 for the year ended December 31, 2016, from 19.8 for the year ended December 31, 2015, resulting in revenue days of 8,635 for the year ended December 31, 2016, as compared to 7,069 for the year ended December 31, 2015.

We had 10 and 16 vessels employed under time charter and pool arrangements as at December 31, 2016 and December 31, 2015, respectively. Revenue days derived from time charter and pool arrangements were 4,477 for the year ended December 31, 2016, as compared to 4,474 for the year ended December 31, 2015. Lower charter rates for

Edgar Filing: Ardmore Shipping Corp - Form 20-F

the year ended December 31, 2016 resulted in a decrease in revenue of \$3.1 million, compared to the year ended December 31, 2015.

We had 17 and eight vessels employed directly in the spot market as at December 31, 2016 and December 31, 2015, respectively. For spot chartering arrangements, we had 4,158 revenue days for the year ended December 31, 2016, as compared to 2,595 for the year ended December 31, 2015. This increase in revenue days derived from spot chartering arrangements resulted in an increase in revenue of \$50.5 million, offset by a \$41.0 million decrease in spot market revenue related to softer market conditions.

57

---

TABLE OF CONTENTS

**Commissions and voyage related costs.** Commissions and voyage related costs were \$37.1 million for the year ended December 31, 2016, an increase of \$7.0 million from \$30.1 million for the year ended December 31, 2015. Revenue days increased to 8,635 for the year ended December 31, 2016, as compared to 7,069 for the year ended December 31, 2015. For spot chartering arrangements, we had 4,158 revenue days for the year ended December 31, 2016, as compared to 2,595 for the year ended December 31, 2015. This increase in revenue days resulted in an increase in commissions and voyage related expenses of \$7.0 million. For vessels employed directly in the spot market, all voyage expenses are borne by us as opposed to the charterer, while under time chartering and pool arrangements, the charterer typically pays voyage expenses.

**TCE rate.** The TCE rate for our fleet was \$14,785 per day for the year ended December 31, 2016, a decrease of \$3,524 per day from \$18,309 per day for the year ended December 31, 2015.

**Vessel operating expenses.** Vessel operating expenses were \$56.4 million for the year ended December 31, 2016, an increase of \$10.0 million from \$46.4 million for the year ended December 31, 2015. This increase is primarily due to an increase in the number of vessels in operation for 2016. Due to the nature of this expenditure, vessel operating expenses are prone to fluctuations between periods. Average operating costs per vessel per day, including technical management fees, were \$6,405 for the year ended December 31, 2016, as compared to \$6,333 for the year ended December 31, 2015

**Depreciation.** Depreciation expense for the year ended December 31, 2016 was \$30.1 million, an increase of \$5.9 million from \$24.2 million for the year ended December 31, 2015. The increase is due to an increase in the average number of owned vessels to 24.1 for 2016 from 19.8 for 2015.

**Amortization of deferred drydock expenditure.** Amortization of deferred drydock expenditure for the year ended December 31, 2016 was \$2.7 million, as compared to \$2.1 million for the year ended December 31, 2015. This increase is due to the timing of scheduled drydockings occurring across the fleet; there were five drydockings in 2016 as compared to three in 2015. The capitalized costs of drydockings for a given vessel are amortized on a straight-line basis to the next scheduled drydocking of the vessel.

**General and administrative expenses: Corporate.** Corporate related general and administrative expenses for the year ended December 31, 2016 were \$12.1 million, as compared to \$10.4 million for the year ended December 31, 2015. The increase reflects additional staff and travel costs associated with operating a larger fleet. Average headcount was 29 for the year ended December 31, 2016 as compared to 24 for the year ended December 31, 2015. Non-recurring transactions fees of \$0.9 million were also incurred in 2016.

**General and administrative expenses: Commercial and Chartering.** Commercial and chartering expenses are the expenses attributable to our chartering and commercial operations department in connection with our spot market trading activities. Commercial and chartering related general and administrative expenses for the year ended December 31, 2016 were \$2.0 million compared to \$0.3 million for the year ended December 31, 2015. This increase reflects the expansion of chartering and commercial activities in our Singapore and Houston offices, and an increased headcount in the commercial and chartering departments for the year ended December 31, 2016. Average headcount increased to seven as compared to one for the year ended December 31, 2015.

**Interest expense and finance costs.** Interest expense and finance costs (which include loan interest, capital lease interest, amortization of deferred finance fees and are net of capitalized interest) for the year ended December 31, 2016 were \$17.8 million, as compared to \$12.3 million for the year ended December 31, 2015. Cash interest expense increased by \$1.3 million to \$14.3 million for 2016 from \$13.0 million for 2015. The increase in interest expense and finance costs was primarily as a result of an increase in costs following the delivery of the six acquired vessels,

partially offset by a reduction in the interest expense following the refinancing of debt completed during the first quarter of 2016 and the sale of the *Ardmore Calypso*, *Ardmore Capella* and *Ardmore Centurion*. Capitalized interest, which relates to vessels under construction, amounted to nil for 2016, as compared to \$2.4 million for 2015 as there were no vessels under construction during 2016. Amortization of deferred finance charges for 2016 was \$3.4 million, compared to \$1.7 million for 2015. The 2016 amount includes a write-off of deferred finance fees of \$0.6 million relating to the sale of the *Ardmore Calypso*, the *Ardmore Capella* and the *Ardmore Centurion*.



TABLE OF CONTENTS

## **B. Liquidity and Capital Resources**

Our primary sources of liquidity are cash and cash equivalents with the majority of our cash in the currency of U.S. Dollars, cash flows provided by our operations, our undrawn credit facilities and capital raised through financing transactions. As at December 31, 2017, our total cash and cash equivalents were \$39.5 million, a decrease of \$16.5 million from \$56 million as at December 31, 2016, following payments made for long term debt. We believe that our working capital, together with expected cash flows from operations and availability under credit facilities, will be sufficient for our present requirements.

Our short-term liquidity requirements include the payment of operating expenses, drydocking expenditures, debt servicing costs, dividends on our shares of common stock, scheduled repayments of long-term debt, as well as funding our other working capital requirements. Our short-term and spot charters, including participating in spot charter pooling arrangements, contribute to the volatility of our net operating cash flow, and thus our ability to generate sufficient cash flows to meet our short-term liquidity needs. Historically, the tanker industry has been cyclical, experiencing volatility in profitability and asset values resulting from changes in the supply of, and demand for, vessel capacity. In addition, tanker spot markets historically have exhibited seasonal variations in charter rates. Tanker spot markets are typically stronger in the winter months as a result of increased oil consumption in the northern hemisphere and unpredictable weather patterns that tend to disrupt vessel scheduling. Time charters provide contracted revenue that reduces the volatility (as rates can fluctuate within months) and seasonality from revenue generated by vessels that operate in the spot market. Commercial pools reduce revenue volatility because they aggregate the revenues and expenses of all pool participants and distribute net earnings to the participants based on an agreed upon formula. Spot charters preserve flexibility to take advantage of increasing rate environments, but also expose the ship-owner to decreasing rate environments.

Our long-term capital needs are primarily for capital expenditures and debt repayment. Generally, we expect that our long-term sources of funds will be cash balances, long-term bank borrowings, lease financings and other debt or equity financings. We expect that we will rely upon internal and external financing sources, including, cash balances, bank borrowings, lease financings and the issuance of debt and equity securities, to fund acquisitions and expansion capital expenditures.

Our credit facilities and capital leases are described in Notes 8 ( Debt ) and 9 ( Capital leases ) to our consolidated financial statements included in Item 18 of this Annual Report. Our financing facilities contain covenants and other restrictions we believe are typical of debt financing collateralized by vessels, including those that restrict the relevant subsidiaries from incurring or guaranteeing additional indebtedness, granting certain liens, and selling, transferring, assigning or conveying assets. Our financing facilities do not impose a restriction on dividends, distributions, or returns of capital unless an event of default has occurred, is continuing or will result from such payment. The majority of our financing facilities require us to maintain various financial covenants. Should we not meet these financial covenants or other covenants, the lenders may declare our obligations under the agreements immediately due and payable, and terminate any further loan commitments, which would significantly affect our short-term liquidity requirements. As at December 31, 2017, we were in compliance with all covenants relating to our financing facilities.

### **Cash Flow Data for the Years Ended December 31, 2017, 2016 and 2015**

For the years ended

CASH FLOW DATA	Dec 31, 2017	Dec 31, 2016	Dec 31, 2015
Net cash provided by operating activities	\$18,416,228	42,634,500	37,659,686
Net cash used in investing activities	\$(2,282,251)	(122,311,231)	(232,849,734)
Net cash (used in)/provided by financing activities	\$(32,629,443)	95,520,221	175,419,834

**Cash provided by operating activities**

Changes in net cash flow from operating activities primarily reflect changes in fleet size, fluctuations in spot tanker rates, changes in interest rates, fluctuations in working capital balances, and the timing and the amount of drydocking expenditures, repairs and maintenance activities. Our exposure to the highly cyclical spot tanker market and the growth of our fleet have contributed significantly to historical fluctuations in operating cash flows.

## TABLE OF CONTENTS

For the year ended December 31, 2017, cash flow provided by operating activities was \$18.4 million. Net profit (after adding back depreciation, amortization and other non-cash items) was an inflow of \$28.2 million. Changes in operating assets and liabilities resulted in an outflow of \$6.0 million and drydock payments were \$3.8 million.

For the year ended December 31, 2016, cash flow provided by operating activities was \$42.6 million. Net profit (after adding back depreciation, amortization and other non-cash items) was an inflow of \$43.8 million. Changes in operating assets and liabilities resulted in an inflow of \$1.9 million and drydock payments were \$3.1 million.

For the year ended December 31, 2015, cash flow provided by operating activities was \$37.7 million. Net profit (after adding back depreciation, amortization and other non-cash items) was an inflow of \$61.4 million. Changes in operating assets and liabilities resulted in an outflow of \$20.4 million and drydock payments were \$3.3 million.

### **Cash used in investing activities**

For the year ended December 31, 2017, net cash used in investing activities was \$2.3 million. Payments for vessel equipment and vessels acquired were \$0.4 million for 2017. Proceeds from sale of vessels were \$0 million. Payments for deposit to purchase a new vessel was \$1.6 million. Payments for office equipment, and fixtures and fittings and leasehold improvements were \$0.3 million.

For the year ended December 31, 2016, net cash used in investing activities was \$122.3 million. Payments for vessel equipment and vessels acquired were \$174.0 million for 2016. Proceeds from sale of vessels were \$52.7 million. Payments for office equipment, and fixtures and fittings and leasehold improvements were \$1.0 million.

For the year ended December 31, 2015, net cash used in investing activities was \$232.9 million. Payments for the completion of vessels under construction, along with vessel equipment, were \$232.5 million for 2015. Payments for office equipment, and fixtures and fittings during the year were \$0.4 million.

### **Cash (used in)/provided by financing activities**

For the year ended December 31, 2017, the net cash used in financing activities was \$32.6 million. Drawdowns of long-term debt amounted to \$11.0 million and repayments of debt amounted to \$62.7 million. Total principal repayments of the capital lease arrangement were \$2.0 million and total proceeds from capital lease were \$33.1 million. We also incurred payments of \$0.8 million relating to deferred finance charges for loan facilities. As part of GA Holdings LLC's sale of its 5,787,942 remaining shares of our common stock, we repurchased 1,435,654 common shares for \$11.1 million (excluding professional fees). In connection with GA Holdings LLC's public offering of our common shares in November 2017, we granted the underwriter an option to purchase additional shares of our common stock, which option the underwriter exercised in January 2018, for a total of 305,459 shares, resulting in proceeds to us of \$2.4 million.

For the year ended December 31, 2016, the net cash provided by financing activities was \$95.6 million. Drawdowns of long-term debt amounted to \$110.0 million and repayments of debt amounted to \$42.2 million. Total principal repayments of the capital lease arrangement were \$27.1 million and total proceeds from capital lease were \$9.3 million. We also incurred payments of \$6.0 million relating to deferred finance charges for loan facilities. Quarterly cash dividends paid for 2016 were \$9.3 million and \$3.0 million was used to repurchase common stock. In June 2016, we completed a public offering of 7,500,000 of our common shares for net proceeds of \$63.9 million.

Edgar Filing: Ardmore Shipping Corp - Form 20-F

For the year ended December 31, 2015, the net cash provided by financing activities was \$175.4 million. Drawdowns of long-term debt amounted to \$216.5 million and repayments of debt amounted to \$24.8 million. Total principal repayments of the capital lease arrangement were \$1.7 million. We also incurred payments of \$1.6 million relating to deferred finance charges for loan facilities, and for commitment fees payable in respect of other financing committed for vessels which were under construction. Quarterly cash dividends paid were \$13 million for 2015.

60

---

TABLE OF CONTENTS

## Capital Expenditures

### Drydock

Five of our vessels completed drydock surveys in 2017. The drydocking schedule for our vessels that were in operation as of December 31, 2017 is as follows:

	For the years ended December 31			
	2018	2019	2020	2021
Number of vessels in drydock (excluding in-water surveys)	8	9	11	14

We will continue to seek to stagger drydockings across the fleet. As our fleet matures and expands, our drydock expenses are likely to increase. Ongoing costs for compliance with environmental regulations and society classification surveys are a component of our vessel operating expenses.

### Newbuildings

We currently have no newbuildings on order. However, our growth strategy contemplates expansion of our fleet through vessel acquisitions and newbuildings.

### Upgrades

We intend to continue our investment program for vessel upgrades, primarily following acquisition of second-hand vessels, where feasible to maintain operational efficiency, optimum commercial performance and preservation of asset value.

### Dividends

We did not pay any dividends during 2017. On February 29, May 31 and August 31, 2016, we paid cash dividends on our common stock of \$0.13, \$0.16 and \$0.11 per share, respectively. We did not pay a dividend for the quarters ended September 30, 2016 and December 31, 2016. On April 2, 2015, we introduced our Dividend Reinvestment Plan. The plan allows existing shareholders to purchase additional common shares by automatically reinvesting all or any portion of the cash dividends paid on common shares held by the plan participant.

On September 8, 2015, we announced a change to our dividend policy to a constant payout ratio policy. Under the new policy we expect to pay out as dividends on a quarterly basis 60% of Earnings from Continuing Operations (which represents our earnings per share reported under U.S. GAAP as adjusted for unrealized and realized gains and losses and extraordinary items).

## C. Research and Development, Patent and Licenses, etc.

Not applicable.

## **D. Trend Information**

Our results of operations depend primarily on the charter hire rates that we are able to realize for our vessels, which primarily depend on the demand and supply dynamics characterizing the tanker market at any given time. The oil tanker industry has been highly cyclical in recent years, experiencing volatility in charter hire rates and vessel values resulting from changes in the supply of and demand for crude oil and tanker capacity. For other trends affecting our business, please see the other discussions above in this Item 4 ( Information on the Company Business Overview The International Product and Chemical Tanker Industry ) and Item 5 ( Operating and Financial Review and Prospects ).

## **E. Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity or capital resources.

## **F. Tabular Disclosure of Contractual Obligations**

The following table sets forth our obligations on vessel finance and certain other obligations as at December 31, 2017. As of that date, we had no such obligations or commitments due after the year ending December 31, 2026.

TABLE OF CONTENTS

	FY 2018	FY 2019	2021 FY 2022	2026 Total
Debt	\$ 39,282,538	\$ 118,873,134	\$ 254,511,195	\$ 412,666,867
Capital lease <sup>(1)</sup>	6,241,500	24,957,400	21,663,300	52,862,200
Interest expense <sup>(2)</sup>	17,799,582	44,897,621	8,071,988	70,769,191
Office space	394,076	931,215	1,231,033	2,556,324
	<b>63,717,696</b>	<b>189,659,370</b>	<b>285,477,516</b>	<b>538,854,582</b>

(1) Capital lease relates to amounts payable under bareboat arrangements and includes interest expenses and lease amortization.

The interest expense on our loans is variable and based on LIBOR. The amounts in the above schedule were (2) calculated using the average three month forward rate each year plus a margin of 2.61%, which is the weighted average margin on our senior loan facilities.

## Critical Accounting Estimates

In the application of our accounting policies, which are prepared in conformity with U.S. GAAP, we are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities, and revenues and expenses that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The significant judgments and estimates are as follows:

### *Revenue recognition.*

Revenues and voyage expenses of our vessels operating in commercial pooling arrangements are pooled with the revenues and voyage expenses of other pool participants. The resulting net pool revenues, calculated on the time charter equivalent basis, are allocated to the pool participants according to an agreed upon formula. The formulas used to allocate net pool revenues vary among different pools but generally allocate revenues to pool participants on the basis of the number of days a vessel operates in the pool with weighted adjustments made to reflect the vessels differing capacities and performance capabilities. We account for our vessels share of net pool revenue on the allocated time charter equivalent on a monthly basis. Net pool revenues due from the pool are included in trade receivables.

Revenues from voyage charters on the spot market are recognized ratably on a discharge-to-discharge basis (i.e. from when cargo is discharged (unloaded) at the end of one voyage to when it is discharged after the next voyage), provided an agreed irrevocable charter between us and the charterer is in existence, the charter rate is fixed or determinable and collectability is reasonably assured. Revenue under voyage charters is not recognized until a charter has been agreed, even if the vessel has discharged its previous cargo and is proceeding to an anticipated port of loading.

If a time charter agreement exists, the rate is fixed or determinable, service is provided and collection of the related revenue is reasonably assured, then we recognize revenues over the term of the time charter. We do not recognize revenue during days the vessel is off-hire. Where the time charter contains a profit or loss sharing arrangement, the profit or loss is recognized based on amounts earned or incurred as of the reporting date.

**Shares-based compensation.** We grant share-based payment awards, such as restricted stock units, as incentive-based compensation to certain employees. We granted Stock Appreciation Rights ( SARs ) to certain employees and officers in August 2013, March 2014, June 2014, March 2015 and January 2016. We measure the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date on which they are granted, which we calculate according to the Financial Accounting Standards Board ( FASB ) Accounting Standards Codification Topic No. 718, Compensation - Stock Compensation ( ASC 718 ).



TABLE OF CONTENTS

Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model, including the expected life of the award, volatility and dividend yield, and making certain other assumptions about the award.

**Depreciation.** Vessels are depreciated on a straight-line basis over their estimated useful economic life from the date of initial delivery from the shipyard. The useful life of our vessels is estimated at 25 years from the date of initial delivery from the shipyard. Depreciation is based on cost less estimated residual scrap value. Residual scrap value is estimated as the lightweight tonnage of each vessel multiplied by the estimated scrap value per ton. The estimated scrap value is reviewed each year.

**Vessel impairment.** Vessels and equipment that are held and used are assessed for impairment when events or circumstances indicate the carrying amount of the asset may not be recoverable. When such indicators are present, a vessel to be held and used is tested for recoverability by comparing the estimate of future undiscounted net operating cash flows expected to be generated by the use of the vessel over its remaining useful life and its eventual disposition to its carrying amount. An impairment charge is recognized if the carrying value is in excess of the estimated future undiscounted net operating cash flows. The impairment loss is measured based on the excess of the carrying amount over the fair market value of the asset.

Net operating cash flows are determined by applying various assumptions regarding future revenues net of commissions, operating expenses, scheduled drydockings, expected off-hire and scrap values. These assumptions are based on historical trends as well as future expectations. Specifically, in estimating future charter rates, management takes into consideration rates currently in effect for existing time charters and estimated daily time charter equivalent rates for each vessel class for the unfixed days over the estimated remaining lives of each of the vessels. The estimated daily time charter equivalent rates used for unfixed days are based on a combination of internally forecasted rates that are consistent with forecasts provided to senior management and our board of directors, and the trailing 10-year historical average one-year time charter rates, based on average rates published by maritime researchers. Recognizing that rates tend to be cyclical, and subject to significant volatility based on factors beyond our control, and management believes the use of estimates based on the combination of internally forecasted rates and 10-year historical average rates calculated as of the reporting date to be reasonable. Estimated outflows for operating expenses and drydocking requirements are based on historical and budgeted costs and are adjusted for assumed inflation. Utilization is based on historical levels achieved and estimates of a residual value are consistent with scrap rates used in management's evaluation of scrap value.

Although management believes that the assumptions used to evaluate potential impairment are reasonable and appropriate at the time they were made, such assumptions are highly subjective and likely to change, possibly materially, in the future. There can be no assurance as to how long charter rates and vessel values will remain at their current levels or whether they will improve by a significant degree. If charter rates were to be at depressed levels, future assessments of vessel impairment would be adversely affected.

In recent years, the market values of vessels have experienced particular volatility, with substantial declines in many of the charter-free market values, or basic market values, of various vessel classes. As a result, our vessels may have declined below those vessels' carrying values, even though we did not impair those vessels' carrying values under our impairment accounting policy. This is due to our belief that future undiscounted cash flows expected to be earned by such vessels over their operating lives would exceed such vessels' carrying amounts.

Our estimates of basic market value assume that our vessels are all in good and seaworthy condition without the need for repair and, if inspected, that they would be certified in class without notations of any kind. Our estimates are based

on the estimated market values for our vessels that we have received from independent ship brokers, reports by industry analysts and data providers that focus on our industry and related dynamics affecting vessel values, and news and industry reports of similar vessel sales. Vessel values are highly volatile and as such, our estimates may not be indicative of the current or future basic market value of our vessels or prices that we could achieve if we were to sell them.

TABLE OF CONTENTS

The table below indicates the carrying value of each of our owned vessels as of December 31, 2017 and 2016, at which time we were not holding any of the vessels listed in the table below as held for sale. We believe that the future undiscounted cash flows expected to be earned by those vessels of our fleet that have experienced a decline in charter-free market value below such vessels' carrying value over their operating lives would exceed such vessels' carrying values as of December 31, 2017, and, accordingly, have not recorded an impairment charge.

Carrying value includes, as applicable, drydock, upgrades, capitalized interest, supervision fees and other newbuilding pre-delivery costs. Deposits paid, or costs incurred, in relation to the acquisition of second-hand vessels are not presented in the table below.

	Built	DWT	Carrying Value as at	
			Dec 31, 2017	Dec 31, 2016
<i>Ardmore Seavalliant</i>	2013	49,998	\$ 32,923,845	34,262,668
<i>Ardmore Seaventure</i>	2013	49,998	33,348,321	34,966,913
<i>Ardmore Seavantage</i>	2014	49,997	34,601,415	36,061,469
<i>Ardmore Seavanguard</i>	2014	49,998	34,831,576	36,182,350
<i>Ardmore Sealion</i>	2015	49,999	32,532,554	33,830,879
<i>Ardmore Seafox</i>	2015	49,999	32,558,750	33,866,043
<i>Ardmore Seawolf</i>	2015	49,999	32,992,041	34,312,408
<i>Ardmore Seahawk</i>	2015	49,999	33,411,594	34,735,082
<i>Ardmore Endeavour</i>	2013	49,997	31,439,384	32,816,175
<i>Ardmore Enterprise</i>	2013	49,453	26,721,641	27,779,368
<i>Ardmore Endurance</i>	2013	49,466	26,536,082	27,556,773
<i>Ardmore Explorer</i>	2014	49,494	27,965,820	29,072,282
<i>Ardmore Encounter</i>	2014	49,478	28,080,154	29,215,366
<i>Ardmore Exporter</i>	2014	49,466	28,037,334	29,163,447
<i>Ardmore Engineer</i>	2014	49,420	28,046,579	29,121,802
<i>Ardmore Seafarer</i>	2004	45,744	17,842,801	18,354,589
<i>Ardmore Seatrader</i>	2002	47,141	15,939,134	16,885,419
<i>Ardmore Seamaster</i>	2004	45,840	17,942,029	18,495,912
<i>Ardmore Seamariner</i>	2006	45,726	18,954,758	20,432,294
<i>Ardmore Sealeader</i>	2008	47,463	20,323,757	21,906,224
<i>Ardmore Sealifter</i>	2008	47,472	19,728,310	21,070,011
<i>Ardmore Dauntless</i>	2015	37,764	33,060,258	34,428,995
<i>Ardmore Defender</i>	2015	37,791	33,244,876	34,540,079
<i>Ardmore Cherokee</i>	2015	25,215	28,290,727	29,481,020
<i>Ardmore Cheyenne</i>	2015	25,217	28,529,108	29,719,569
<i>Ardmore Chinook</i>	2015	25,217	28,822,912	30,010,758
<i>Ardmore Chippewa</i>	2015	25,217	29,229,248	30,425,813
<b>Total</b>			<b>\$ 755,935,008</b>	<b>788,693,708</b>

We estimate that the aggregate carrying value of these vessels exceeded their aggregate basic market value by approximately \$56 million as at December 31, 2017, \$71.3 million as at December 31, 2016 and \$12.2 million as at

December 31, 2015. We believe that 17 of our vessels' carrying values exceeded the basic market value as of December 31, 2017, and that 19 of our vessels' carrying values exceeded the basic market value as of December 31, 2016 and that eight of our vessels' carrying values exceeded the basic market value as of December 31, 2015. We did not record an impairment of any vessels due to our impairment accounting policy, as future undiscounted cash flows expected to be earned by such vessels over their operating lives exceeded the vessels' carrying amounts. In addition to

carrying out our impairment analysis, we performed a sensitivity analysis for a 10% reduction in forecasted vessel utilization and a 10% reduction in time charter rates and, in each scenario, the future undiscounted cash flows significantly exceeded the carrying value of each of our vessels.

TABLE OF CONTENTS

**Contingencies.** Claims, suits and complaints arise in the ordinary course of our business. We provide for contingent liabilities when (i) it is probable that a liability has been incurred at the date of the financial statements and (ii) the amount of the loss can be reasonably estimated.

**Financial instruments.** We believe that the carrying values of cash and cash equivalents, trade receivables and trade payables reported in the consolidated balance sheet for those financial instruments are reasonable estimates of their fair values due to their short-term nature. The fair values of long-term debt approximate the recorded values due to the variable interest rates payable.

## Recent Accounting Pronouncements

Please see Note 2.4 Recent accounting pronouncements to our consolidated financial statements included in Item 18 of this Annual Report for a description of recently issued accounting pronouncements that may apply to us.

## G. Safe Harbor

Forward-looking information discussed in this Item 5 includes assumptions, expectations, projections, intentions and beliefs about future events. These statements are intended as forward-looking statements. We caution that assumptions, expectations, projections, intentions and beliefs about future events may and often do vary from actual results and the differences can be material. Please see the section entitled 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 currently consists of seven directors. Each director elected holds office for a three-year term or until his successor has been duly elected and qualified, except in the event of his death, resignation, removal or the earlier termination of his term of office. The term of office of each director is as follows: Class I directors serve for a term expiring at the 2020 annual meeting of shareholders, Class II directors serve for a term expiring at the 2018 annual meeting of shareholders, and Class III directors serve for a term expiring at the 2019 annual meeting of the shareholders. Officers are elected from time to time by vote of our board of directors and hold office until a successor is elected. The business address for each director and executive officer is Belvedere Building, 69 Pitts Bay Road, Ground Floor, Pembroke HM08, Bermuda.

Name	Age	Class	Position
Mr. Mark Cameron	52	N/A	Executive Vice President and Chief Operating Officer
Mr. Brian Dunne	51	III	Director, Chairman of the Audit Committee, Member of the Nominating and Corporate Governance Committee
Mr. Albert Enste	59	I	Director, Member of the Compensation Committee
Mr. Anthony Gurnee	58	II	Chief Executive Officer, President and Director
Mr. Reginald Jones	58	III	Chairman of the Board, Chairman of the Nominating and Corporate Governance Committee, Chairman of the Compensation

			Committee
Mr. Alan Robert McIlwraith	62	II	Director, Member of the Audit Committee
Mr. Curtis McWilliams	62	III	Director, Member of the Audit Committee and Nominating and Corporate Governance Committee
Mr. Gernot Ruppelt	36	N/A	Senior Vice President and Chief Commercial Officer
Dr. Peter Swift	73	I	Director, Member of the Compensation Committee
Mr. Paul Tivnan	38	N/A	Senior Vice President, Chief Financial Officer, Secretary and Treasurer

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

**Mark Cameron** is the Executive Vice President and Chief Operating Officer for Ardmore. Mr. Cameron joined Ardmore as Executive Vice President and Chief Operating Officer and was appointed an alternate director in June 2010. In addition, Mr. Cameron is the current Chairman of the International Parcel Tankers Association

TABLE OF CONTENTS

(IPTA), is on the Board of the West Of England P&I Club and is also an advisory Board Member to the NGO Carbon War Room. From 2008 to 2010, Mr. Cameron served as Vice President, Strategy and Planning for Teekay Marine Services, Teekay Corporation's internal ship management function. Mr. Cameron spent 11 years at sea rising to the rank of Chief Engineer with Safmarine and later AP Moller, including time served onboard bulk carriers, salvage tugs, tankers, general cargo, reefer and container ships. Mr. Cameron has held a number of senior management roles ashore specializing in integrating acquisitions covering all facets of ship management, as well as sale and purchase, newbuilding supervision, personnel management, procurement, fleet management and technical supervision.

**Brian Dunne** has been a director of Ardmore since June 2010. He is also a director of ReAssure Group and Ark Life Assurance Company (subsidiaries of SwissRe in the UK and Ireland), Aergen Aviation Finance and Chorus Aviation Capital. He was previously the Chairman of Aviva's health insurance business in Ireland, a director of its Irish life and pensions business and a director of several other private companies. Mr. Dunne was the Chief Financial Officer of ACE Aviation Holdings Inc. (ACE) from 2005 until 2012 and was the President of the company in 2011 and 2012. ACE was the parent holding company of the reorganized Air Canada and a number of other entities including Aeroplan LP (now AIMIA Inc.) and Air Canada Jazz (now Chorus Aviation Inc.). Mr. Dunne was also a director of Air Canada from its initial public offering in 2006 until 2008. Prior to joining ACE, Mr. Dunne was Chief Financial Officer and a director of Aer Lingus Group plc. He started his career at Arthur Andersen in 1987 and became a partner in 1998. Mr. Dunne is a Fellow of the Institute of Chartered Accountants in Ireland and holds a Bachelor of Commerce degree and a post graduate diploma in Professional Accounting from the University College Dublin.

**Albert Enste** has served as a director of Ardmore since its IPO in August 2013. Mr. Enste currently serves as an active partner and Managing Director of both Enste & American Investors Holding GmbH and Federnfabrik Schmid AG. He also currently serves on the boards of People Guard USA and Federnfabrik Schmid AG Switzerland. Between 2006 and 2011, Mr. Enste served as the Vice President and General Manager of International Business at Electro-Motive Diesel, Inc. From 2000 to 2001, Mr. Enste headed worldwide locomotive sales as Vice President of Locomotives at DaimlerChrysler Rail Systems ADtranz and continued to hold this position, as well as that of Senior Director until 2006 with Bombardier Transportation after they acquired DaimlerChrysler Rail Systems ADtranz. Mr. Enste holds a Master of Engineering from the Technical University of Munich.

**Anthony Gurnee** has been our President, Chief Executive Officer and a director of Ardmore since 2010. Between 2006 and 2008, he was the Chief Executive Officer of Industrial Shipping Enterprises, Inc., a containership and chemical tanker company, and Chief Operating Officer of MTM Group, an operator of chemical tankers. From 1992 to 1997, he was the Chief Financial Officer of Teekay Corporation, where he led the company's financial restructuring and initial public offering. Mr. Gurnee began his career as a financier with Citicorp, and he served for six years as a surface line officer in the US Navy, including a tour with naval intelligence. He is a graduate of the US Naval Academy and earned an MBA at Columbia Business School, is a CFA charter holder, and a fellow of the Institute of Chartered Shipbrokers.

**Reginald Jones** is our Chairman and a director. Mr. Jones has been the Chairman and a director of Ardmore since 2010. Mr. Jones is a co-founder and Managing Partner of Greenbriar Equity Group LLC, a private equity firm managing over \$3 billion of equity capital. Prior to founding Greenbriar in 1999, Mr. Jones spent 13 years at Goldman, Sachs & Co., where he was a Managing Director and Group Head of global transportation investment banking. Prior to Goldman Sachs, he worked as a consultant at Bain & Company. Mr. Jones earned a BA from Williams College and an MBA from the Harvard Business School.

**Robert McIlwraith** has served as a director of Ardmore since its IPO in August 2013. Mr. McIlwraith has been the owner of Redwood Management Consultants since April 2011 and has served as Chairman of the Exeter Initiative for Science and Technology (ExIST) since June 2011 and as a director of Exeter Science Park Ltd. since 2014. He has

also served as Chairman of the Trustees of AmSafe Bridport Pension Scheme since 2000 and has been lecturing and teaching Operations Management, Accounting and Finance and Management Studies at INTO University of Exeter since January 2011. He has been a Trustee of Sidmouth Hospiscare since 2011. He previously served as the Interim President of Align Aerospace France from September 2016 to April 2017 and October 2011 to August 2012 and as a Managing Director and Executive



TABLE OF CONTENTS

Vice President for the global aerospace and defense business AmSafe Bridport from 1998 to 2011. Mr. McIlwraith earned his Bachelor's degree in Mechanical Engineering from Cardiff University and is a Chartered Engineer and a Fellow of the Institution of Mechanical Engineers.

**Curtis McWilliams** was appointed as a director by the board of directors in January 2016. Mr. McWilliams is a real estate industry veteran with over 25 years of experience in finance and real estate. He currently serves as a member of the Ashford Hospitality Prime, Inc. Board of Directors. He retired from his position as President and Chief Executive Officer of CNL Real Estate Advisors, Inc. in 2010 after serving in the role since 2007. Mr. McWilliams was also the President and Chief Executive Officer of Truststreet Properties Inc. from 1997 to 2007, and a director of the company from 2005 to 2007. He served on the Board of Directors and as the Audit Committee Chairman of CNL Bank from 1999 to 2004 and has over 13 years of investment banking experience at Merrill Lynch & Co. Mr. McWilliams has a Master's degree in Business, with a concentration in Finance, from the University of Chicago Graduate School of Business, and a Bachelor of Science in Engineering in Chemical Engineering from Princeton University.

**Gernot Ruppelt** is our Chief Commercial Officer and Senior Vice President. Mr. Ruppelt has been in charge of Ardmore's commercial activities since joining as Chartering Director in 2013, and was promoted to his current position in December 2014. Mr. Ruppelt has extensive commercial and management experience in the maritime industry. Prior to Ardmore he had been a Projects Broker with Poten & Partners in New York for five years and, for seven years before that, Mr. Ruppelt worked for Maersk Broker and A.P. Moller - Maersk in Copenhagen, Singapore and Germany. Mr. Ruppelt is a director of Anglo Ardmore Ship Management Limited. He also represents Ardmore at the INTERTANKO Council and as a member of their Worldscale & Markets Committee. Mr. Ruppelt completed the two-year Maersk International Shipping Education program and graduated from Hamburg Shipping School. He is also a member of the Institute of Chartered Shipbrokers in London.

**Peter Swift** has served as a director of Ardmore since its IPO in August 2013. Dr. Swift has had a distinguished career spanning more than 50 years in the maritime industry, and is presently serving in international non-profit and charitable directorships, including acting as the Vice Chairman of the Sailors' Society and Trustee Member for the Maritime Piracy Humanitarian Response Programme (ISWAN), as a Member of the American Bureau of Shipping, the IMO Committee of the Royal Institution of Naval Architects and the Green Award Foundation, and as a Director of the Maritime Industry Foundation. Dr. Swift was previously the Managing Director of INTERTANKO from 2000 to 2010 and a Director of Seascope Shipping Limited from 1999 to 2001. He was employed by Royal Dutch Shell from 1975 to 1999 in a range of commercial and technical roles. Dr. Swift holds a PhD in Transport Economics, an MS in Engineering degree from the University of Michigan, and a BSc in Naval Architecture from the University of Durham. He is a Chartered Engineer, a Fellow of the Royal Institution of Naval Architects and Member of the Society of Naval Architects and Marine Engineers.

**Paul Tivnan** is our Senior Vice President, Chief Financial Officer, Secretary and Treasurer of Ardmore. Mr. Tivnan joined Ardmore in June 2010 and was appointed Chief Financial Officer in December 2012. From 2002 to 2010, he was employed at Ernst & Young in the Financial Services Advisory department specializing in international tax and corporate structuring. He was a participant in Ernst & Young's Accelerated Leadership Program from 2008 to 2010. Mr. Tivnan holds a BA in Accounting and Finance and an MBS in Accounting each from Dublin City University. He is a graduate of the London Business School Executive Leadership program, a Fellow of the Institute of Chartered Accountants of Ireland, an Associate of the Irish Taxation Institute and a member of the Institute of Chartered Shipbrokers.

## **B. Compensation of Directors and Senior Management**

We paid \$2.5 million in aggregate compensation to members of our senior executive officers for 2017. For 2017, each of our non-employee directors annually received cash compensation in the aggregate amount of \$65,000, plus an additional fee of \$20,000 for each committee for which a director served as Chairman, \$10,000 for each member of the audit committee and \$5,000 for each member of other committees, plus reimbursements for actual expenses incurred while acting in their capacity as a director. Our Chairman received an additional \$65,000 per year. We paid \$660,000 in aggregate compensation to our directors for

## TABLE OF CONTENTS

2017. Our officers and directors are eligible to receive awards under our equity incentive plan, which is described below under Equity Incentive Plan. We do not have a retirement plan for our officers or directors.

We believe that it is important to align the interests of our directors and management with those of our shareholders. In this regard, we have determined that it generally is beneficial to us and to our shareholders for our directors and management to have a stake in our long-term performance. We expect that a meaningful component of the compensation packages for our directors and management will consist of equity interests in Ardmore in order to promote this alignment of interests.

### **Equity Incentive Plan**

We currently have an equity incentive plan, the 2013 Equity Incentive Plan (the plan), under which directors, officers, and employees (including any prospective officer or employee) of us and our subsidiaries and affiliates, and consultants and service providers to (including persons who are employed by or provide services to any entity that is itself a consultant or service provider to) us and our subsidiaries and affiliates, as well as entities wholly-owned or generally exclusively controlled by such persons, may be eligible to receive incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units, dividend equivalents, unrestricted stock and other equity-based or equity-related awards that the plan administrator determines are consistent with the purposes of the plan and our interests. Subject to adjustment for changes in capitalization, the aggregate number of shares of our common stock with respect to which awards may at any time be granted under the plan will not exceed 8% of the issued and outstanding shares of our common stock at the time of issuance of the award. The plan is administered by the compensation committee of our board of directors.

Under the terms of the plan, stock options and stock appreciation rights granted under the plan will have an exercise price equal to the fair market value of a common share on the date of grant, unless otherwise determined by the plan administrator, but in no event will the exercise price be less than the fair market value of a common share on the date of grant. Options and stock appreciation rights are exercisable at times and under conditions as determined by the plan administrator, but in no event will they be exercisable later than ten years from the date of grant.

The plan administrator may grant shares of restricted stock and awards of restricted stock units subject to vesting, forfeiture and other terms and conditions as determined by the plan administrator. With respect to restricted stock units, the award recipient will be paid an amount equal to the number of vested restricted stock units multiplied by the fair market value of a common share on the date of vesting, which payment may be paid in the form of cash or common shares or a combination of both, as determined by the plan administrator. The plan administrator may grant dividend equivalents with respect to grants of restricted stock units.

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

Our board of directors may amend or terminate the plan and the plan administrator may amend outstanding awards, provided that no such amendment or termination may be made that would materially impair any rights, or materially increase any obligations, of a grantee under an outstanding award without the consent of the grantee. Shareholder approval of plan amendments may be required under certain circumstances. Unless terminated earlier by our board of directors, the plan will expire ten years from the date the plan is adopted.

## Stock Appreciation Rights

As of December 31, 2017, ASC had granted 1,349,154 SARs (inclusive of 5,779 forfeited SARs) to certain of its officers and directors under its 2013 Equity Incentive Plan. Under a SAR award, the grantee is entitled to receive the appreciation of a share of our common stock following the grant of the award. Each SAR provides for a payment of an amount equal to the excess, if any, of the fair market value of a share of Ardmore's common stock at the time of exercise of the SAR over the per share exercise price of the SAR, multiplied by

68

---

## TABLE OF CONTENTS

the number of shares for which the SAR is then exercised. Payment under the SAR will be made in the form of shares of Ardmore's common stock, based on the fair market value of a share of Ardmore's common stock at the time of exercise of the SAR.

The weighted average exercise price for the SARs outstanding as of December 31, 2017 was \$13.16 (the same as in 2016).

The SAR awards provide that in no event will the appreciation per share for any portion of the SAR award be deemed to exceed four times (i.e., 400%) the per share exercise price of the SAR. In other words, the fair market value of a share of our common stock for purposes of calculating the amount payable under the SARs not deemed to exceed five times (i.e., 500%) the per share exercise price of the SAR. Any appreciation in excess of four times the per share exercise price of the SAR will be disregarded for purposes of calculating the amount payable under the SAR.

As of December 31, 2017 there had been five issuances of SARs: August 2013 (1,078,125 units), March 2014 (22,118 units), June 2014 (5,595 units), March 2015 (37,797 units), and January 2016 (205,519 units). The first SARs awards vest and become exercisable ratably over five years from the date of grant of the SAR award (i.e., 20% of the shares covered by the SAR award vest on each of the first five anniversaries of the grant date), and the second, third, fourth and fifth SAR awards are scheduled to vest and become exercisable ratably over three years from the date of grant of the SAR award (i.e., 33% of the shares covered by the SAR award vest on each of the first three anniversaries of the grant date), subject to, and conditioned upon, the grantee's continued service as an employee, officer or director of us or one of our subsidiaries or affiliates.

However, vesting on all SAR awards up to July 31, 2016 was subject to the market condition that the fair market value of a share of our common stock is equal to more than two times the SAR's per share exercise price and has remained above such amount for 30 consecutive days. On that date the vesting reverted to being solely dependent on time of service. The SAR awards may receive accelerated vesting in cases of termination of service due to death or disability or in connection with a change of control of the Company. The SAR awards have a term of seven years from the date of grant and in no event will the SAR be exercisable to any extent following the seventh anniversary of the grant date.

The SAR awards are subject to adjustment in the event of certain changes in capitalization or other significant corporate events, as more fully set forth in the equity incentive plan document. Please see Note 18 Share based compensation to our consolidated financial statements included in this Annual Report for additional information about the SAR awards.

## **C. Board Practices**

Our board of directors currently consists of seven directors, five of whom, Brian Dunne, Peter Swift, Alan Robert McIlwraith, Albert Enste, and Curtis McWilliams have been determined by our board of directors to be independent under the rules of the New York Stock Exchange and the rules and regulations of the SEC. The size of the board was reduced from eight to seven directors upon the resignation of former director Niall McComiskey in December 2017 following the disposition by GA Holdings LLC of all of our shares it owned. Our Audit Committee consists of Brian Dunne, as Chairman, Alan Robert McIlwraith, and Curtis McWilliams. Our board of directors has determined that Mr.

Dunne qualifies as an audit committee financial expert as such term is defined under SEC rules. The Audit Committee, among other things, reviews our external financial reporting, engages our external auditors, and oversees our financial reporting procedures and the adequacy of our internal accounting controls. The Nominating and Corporate Governance Committee consists of Reginald Jones (a non-independent member of our board of directors) as Chairman, Brian Dunne and Curtis McWilliams. The Nominating and Corporate Governance Committee is responsible for recommending to the board of directors nominees for director and directors for appointment to board

committees and advising the board with regard to corporate governance practices. The Compensation Committee consists of Reginald Jones, as Chairman, Peter Swift and Albert Enste. The Compensation Committee oversees our equity incentive plan and recommends director and senior employee compensation. Our shareholders may also nominate directors in accordance with the procedures set forth in our bylaws. There are no service contracts between us and any of our directors providing for benefits upon termination of their employment or service.

## **D. Employees**

As of December 31, 2017, approximately 1,060 seagoing staff serve on the vessels that we manage and approximately 46 permanent staff serve on shore. This compares with approximately 1,027 seafarers and

## TABLE OF CONTENTS

approximately 45 staff on shore as of December 31, 2016 and reflects the growth in our fleet. Many of our seafarers employed by our ship managers are unionized under various jurisdictions and are employed under various collective bargaining agreements which does expose us to a risk of potential labor unrest at times when those collective bargaining agreements are being re-negotiated.

We have entered into employment agreements with four of our executives: Mark Cameron, our Executive Vice President and Chief Operating Officer; Anthony Gurnee, our President and Chief Executive Officer; Gernot Ruppelt, our Senior Vice President and Chief Commercial Officer; and Paul Tivnan, our Senior Vice President and Chief Financial Officer. These employment agreements became effective as of August 1, 2013 and terminate in accordance with the terms of such agreements. Pursuant to the terms of their respective employment agreements, our executive officers are prohibited from disclosing or unlawfully using any of our material confidential information. The employment agreements also include one year non-solicitation and one year non-compete clauses following the cessation of the employee's employment with us.

The employment agreements require that we maintain director and officer insurance and that we indemnify and hold the employee harmless against all expenses, liability and loss (including reasonable and necessary attorneys' fees, judgments, fines and amounts paid in settlement) in connection with any threatened or pending action, suit or proceeding, to which the employee is a party or is threatened to be made a party as a result of the employee's employment with us. The indemnification provisions exclude fraud, willful misconduct or criminal activity on the employee's behalf.

## **E. Share Ownership**

The total amount of common stock owned by all of our officers and directors as a group is set forth below in Item 7. ( Major Shareholders and Related Party Transactions A. Major Shareholders ).

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

### **A. Major Shareholders**

The following table sets forth information regarding beneficial ownership, as of February 28, 2018 (except as otherwise noted), of our common stock by:

- each person or entity known by us to beneficially own 5% or more of our common stock; and
- all our current directors and executive officers and senior management as a group.

The information provided in the table is based on information filed with the SEC and information provided to us.

The number of shares beneficially owned by each person, entity, director, executive officer or other member of senior management is determined under SEC rules and the information is not necessarily indicative of beneficial ownership for any other purpose. Under SEC rules, a person or entity beneficially owns any shares as to which the person or entity has or shares voting or investment power. In addition, a person or entity beneficially owns any shares that the person or entity has the right to acquire as of the date 60 days after February 28, 2018 through the exercise of any stock option or other right; however, any such shares are not deemed outstanding for the purpose of computing the percentage ownership of any other person. Unless otherwise indicated, each person or entity has sole voting and investment power (or shares such powers with his or her spouse) with respect to the shares set forth in the following table.





TABLE OF CONTENTS**Beneficial Ownership Table**

Identity of person or group	Shares Beneficially Owned	
	Number	Percentage <sup>(1)</sup>
Donald Smith & Co., Inc. <sup>(2)</sup>	3,063,262	9.44 %
FMR LLC <sup>(3)</sup>	2,540,670	7.83 %
Royce and Associates LP <sup>(4)</sup>	2,108,775	6.50 %
Aristotle Capital Boston, LLC <sup>(5)</sup>	2,058,374	6.34 %
Russell Investments Group Ltd <sup>(6)</sup>	2,000,505	6.17 %
Cross River Capital Management LLC <sup>(7)</sup>	1,675,013	5.16 %
Boston Partners <sup>(8)</sup>	1,669,220	5.14 %
All directors and executive officers as a group	*	*

(1) Based on 32,445,415 shares of common stock outstanding on February 28, 2018.

(2) This information is based on the Schedule 13G filed with the SEC on February 12, 2018.

(3) This information is based on the Amendment No. 3 to Schedule 13G filed with the SEC on February 13, 2018.

(4) This information is based on the Amendment No. 2 to Schedule 13G filed with the SEC on January 24, 2018.

(5) This information is based on the Schedule 13G filed with the SEC on February 14, 2018.

(6) This information is based on the Form 13F filed with the SEC on February 6, 2018.

(7) This information is based on the Schedule 13G filed with the SEC on February 20, 2018 and was filed by the parties noted below. Cross River Capital Management LLC, Cross River Management LLC and Cross River Partners LP beneficially own 1,623,913 shares and Richard Murphy beneficially owns 1,675,013 shares.

(8) This information is based on the Schedule 13G filed with the SEC on February 13, 2018.

\* Less than 1% of outstanding shares of our common stock.

As of February 28, 2018, we had two shareholders of record located in the United States, one of which is CEDE & CO., a nominee of The Depository Trust Company, which held an aggregate of 32,323,095 shares of our common stock, representing approximately 99.62% of our outstanding shares of common stock. We believe that the shares held by CEDE & CO. include shares of common stock beneficially owned by both holders in the United States and non-U.S. beneficial owners. We are not aware of any arrangements the operation of which may at a subsequent date result in our change of control.

**B. Related Party Transactions**

Ardmore Shipping Corporation was incorporated under the laws of the Republic of the Marshall Islands in May 2013.

We commenced business operations through our predecessor company, Ardmore Shipping LLC, in April 2010. In August 2013, we completed our IPO of shares of our common stock. Prior to our IPO, GA Holdings LLC, who was our sole shareholder, exchanged its 100% interest in Ardmore Shipping LLC for 8,049,500 shares of Ardmore Shipping Corporation, and Ardmore Shipping LLC became a wholly owned subsidiary of Ardmore Shipping Corporation. In November 2015, GA Holdings LLC sold 4,000,000 of its shares of our common stock in an underwritten public offering. In June 2016, we completed a public offering of 7,500,000 common shares, of which GA Holdings LLC purchased 1,277,250 shares. In November 2017, GA Holdings LLC disposed the balance of its remaining 5,787,942 common shares, of which 5,579,978 shares were sold in an underwritten public secondary offering, 85,654 shares were repurchased by us in a private transaction, and 122,310 shares were distributed to certain of its members, including Anthony Gurnee, our chief executive officer and a member of our board of directors. In addition to the 85,654 shares we repurchased from GA Holdings LLC in a private transaction, we also purchased from

the underwriter 1,350,000 shares of our common stock that were sold by GA Holdings LLC in the secondary offering, with the price of all such repurchases by us being equal to the price per share at which GA Holdings LLC sold shares to the underwriters in the public offering. Prior to the November 2017 secondary offering, two members of our board of directors, Reginald Jones and Niall McComiskey, were affiliated with our largest

71

---

TABLE OF CONTENTS

shareholder, GA Holdings LLC. Following the offering, Niall McComiskey resigned from our board of directors. Reginald Jones remains a member of our board of directors.

Any transaction involving the payment of compensation to a director or officer in connection with their duties to Ardmore are not related party transactions. Please see Item 6.A Directors, Senior Management and Employees-Directors and Senior Management.

## **C. Interest of Experts and Council**

Not applicable.

72

---

TABLE OF CONTENTS

**Item 8. Financial Information**

**A. Consolidated Financial Statements and Other Financial Information**

See Item 18.

**Legal Proceedings**

Although we may, from time to time, be involved in litigation and claims arising out of our operations in the normal course of business, we are not at present party to any legal proceedings or aware of any proceedings against us, or contemplated to be brought against us, that would have a material effect on our business, financial position, results of operations or liquidity. We maintain insurance policies with insurers in amounts and with coverage and deductibles as our board of directors believes are reasonable and prudent. 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**

Under our dividend policy established in September 2015, we expect to pay our shareholders quarterly dividends of 60% of our Earnings from Continuing Operations, which represents our earnings per share reported under U.S. GAAP as adjusted for unrealized and realized gains and losses and extraordinary items. Our board of directors may review and amend our dividend policy from time to time in light of our plans for future growth and other factors. In addition, our ability to pay dividends will be subject to the amount of cash reserves established by our board of directors for the conduct of our business, restrictions in our credit facilities and the provisions of the laws of the Marshall Islands, as well as the other limitations set forth in the section of this Annual Report entitled "Risk Factors". On April 2, 2015, we introduced our Dividend Reinvestment Plan. The plan allows existing shareholders to purchase additional common shares by automatically reinvesting all or any portion of the cash dividends paid on common shares held by the plan participant.

**B. Significant Changes**

Not Applicable.

**Item 9. The Offer and Listing**

**A. Offer and Listing Details**

Shares of our common stock trade on the New York Stock Exchange under the symbol "ASC". The high and low closing prices of our common shares on the New York Stock Exchange are presented for the periods listed below.

FOR THE YEAR ENDED

HIGH      LOW

Edgar Filing: Ardmore Shipping Corp - Form 20-F

December 31, 2013 <sup>(1)</sup>	\$ 15.84	\$ 11.32
December 31, 2014	15.41	8.25
December 31, 2015	15.07	9.55
December 31, 2016	12.69	5.00
December 31, 2017	9.05	6.60

FOR THE QUARTER ENDED	HIGH	LOW
March 31, 2016	\$ 12.69	\$ 7.11
June 30, 2016	9.96	6.46
September 30, 2016	8.37	6.52
December 31, 2016	7.58	5.00
March 31, 2017	8.15	6.60
June 30, 2017	8.75	6.95
September 30, 2017	8.50	6.87
December 31, 2017	9.05	7.50

73

---

TABLE OF CONTENTS

FOR THE MONTHS ENDED	HIGH	LOW
September 30, 2017	\$ 8.30	\$ 7.18
October 31, 2017	9.05	8.15
November 30, 2017	9.00	7.95
December 31, 2017	8.35	7.50
January 31, 2018	8.32	6.90
February 28, 2018	7.95	6.40
March 31, 2018 <sup>(2)</sup>	8.15	7.35

- (1) Commencing with the date of our IPO on August 1, 2013  
(2) For the period ended March 26, 2018

## **B. Plan of Distribution**

Not applicable.

## **C. Markets**

Shares of our common stock trade on the New York Stock Exchange under the symbol `ASC` .

## **D. Selling Shareholders**

Not applicable.

## **E. Dilution**

Not applicable.

## **F. Expenses of the Issue**

Not applicable.

## **Item 10. Additional Information**

### **A. Share Capital**

Not applicable.

### **B. Memorandum and Articles of Association**

Our Amended and Restated Articles of Incorporation and Amended and Restated Bylaws have been filed as Exhibits 3.1 and 3.2, respectively, to Form F-1/A (Registration Number 333-189714), declared effective by the Securities and Exchange Commission on July 31, 2013. The information contained in these exhibits is incorporated by reference into

this Annual Report.

The rights, preferences and restrictions attaching to our shares of common stock are described in the section entitled Description of Capital Stock of our Registration Statement on Form F-3 (File No. 333-213343), filed with the SEC on August 26, 2016, and hereby incorporated by reference into this Annual Report.

There are no limitations on the rights to own our securities, including the rights of non-resident or foreign shareholders to hold or exercise voting rights on the securities, imposed by the laws of the Republic of The Marshall Islands or by our Articles of Incorporation or Bylaws.

## **C. Material Contracts**

Attached or incorporated by reference 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. Descriptions are included in Note 8 ( Debt ) to our consolidated financial statements included in this Annual Report with respect to our credit facilities. Other than these contracts, we have not entered into any other material contracts in the two years immediately preceding the date of this Annual Report, other than contracts entered into in the ordinary course of business.

TABLE OF CONTENTS

## **D. Exchange Controls**

Under Marshall Islands 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 shares.

## **E. Taxation of Holders**

The following is a discussion of the material Marshall Islands and U.S. federal income tax considerations that may be relevant to us and our shareholders. This discussion does not purport to deal with the tax consequences of owning common stock to all categories of investors, some of which, such as dealers in securities or commodities, financial institutions, insurance companies, tax-exempt organizations, U.S. expatriates, persons liable for the alternative minimum tax, persons who hold common stock as part of a straddle, hedge, conversion transaction or integrated investment, U.S. Holders whose functional currency is not the United States dollar and investors that own, actually or under applicable constructive ownership rules, 10% or more of the Company's common stock and persons who own our stock through an applicable partnership interest, may be subject to special rules. This discussion deals only with holders who hold the common stock as a capital asset. 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 common stock.

### **Marshall Islands Tax Considerations**

The following are the material Marshall Islands tax consequences of our activities to us and of our common shares to our shareholders. 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.

### **U.S. Federal Income Tax Considerations**

The following are the material U.S. federal income tax consequences to (a) us and (b) U.S. Holders and Non-U.S. Holders, each as defined below, of the common shares. The following discussion of U.S. federal income tax matters is based on the Code, judicial decisions, administrative pronouncements, and existing and proposed regulations issued by the United States Department of the Treasury ( Treasury Regulations ), all of which are subject to change, possibly with retroactive effect. The discussion below is based, in part, on the description of our business as described in this annual report and assumes that we conduct our business as described herein. References in the following discussion to the Company, we, our and us are to Ardmore Shipping Corporation and its subsidiaries on a consolidated basis.

#### **U.S. Federal Income Taxation of Operating Income: In General**

We anticipate that we will earn substantially all our income from the hiring or leasing of vessels for use on a time charter basis, from participation in a pool or from the performance of services directly related to those uses, all of which we refer to as shipping income.

Unless we qualify from an exemption from U.S. federal income taxation under either an applicable tax treaty or the rules of Section 883 of the Code ( Section 883 ), as discussed below, a foreign corporation such as the Company will be



subject to United States federal income taxation on its shipping income that is treated as derived from sources within the United States ( U.S. source shipping income ). For U.S. federal income tax purposes, U.S. source shipping income includes 50% of shipping income that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States.

Shipping income attributable to transportation exclusively between non-U.S. ports will be considered to be 100% derived from sources entirely outside the United States. Shipping income derived from sources outside the United States will not be subject to any U.S. federal income tax.

Shipping income attributable to transportation exclusively between U.S. ports is considered to be 100% derived from U.S. sources. However, we are not permitted by United States law to engage in the transportation of cargoes that produces 100% U.S. source shipping income.

TABLE OF CONTENTS

**Exemption of Operating Income from U.S. Federal Income Taxation**

Under Section 883 and the Treasury Regulations promulgated thereunder, a foreign corporation will be exempt from U.S. federal income taxation of its U.S. source shipping income if:

- it is organized in a qualified foreign country which is one that grants an equivalent exemption from tax to
- (1) corporations organized in the United States in respect of each category of shipping income for which exemption is being claimed under Section 883; and
  - (2) one of the following tests is met:
    - (A) more than 50% of the value of its shares is beneficially owned, directly or indirectly, by qualified shareholders, which as defined includes individuals who are residents of a qualified foreign country, to which we refer as the 50% Ownership Test; or
    - (B) its shares are primarily and regularly traded on an established securities market in a qualified foreign country or in the United States, to which we refer as the Publicly-Traded Test.
- The Marshall Islands, the jurisdiction where we and our ship-owning subsidiaries are incorporated, has been officially recognized by the IRS, as a qualified foreign country that grants the requisite equivalent exemption from tax in respect of each category of shipping income we earn and currently expect to earn in the future. Therefore, we will be exempt from U.S. federal income taxation with respect to our U.S. source shipping income if we satisfy either the 50% Ownership Test or the Publicly-Traded Test.

We believe that we satisfy the Publicly-Traded Test for our 2017 taxable year and therefore qualify for an exemption from tax under Section 883. We anticipate that we will continue to satisfy the Publicly-Traded Test but, as discussed below, this is a factual determination made on an annual basis. We do not currently anticipate circumstances under which we would not be able to satisfy the 50% Ownership Test.

**Publicly-Traded Test**

The Treasury Regulations under Section 883 provide, in pertinent part, that shares of a foreign corporation will be considered to be primarily traded on an established securities market in a country if the number of shares of each class of stock that are traded during any taxable year on all established securities markets in that country exceeds the number of shares in each such class that are traded during that year on established securities markets in any other single country. The Company's common shares, which constitute its sole class of issued and outstanding stock are primarily traded on the New York Stock Exchange ( NYSE ).

Under the Treasury Regulations, our common shares will be considered to be regularly traded on an established securities market if one or more classes of our shares representing more than 50% of our outstanding stock, by both total combined voting power of all classes of stock entitled to vote and total value, are listed on such market, (the listing threshold ). Since all our common shares are listed on the NYSE, we satisfy the listing threshold.

The Treasury Regulations also require that with respect to each class of stock relied upon to meet the listing threshold,

- (i) such class of stock traded on the market, other than in minimal quantities, on at least 60 days during the taxable year or one-sixth of the days in a short taxable year ( trading frequency test ); and
- (ii) the aggregate number of shares of such class of stock traded on such market during the taxable year must be at least 10% of the average number of shares of such class of stock outstanding during such year or as appropriately adjusted in the case of a short taxable year (the trading volume test ).

We believe that we satisfy the trading frequency and trading volume tests with respect to the 2017 taxable year. Even if this were not the case, the Treasury Regulations provide that the trading frequency and trading volume tests will be deemed satisfied if, as is the case with our common shares, such class of stock is traded on an established securities market in the United States and such shares are regularly quoted by dealers making

a market in such shares.

Notwithstanding the foregoing, the Treasury Regulations provide, in pertinent part, that a class of shares 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

TABLE OF CONTENTS

constructively under specified share attribution rules, on more than half the days during the taxable year by persons who each own 5% or more of the vote and value of such class of outstanding stock ( 5% Override Rule ).

For purposes of being able to determine the persons who actually or constructively own 5% or more of the vote and value of our common shares ( 5% Shareholders ) the Treasury Regulations permit us to rely on those persons that are identified on Schedule 13G and Schedule 13D filings with the United States Securities and Exchange Commission, as owning 5% or more of our common shares. The Treasury Regulations further provide that an investment company which is registered under the Investment Company Act of 1940, as amended, will not be treated as a 5% Shareholder for such purposes.

In the event the 5% Override Rule is triggered, the Treasury Regulations provide that the 5% Override Rule will nevertheless not apply if we can establish that within the group of 5% Shareholders, qualified shareholders (as defined for purposes of Section 883) own sufficient number of shares to preclude non-qualified shareholders in such group from owning 50% or more of our common shares for more than half the number of days during the taxable year.

We believe that we satisfy the Publicly-Traded Test for the 2017 taxable year and were not subject to the 5% Override Rule, and we intend to take that position on our 2017 U.S. federal income tax returns. However, there are factual circumstances beyond our control that could cause us to lose the benefit of the Section 883 exemption for any future taxable year. For example, there is a risk that we could no longer qualify for Section 883 exemption for a particular taxable year if one or more 5% Shareholders were to own 50% or more of our outstanding common shares on more than half the days of the taxable year. Under these circumstances, we would be subject to the 5% Override Rule and we would not qualify for the Section 883 exemption unless we could establish that our shareholding during the taxable year was such that non-qualified 5% Shareholders did not own 50% or more of our common shares on more than half the days of the taxable year. Under the Treasury Regulations, we would have to satisfy certain substantiation requirements regarding the identity of our shareholders. These requirements are onerous and there is no assurance that we would be able to satisfy them. Given the factual nature of the issues involved, we can give no assurances in regards to our or our subsidiaries qualification for the Section 883 exemption.

**Taxation in Absence of Section 883 Exemption**

If the benefits of Section 883 are unavailable, our U.S. source shipping income would be subject to a 4% tax imposed by Section 887 of the Code on a gross basis, without the benefit of deductions, or the 4% gross basis tax regime , to the extent that such income is not considered to be effectively connected with the conduct of a United States trade or business, as described below. Since under the sourcing rules described above, no more than 50% of our shipping income would be treated as being U.S. source shipping income, the maximum effective rate of U.S. federal income tax on our shipping income would never exceed 2% under the 4% gross basis tax regime.

To the extent our U.S. source shipping income is considered to be effectively connected with the conduct of a U.S. trade or business, as described below, any such effectively connected U.S. source shipping income, net of applicable deductions, would be subject to U.S. federal income tax, currently imposed at rates of up to 35% for the 2017 taxable year and a rate of 21% for future taxable years. In addition, we would generally be subject to the 30% branch profits tax on earnings effectively connected with the conduct of such trade or business, as determined after allowance for certain adjustments, and on certain interest paid or deemed paid attributable to the conduct of our U.S. trade or business.

Our United States source shipping income would be considered effectively connected with the conduct of a United States trade or business only if:

we have, or are considered to have, a fixed place of business in the United States involved in the earning of U.S. source shipping income; and substantially all of our U.S. source shipping income is attributable to regularly scheduled transportation, such as the operation of a vessel that follows a published schedule with repeated sailings at regular intervals between the same points for voyages that begin or end in the United States.

77

---

TABLE OF CONTENTS

We do not intend to have, or permit circumstances that would result in having, any vessel sailing to or from the United States on a regularly scheduled basis. Based on the foregoing and on the expected mode of our shipping operations and other activities, it is anticipated that none of our U.S. source shipping income will be effectively connected with the conduct of a U.S. trade or business.

## **United States Taxation of Gain on Sale of Vessels**

Regardless of whether we qualify for an exemption under Section 883, we will not be subject to U.S. federal income tax 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.

## **U.S. Federal Income Taxation of United States Holders**

As used herein, the term **U.S. Holder** means a holder that for U.S. federal income tax purposes is a beneficial owner of our common shares and is an individual 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.

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

## **Distributions**

Subject to the discussion of passive foreign investment companies below, any distributions made by us with respect to our common shares to a U.S. Holder will generally constitute dividends to the extent of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles.

Distributions in excess of such 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 our common shares and thereafter as capital gain. Because we are not a U.S. corporation, U.S. Holders that are corporations will generally not be entitled to claim a dividends received deduction with respect to any distributions they receive from us. Dividends paid with respect to our common shares will generally be treated as foreign source dividend income and will generally constitute passive category income for purposes of computing allowable foreign tax credits for U.S. foreign tax credit purposes.

Subject to applicable limitations, including a holding period requirement, dividends paid on our common shares to certain non-corporate U.S. Holders will generally be treated as qualified dividend income that is taxable to such U.S. Holders at preferential tax rates provided that (1) the common shares are readily tradable on an established securities market in the U.S. (such as the NYSE, on which our common shares are traded); and (2) we are not a passive foreign investment company for the taxable year during which the dividend is paid or the immediately preceding taxable year (which, as discussed below, we do not believe that we are or will be for any future taxable years).

There is no assurance that any dividends paid on our common shares will be eligible for these preferential rates in the hands of such non-corporate U.S. Holders, although, as described above, we expect such dividends to be so eligible provided an eligible non-corporate U.S. Holder meets all applicable requirements. Any dividends paid by us which are not eligible for these preferential rates will be taxed as ordinary income to a non-corporate U.S. Holder.

Special rules may apply to any extraordinary dividend generally, a dividend in an amount which is equal to or in excess of 10% of a shareholder's adjusted tax basis in a common share paid by us. If we pay an extraordinary dividend on our common shares that is treated as qualified dividend income, then any loss derived by certain non-corporate U.S. Holders from the sale or exchange of such common shares will be treated as long term capital loss to the extent of such dividend.

TABLE OF CONTENTS

**Sale, Exchange or Other Disposition of Common Shares**

Assuming we do 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 our common shares 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 shares. Such gain or loss will be treated as long-term capital gain or loss if the U.S. Holder's holding period is greater than one year at the time of the sale, exchange or other disposition. Such capital gain or loss will generally be treated as U.S. source income or loss, as applicable, for U.S. foreign tax credit purposes. Long-term capital gains of certain non-corporate U.S. Holders are currently eligible for reduced rates of taxation. A U.S. Holder's ability to deduct capital losses is subject to certain limitations.

**3.8% Tax on Net Investment Income**

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

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

Special U.S. federal income tax rules apply to a U.S. Holder that holds shares in a PFIC for U.S. federal income tax purposes. In general, we will be treated as a PFIC with respect to a U.S. Holder if, for any taxable year in which such holder holds our common shares, either:

at least 75% of our 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 our assets during such taxable year produce, or are held for the production of, passive income.

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

Based on our current and anticipated operations, we do not believe that we are currently a PFIC or will be treated as a PFIC for any future taxable year. Our belief is based principally on the position that the gross income we derive from time chartering activities should constitute services income, rather than rental income. Accordingly, such income should not constitute passive income, and the assets that we own and operate in connection with the production of such income, in particular, the vessels, should not constitute passive assets for purposes of determining whether we are a PFIC. There is substantial legal authority supporting this position consisting of case law and IRS pronouncements concerning the characterization of income derived from time charters as services income for other tax purposes. However, there is also authority which characterizes time charter income as rental income rather than



services income for other tax purposes. Accordingly, 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. In addition, although we intend to conduct our affairs in a manner to avoid being classified as a PFIC with respect to any taxable year, we cannot assure you that the nature of our operations will not change in the future.

As discussed more fully below, if we were to be treated as a PFIC for any taxable year, a United States Holder would be subject to different taxation rules depending on whether the United States Holder makes an

## TABLE OF CONTENTS

election to treat us as a Qualified Electing Fund ( QEF election ). As an alternative to making a QEF election, a United States Holder should be able to make a mark-to-market election with respect to our common shares, as discussed below. A United States holder of shares in a PFIC will be required to file an annual information return on IRS Form 8621 containing information regarding the PFIC as required by applicable Treasury Regulations.

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

If a United States Holder makes a timely QEF election, which United States Holder we refer to as an Electing Holder , the Electing Holder must report for United States federal income tax purposes its pro rata share of our ordinary earnings and net capital gain, if any, for each of our taxable years during which we are a PFIC that ends with or within the taxable year of the Electing Holder, regardless of whether distributions were received from us by the Electing Holder. No portion of any such inclusions of ordinary earnings will be treated as qualified dividend income . Net capital gain inclusions of certain non-corporate United States Holders would be eligible for preferential capital gains tax rates. The Electing Holder s adjusted tax basis in the common shares will be increased to reflect any income included under the QEF election. Distributions of previously taxed income will not be subject to tax upon distribution but will decrease the Electing Holder s tax basis in the common shares. An Electing Holder would not, however, be entitled to a deduction for its pro rata share of any losses that we incur with respect to any taxable year. An Electing Holder would generally recognize capital gain or loss on the sale, exchange or other disposition of our common shares. A U.S. Holder would make a timely QEF election for our common shares by filing one copy of IRS Form 8621 with its United States federal income tax return for the first year in which it held such shares when we were a PFIC. If we determine that we are a PFIC for any taxable year, we would provide each United States Holder with all necessary information in order to make the QEF election described above.

### **Taxation of United States Holders Making a Mark-to-Market Election**

Alternatively, if we were to be treated as a PFIC for any taxable year and, as we anticipate will be the case, our shares are treated as marketable stock , a United States Holder would be allowed to make a mark-to-market election with respect to our common shares, provided the United States Holder completes and files IRS Form 8621 in accordance with the relevant instructions and related Treasury Regulations. If that election is made, the United States Holder generally would include as ordinary income in each taxable year the excess, if any, of the fair market value of the common shares at the end of the taxable year over such Holder s adjusted tax basis in the common shares. The 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 shares over its fair market value at the end of the taxable year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. A U.S. Holder s tax basis in its common shares would be adjusted to reflect any such income or loss amount recognized. In a year when we are a PFIC, any gain realized on the sale, exchange or other disposition of our common shares would be treated as ordinary income, and any loss realized on the sale, exchange or other disposition of the common shares would be treated as ordinary loss to the extent that such loss does not exceed the net mark-to-market gains previously included by the U.S. Holder.

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

If we 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 we refer to as a Non-Electing Holder , would be subject to special rules with respect to (i) any excess distribution (i.e., the portion of any distributions received by the Non-Electing Holder on the common shares in a taxable year in excess of 125% of the average annual distributions received by the Non-Electing Holder in the three preceding taxable years, or, if shorter, the Non-Electing Holder s holding period for the common shares), and (ii) any gain realized on the sale, exchange or other disposition of our common shares.

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 shares;

the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we were a PFIC, would be taxed as ordinary income and would not be qualified dividend income; and

80

---

## TABLE OF CONTENTS

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.

### **U.S. Federal Income Taxation of Non-U.S. Holders**

As used herein, the term **Non-U.S. Holder** means a holder that, for U.S. federal income tax purposes, is a beneficial owner of common shares (other than a partnership) that is not a U.S. Holder.

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

#### **Dividends on Common Shares**

A Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on dividends received from us with respect to our common shares, unless that income is effectively connected with the Non-U.S. Holder's conduct of a trade or business in the United States.

#### **Sale, Exchange or Other Disposition of Common Shares**

A Non-U.S. Holder 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 shares, unless:

the gain is effectively connected with the Non-U.S. Holder's conduct of a trade or business in the U.S.; or the Non-U.S. Holder is an individual who is present in the U.S. for 183 days or more during the taxable year of disposition and other conditions are met.

#### **Income or Gains Effectively Connected with a U.S. Trade or Business**

If the Non-U.S. Holder is engaged in a U.S. trade or business for U.S. federal income tax purposes, dividends on the common shares and gain from the sale, exchange or other disposition of the shares, that is effectively connected with the conduct of that trade or business (and, if required by an applicable income tax treaty, is attributable to a U.S. permanent establishment), will generally be subject to regular 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, its earnings and profits that are attributable to the effectively connected income, which are subject to certain adjustments, may be subject to an additional 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, and the payment of the gross proceeds on a sale of our common shares, made within the U.S. to a non-corporate U.S. Holder will be subject to information reporting. Such payments or distributions may also be subject to backup withholding if the non-corporate U.S. Holder:

fails to provide an accurate taxpayer identification number;  
is notified by the IRS that it has failed to report all interest or dividends required to be shown on its federal income tax returns; or

in certain circumstances, fails to comply with applicable certification requirements.

Non-U.S. Holders may be required to establish their exemption from information reporting and backup withholding with respect to dividends payments or other taxable distribution on our common shares by certifying their status on an applicable IRS Form W-8. If a Non-U.S. Holder sells our common shares to or through a U.S. office of a broker, the payment of the proceeds is subject to both U.S. backup withholding and information reporting unless the Non-U.S. Holder certifies that it is a non-U.S. person, under penalties of perjury, or it otherwise establishes an exemption. If a Non-U.S. Holder sells our common shares through a non-U.S. office of a non-U.S. broker and the sales proceeds are paid outside the U.S., then information

## TABLE OF CONTENTS

reporting and backup withholding generally will not apply to that payment. However, U.S. information reporting requirements, but not backup withholding, will apply to a payment of sales proceeds, even if that payment is made outside the U.S., if a Non-U.S. Holder sells our common shares through a non-U.S. office of a broker that is a U.S. person or has some other contacts with the U.S. Such information reporting requirements will not apply, however, if the broker has documentary evidence in its records that the Non-U.S. Holder is not a U.S. person and certain other conditions are met, or the Non-U.S. Holder otherwise establishes an exemption.

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

Individuals who are U.S. Holders (and to the extent specified in applicable Treasury regulations, Non-U.S. Holders and certain U.S. entities) who hold specified foreign financial assets (as defined in Section 6038D of the Code) are required to file IRS Form 8938 with information relating to the asset for each taxable year in which the aggregate value of all such assets exceeds \$75,000 at any time during the taxable year or \$50,000 on the last day of the taxable year (or such higher dollar amount as prescribed by applicable Treasury Regulations). Specified foreign financial assets would include, among other assets, our common shares, unless the common shares are held in an account maintained with a U.S. financial institution.

Substantial penalties apply to any failure to timely file IRS Form 8938, unless the failure is shown to be due to reasonable cause and not due to willful neglect. Additionally, in the event an individual U.S. Holder (and to the extent specified in applicable Treasury Regulations, a Non-U.S. Holder or a U.S. entity) that is required to file IRS Form 8938 does not file such form, the statute of limitations on the assessment and collection of U.S. federal income taxes of such holder for the related tax year may not close until three years after the date that the required information is filed. U.S. Holders (including U.S. entities) and Non-U.S. Holders are encouraged to consult their own tax advisors regarding their reporting obligations in respect of our common shares.

## **F. Dividends and Paying Agents**

Not applicable.

## **G. Statements by Experts**

Not applicable.

## **H. Documents on Display**

Documents concerning us that are referred to herein may be inspected at our principal executive offices at Belvedere Building, 69 Pitts Bay Road, Ground Floor, Pembroke, HM08, Bermuda. 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 facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549, or from the SEC's website at [www.sec.gov](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 Risks**

Please see Note 11 Risk management to our consolidated financial statements included in this Annual Report for a description of risk management that may apply to us.

#### **Inflation**

We do not expect inflation to be a significant risk to direct expenses in the current and foreseeable economic environment.

TABLE OF CONTENTS

**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 Shareholders and Use of Proceeds**

None.

**Item 15. Controls and Procedures**

**A. Disclosure Controls and Procedures**

We evaluated pursuant to Rule 13a-15(b) of the Exchange Act the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2017. Based on that evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

**B. Management's Report on Internal Control over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal controls over our financial reporting. Our internal controls were designed to provide reasonable assurance as to the reliability of our financial reporting and the preparation and presentation of the consolidated financial statements for external purposes in accordance with U.S. GAAP.

Our internal controls over financial reporting include 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 our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made in accordance with authorizations of management and our directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our



assets that could have a material effect on the financial statements.

Management evaluated the effectiveness of our internal control over financial reporting as of December 31, 2017 using the framework set forth in the 2013 report of the Treadway Commission's Committee of Sponsoring Organizations.

Management's evaluation as of December 31, 2017 included review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls and a conclusion on this evaluation. Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements even when determined to be effective and can only provide reasonable assurance with respect to financial statement preparation and presentation. 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 and procedures may deteriorate. Based on the evaluation, management determined that internal controls over financial reporting were effective as of December 31, 2017.

## **C. Attestation Report of the Registered Public Accounting Firm**

This Annual Report does not include an attestation report of our registered public accounting firm due to a transition period established by rules of the SEC for emerging growth companies .

TABLE OF CONTENTS

## **D. Changes in Internal Control Over Financial Reporting.**

There were no changes in our internal controls over financial reporting that occurred during the period covered by this Annual Report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **Item 16. Reserved**

#### **Item 16.A. Audit Committee Financial Expert**

Our audit committee consists of Mr. Brian Dunne, Mr. Alan Robert McIlwraith, and Mr. Curtis McWilliams. Each member of our audit committee is financially literate under the current listing standards of the New York Stock Exchange and the SEC, and our board of directors has determined that Mr. Brian Dunne qualifies as an audit committee financial expert, as such term is defined by the SEC.

#### **Item 16.B. Code of Ethics**

We have adopted a code of conduct and ethics applicable to our directors, chief executive officer, chief financial officer, principal accounting officer and other key management personnel. The code is available for review on our website at [www.ardmoreshipping.com](http://www.ardmoreshipping.com).

#### **Item 16.C. Principal Accountant Fees and Services**

##### **Audit Fees**

Our principal accountants for the fiscal years 2017 and 2016 were Ernst & Young. The audit fees for the audit of the years ended December 31, 2017 and 2016 were \$0.4 million for each such period.

##### **Audit-Related Fees**

The audit-related fees billed by our principal accountants in 2017 and 2016 were \$142,000 and \$60,000, respectively.

##### **Tax Fees**

There were no tax fees billed by our principal accountants in 2017 or 2016.

##### **All Other Fees**

There were no other fees billed by our principal accountants in 2017 or 2016.

## **Audit Committee**

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 auditors independence. 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.

The Audit Committee separately pre-approved all engagements and fees paid to our principal accountants in 2017 and 2016.

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

Not applicable.

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

On August 31, 2017, we announced that our board of directors had terminated our previous share repurchase plan and approved a new share repurchase plan (the New Plan ), which authorizes us to repurchase up to \$25 million of shares of our common stock through to August 31, 2020.

TABLE OF CONTENTS

We may repurchase these shares in the open market or in privately negotiated transactions, at times and prices that are considered to be appropriate by us, but we are not obligated under the terms of the New Plan to repurchase any shares, and at any time we may suspend, delay or discontinue the New Plan.

During the year ended December 31, 2017, we repurchased 1,435,654 common shares at a weighted-average price of approximately \$7.72 per share for a total of approximately \$11.1 million from GA Holdings LLC, formerly our largest shareholder. The repurchase was conducted outside of the New Plan. Please read Item 7 Major Shareholders and Related Party Transactions B. Related Party Transactions .

**Common Shares**

Period	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid Per Share <sup>(2)</sup>	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Program
November 2017	1,435,654	\$ 7.72	0	\$ 25,000,000

**Item 16.F. Change in Registrant s Certifying Accountant**

Not applicable.

**Item 16.G. Corporate Governance**

Pursuant to an exception for foreign private issuers, we, as a foreign private issuer, are not required to comply with certain corporate governance practices followed by U.S. companies under the New York Stock Exchange ( NYSE ) listing standards. We believe that our established practices in the area of corporate governance provide adequate protection to our shareholders. In this respect, we have voluntarily adopted a number of NYSE required practices, such as having a majority of independent directors and establishing a compensation committee and a nominating and corporate governance committee.

The following are the significant ways in which our corporate governance practices differ from those followed by U.S. domestic companies listed on the NYSE, and which differences are permitted by NYSE rules for foreign private issuers such as Ardmore Shipping Corporation:

The NYSE requires that U.S. issuers have an audit committee, a compensation committee and a nominating and corporate governance committee, each comprised entirely of independent directors. Our audit committee currently consists of three independent directors. Our compensation committee currently consists of two independent directors and one non-independent director. Our nominating and corporate governance committee currently consists of two independent directors and one non-independent director.

The NYSE requires that U.S. issuers obtain shareholder approval prior to the adoption of equity compensation plans. Our board of directors approves such adoption in lieu of such shareholder approval.

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

## **Item 16.H. Mine Safety Disclosures**

Not applicable.

## **Item 17. Financial Statements**

Not applicable.

## **Item 18. Financial Statements**

See index to Financial Statements on page F-1.

TABLE OF CONTENTS

**Item 19. Exhibits**

The following exhibits are filed as part of this Annual Report:

Exhibit Number	Description
<u>1.1</u>	<u>Amended and Restated Articles of Incorporation of the Company (incorporated herein by reference to Exhibit 3.1 to the Company's Registration Statement on Form F-1/A (Registration Number 333-189714), filed with the SEC on July 22, 2013).</u>
<u>1.2</u>	<u>Amended and Restated Bylaws of the Company (incorporated herein by reference to Exhibit 3.2 to the Company's Registration Statement on Form F-1/A (Registration Number 333-189714), filed with the SEC on July 22, 2013).</u>
<u>2.1</u>	<u>Form of Stock Certificate (incorporated herein by reference to Exhibit 4.1 to the Company's Registration Statement on Form F-1/A (Registration Number 333-189714), filed with the SEC on July 22, 2013).</u>
<u>4.1</u>	<u>Equity Incentive Plan (incorporated herein by reference to Exhibit 10.4 to the Company's Registration Statement on Form F-1/A (Registration Number 333-189714), filed with the SEC on July 22, 2013).</u>
<u>4.2</u>	<u>Term Loan Facility, dated January 13, 2016, by and among Bailey Shipco LLC, Dover Shipco LLC, Fair Isle Shipco LLC, Fastnet Shipco LLC, Fitzroy Shipco LLC, Forth Shipco LLC, Rockall Shipco LLC, Shannon Shipco LLC, Sole Shipco LLC, Trafalgar Shipco LLC, Viking Shipco LLC, Hebrides Shipco LLC, Ardmore Shipping LLC, the Company, ABN AMRO Bank N.V. and DVB Bank America N.V. (incorporated herein by reference to Exhibit 4.2 to the Company's Report on Form 20-F filed with the SEC on April 6, 2016).</u>
<u>4.3</u>	<u>Term Loan Facility, date January 13, 2016, by and among Faroe Shipco LLC, Plymouth Shipco LLC, Portland Shipco LLC, Wight Shipco LLC, Lundy Shipco LLC, Fisher Shipco LLC, Humber Shipco LLC, Ardmore Shipping LLC, the Company, Nordea Bank AB, London Branch, Skandinaviska Enskilda Banken AB (PUBL) and Nordea Bank Finland Plc (incorporated herein by reference to Exhibit 4.3 to the Company's Report on Form 20-F filed with the SEC on April 6, 2016).</u>
<u>4.4</u>	<u>Amendment No. 1 to Term Loan Facility, dated August 4, 2016, by and among Bailey Shipco LLC, Dover Shipco LLC, Fair Isle Shipco LLC, Fastnet Shipco LLC, Fitzroy Shipco LLC, Forth Shipco LLC, Rockall Shipco LLC, Shannon Shipco LLC, Sole Shipco LLC, Trafalgar Shipco LLC, Viking Shipco LLC, Hebrides Shipco LLC, Ardmore Shipping LLC, the Company, ABN AMRO Bank N.V. and DVB Bank America N.V., and the other financial institutions party thereto (incorporated herein by reference to Exhibit 4.4 to the Company's Report on Form 20-F filed with the SEC on March 13, 2017).</u>
<u>4.5</u>	<u>Term Loan Facility, dated July 29, 2016, Saltee Shipco LLC, Blasket Shipco LLC, Ballycotton Shipco LLC, Killary Shipco LLC, Ardmore Shipping LLC, the Company, ABN AMRO Bank N.V., and the other financial institutions party thereto (incorporated herein by reference to Exhibit 4.5 to the Company's Report on Form 20-F filed with the SEC on March 13, 2017).</u>
<u>4.6</u>	<u>Share Purchase Agreement, dated November 26, 2017, between the Company and GA Holdings.</u>
<u>8.1</u>	<u>Subsidiaries of the Company</u>
<u>12.1</u>	<u>Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer</u>
<u>12.2</u>	<u>Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer</u>

- 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 Ernst & Young

86

---

TABLE OF CONTENTS

Exhibit Number	Description
101	The following materials from the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2017, formatted in eXtensible Business Reporting Language (XBRL): (i)  Consolidated Balance Sheets as of December 31, 2016 and 2017; (ii)  Consolidated Statements of Operations for the years ended December 31, 2015, 2016 and 2017; (iii)  Consolidated Statements of Changes in Equity for the years ended December 31, 2015, 2016 and 2017; (iv)  Consolidated Statements of Cash Flows for the years ended December 31, 2015, 2016 and 2017; and (v)  Notes to Consolidated Financial Statements



TABLE OF CONTENTS

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

ARDMORE SHIPPING CORPORATION

/s/ Anthony Gurnee

By:

**Anthony Gurnee**  
**Chief Executive Officer**  
**(Principal Executive Officer)**

Date: March 29, 2018

TABLE OF CONTENTS

**TABLE OF CONTENTS**

**INDEX TO FINANCIAL STATEMENTS OF ARDMORE  
SHIPPING CORPORATION**

**Index to Audited Financial Statements of Ardmore Shipping Corporation**

Report of independent registered public accounting firm F-2

**Audited consolidated financial statements**

Consolidated balance sheets at December 31, 2017 and 2016 F-3

Consolidated statement of operations for the years ended December 31, 2017, 2016 and 2015 F-4

Consolidated statement of changes in equity for the years ended December 31, 2017, 2016  
and 2015 F-5

Consolidated statement of cash flows for the years ended December 31, 2017, 2016 and 2015 F-6

Notes to consolidated financial statements F-7

F-1

---

TABLE OF CONTENTS

# Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Ardmore Shipping Corporation

## Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Ardmore Shipping Corporation (the Company) as of December 31, 2017 and 2016, the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the consolidated financial statements ). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

## Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young

We have served as the Company's auditor since 2011.  
Dublin, Ireland

March 29, 2018



TABLE OF CONTENTS**Ardmore Shipping Corporation****Consolidated Balance Sheet****(Expressed in U.S. dollars, unless otherwise stated)**

	Notes	As at Dec 31, 2017	Dec 31, 2016
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	4	39,457,407	55,952,873
Receivables, trade	5	27,264,803	23,148,782
Working capital advances	6	3,100,000	3,300,000
Prepayments		1,412,875	803,003
Advances and deposits		3,015,807	3,136,362
Other receivables			82,636
Inventories		9,632,246	7,339,252
<b>Total current assets</b>		<b>83,883,138</b>	<b>93,762,908</b>
<b>Non-current assets</b>			
Vessels and equipment, net of accumulated depreciation of \$110.2 million (2016: \$76.2 million)	7	751,816,840	785,461,415
Deferred drydock expenditure, net of accumulated amortization of \$10.8 million (2016: \$7.8 million)	7	4,118,168	3,232,293
Deposit for vessel acquisition	7	1,635,000	
Leasehold improvements, net of accumulated depreciation of \$96k (2016: \$42k)	7	446,532	488,561
Other non-current assets, net of accumulated depreciation of \$0.6 million (2016: \$0.4 million)	7	3,640,311	697,546
<b>Total non-current assets</b>		<b>761,656,851</b>	<b>789,879,815</b>
<b>TOTAL ASSETS</b>		<b>845,539,989</b>	<b>883,642,723</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Payables, trade		16,104,399	14,448,043
Charter revenue received in advance			507,780
Other payables		6,265	5,354
Accrued interest on loans		1,537,976	2,067,991
Current portion of long-term debt	8	37,071,548	41,827,480
Current portion of capital lease obligations	9	3,537,466	159,028
<b>Total current liabilities</b>		<b>58,257,654</b>	<b>59,015,676</b>
<b>Non-current liabilities</b>			
Non-current portion of long-term debt	8	367,352,022	411,385,626
Non-current portion of capital lease obligations	9	38,956,553	8,971,622
<b>Total non-current liabilities</b>		<b>406,308,575</b>	<b>420,357,248</b>

Edgar Filing: Ardmore Shipping Corp - Form 20-F

**Equity**

Share capital (\$0.01 par value, 250,000,000 shares authorised, 34,061,357 issued and 32,139,956 outstanding at December 31, 2017 and 34,061,357 issued and 33,575,610 outstanding at December 31, 2016)	340,613	340,613
Additional paid in capital	405,549,985	405,279,257
Treasury stock (1,921,401 shares at December 31, 2017 and 485,747 shares at December 31, 2016)	(15,348,909 )	(4,272,477 )
Accumulated (deficit)/surplus	(9,567,929 )	2,922,406
<b>Total equity</b>	<b>380,973,760</b>	<b>404,269,799</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>845,539,989</b>	<b>883,642,723</b>

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

F-3

---

TABLE OF CONTENTS**Ardmore Shipping Corporation****Consolidated Statement of Operations  
(Expressed in U.S. dollars, unless otherwise stated)**

		For the years ended		
	Notes	Dec 31, 2017	Dec 31, 2016	Dec 31, 2015
<b>REVENUE</b>				
Revenue		195,935,392	164,403,938	157,882,259
<b>OPERATING EXPENSES</b>				
Commissions and voyage related costs		72,737,902	37,121,398	30,137,173
Vessel operating expenses		62,890,401	56,399,979	46,416,510
Depreciation		34,271,091	30,091,237	24,157,022
Amortization of deferred drydock expenditure		2,924,031	2,715,109	2,120,974
General and administrative expenses	12			
Corporate		11,979,017	12,055,725	10,418,876
Commercial and chartering		2,619,748	2,021,487	329,746
<b>Total operating expenses</b>		<b>187,422,190</b>	<b>140,404,935</b>	<b>113,580,301</b>
<b>Profit from operations</b>		<b>8,513,202</b>	<b>23,999,003</b>	<b>44,301,958</b>
Interest expense and finance costs	13	(21,380,165 )	(17,754,118 )	(12,282,704 )
Interest income	14	436,195	164,629	15,571
Loss on disposal of vessels	10		(2,601,148 )	
<b>(Loss)/profit before taxes</b>		<b>(12,430,768 )</b>	<b>3,808,366</b>	<b>32,034,825</b>
Income tax	15	(59,567 )	(60,434 )	(79,860 )
<b>Net (loss)/profit</b>		<b>(12,490,335 )</b>	<b>3,747,932</b>	<b>31,954,965</b>
Net (loss)/earnings per share, basic and diluted	16	(0.37 )	0.12	1.23
Weighted average number of common shares outstanding, basic and diluted		33,441,879	30,141,891	26,059,122

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

TABLE OF CONTENTS**Ardmore Shipping Corporation****Consolidated Statement of Changes in Equity  
(Expressed in U.S. dollars, unless otherwise stated)**

	<i>Number of Shares Outstanding</i>	Share Capital	Additional paid-in capital	Treasury stock	Accumulated (deficit)/surplus	TOTAL
Balance as at January 1, 2015	25,980,600	261,000	339,082,131	(1,278,546 )	(10,864,492)	327,200,093
Share based compensation			1,436,505			1,436,505
Dividend payments	229,711	2,297	(2,292,266 )		(10,690,316)	(12,980,285 )
Income for year					31,954,965	31,954,965
Balance as at December 31, 2015	<b>26,210,311</b>	<b>263,297</b>	<b>338,226,370</b>	<b>(1,278,546 )</b>	<b>10,400,157</b>	<b>347,611,278</b>
Net proceeds from equity offering	7,500,000	75,000	63,852,414			63,927,414
Share based compensation			1,304,325			1,304,325
Repurchase of common stock	(366,347 )			(2,993,931 )		(2,993,931 )
Dividend payments	231,646	2,316	1,896,148		(11,225,683)	(9,327,219 )
Income for year					3,747,932	3,747,932
Balance as at December 31, 2016	<b>33,575,610</b>	<b>340,613</b>	<b>405,279,257</b>	<b>(4,272,477 )</b>	<b>2,922,406</b>	<b>404,269,799</b>
Share based compensation			457,046			457,046
Repurchase of common stock	(1,435,654 )		(186,318 )	(11,076,432)		(11,262,750 )
Loss for year					(12,490,335)	(12,490,335 )
Balance as at December 31, 2017	<b>32,139,956</b>	<b>340,613</b>	<b>405,549,985</b>	<b>(15,348,909)</b>	<b>(9,567,929 )</b>	<b>380,973,760</b>

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



TABLE OF CONTENTS**Ardmore Shipping Corporation****Consolidated Statement of Cash Flows  
(Expressed in U.S. dollars, unless otherwise stated)**

	Notes	Dec 31, 2017	Dec 31, 2016	Dec 31, 2015
<b>OPERATING ACTIVITIES</b>				
Net (loss)/profit		(12,490,335)	3,747,932	31,954,965
Non-cash items:				
Depreciation		34,271,091	30,091,237	24,157,022
Amortization of deferred drydock expenditure		2,924,031	2,715,109	2,120,974
Share based compensation		457,046	1,304,325	1,436,505
Loss on disposal of vessels			2,601,148	
Amortization of deferred finance charges	13	3,060,525	3,415,452	1,711,481
Changes in operating assets and liabilities:				
Receivables, trade		(4,116,021 )	3,040,535	(21,203,416 )
Working capital advances		200,000	175,000	(2,975,000 )
Prepayments		(609,872 )	239,356	(358,597 )
Advances and deposits		120,555	375,510	(458,880 )
Other receivables		82,636	(58,683 )	612,511
Inventories		(2,292,994 )	(3,369,769 )	(1,483,143 )
Payables, trade		1,656,356	1,965,503	5,443,919
Charter revenue received in advance		(507,780 )	(684,537 )	(350,546 )
Other payables		911	(139,578 )	(503,173 )
Accrued interest on loans		(530,015 )	315,765	869,632
Deferred drydock expenditure		(3,809,906 )	(3,099,805 )	(3,314,568 )
<b>Net cash provided by operating activities</b>		<b>18,416,228</b>	<b>42,634,500</b>	<b>37,659,686</b>
<b>INVESTING ACTIVITIES</b>				
Payments for acquisition of vessels and equipment		(372,504 )	(174,012,168)	(232,497,213)
Net proceeds from sale of vessels			52,656,414	
Transfer to segregated account in respect of agreement to buy new vessels		(1,635,000 )		
Payments for leasehold improvements		(12,279 )	(530,717 )	
Payments for other non-current assets		(262,468 )	(424,760 )	(352,521 )
<b>Net cash used in investing activities</b>		<b>(2,282,251 )</b>	<b>(122,311,231)</b>	<b>(232,849,734)</b>
<b>FINANCING ACTIVITIES</b>				
Proceeds from long-term debt		11,092,157	110,010,000	216,490,000
Repayments of long-term debt		(62,691,746)	(42,208,171 )	(24,753,641 )
Proceeds from capital leases		33,120,000	9,245,749	
Repayments of capital leases		(2,060,264 )	(27,097,348 )	(1,702,981 )
Payments for deferred finance charges		(826,840 )	(6,036,243 )	(1,633,259 )
Net proceeds from equity offering			63,927,416	

Edgar Filing: Ardmore Shipping Corp - Form 20-F

Repurchase of common stock	(11,262,750)	(2,993,931 )	
Payment of dividend		(9,327,251 )	(12,980,285 )
<b>Net cash (used in)/provided by financing activities</b>	<b>(32,629,443)</b>	<b>95,520,221</b>	<b>175,419,834</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(16,495,466)</b>	<b>15,843,491</b>	<b>(19,770,214 )</b>
Cash and cash equivalents at the beginning of the year	55,952,873	40,109,382	59,879,596
<b>Cash and cash equivalents at the end of the year</b>	<b>39,457,407</b>	<b>55,952,873</b>	<b>40,109,382</b>
<b>Cash paid during the year for:</b>			
Interest payments, net of capitalised interest	16,918,637	13,382,484	11,305,199
Taxation	58,736	122,624	40,050

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

F-6

---

TABLE OF CONTENTS

# Ardmore Shipping Corporation

## Notes to Consolidated Financial Statements (Expressed in U.S. dollars, unless otherwise stated)

### 1. Overview

#### 1.1. Background

Ardmore Shipping Corporation (NYSE: ASC) ( ASC ), together with its subsidiaries (collectively Ardmore or the Company ), provides seaborne transportation of petroleum products and chemicals worldwide to oil majors, national oil companies, oil and chemical traders, and chemical companies, with its modern, fuel-efficient fleet of mid-size product and chemical tankers. As at December 31, 2017 Ardmore had 27 vessels in operation. The average age of Ardmore s operating fleet at December 31, 2017 was 5.3 years.

#### 1.2. Management and organizational structure

ASC was incorporated in the Republic of the Marshall Islands on May 14, 2013. ASC commenced business operations through its predecessor company, Ardmore Shipping LLC, on April 15, 2010. On August 6, 2013, ASC completed its initial public offering (the IPO ) of 10,000,000 shares of its common stock. Prior to the IPO, GA Holdings LLC, who was then ASC s sole shareholder, exchanged its 100% interest in Ardmore Shipping LLC ( ASLLC ) for 8,049,500 shares of ASC, and ASLLC became a wholly-owned subsidiary of ASC. Immediately following the IPO, GA Holdings LLC held 44.6% of the outstanding common stock of ASC, with the remaining 55.4% held by public investors. In March 2014, ASC completed a follow-on public offering of 8,050,000 shares of its common stock. In November 2015, GA Holdings LLC sold 4,000,000 shares of ASC common stock in an underwritten public offering. In June 2016, Ardmore completed a public offering of 7,500,000 shares of its common stock. In November 2017, GA Holdings LLC disposed the balance of its remaining 5,787,942 common shares, of which 5,579,978 shares were sold in an underwritten public secondary offering, 85,654 shares were repurchased by Ardmore in a private transaction, and 122,310 shares were distributed to certain of its members, including Anthony Gurnee, Ardmore s chief executive officer and a member of Ardmore s board of directors. In addition to the 85,654 shares that Ardmore repurchased from GA Holdings LLC directly in a private transaction, Ardmore also purchased from the underwriter 1,350,000 shares of its common stock that were sold by GA Holdings LLC in the underwritten public secondary offering. As of December 31, 2017, to Ardmore s knowledge, no shareholder owned more than 10% of ASC s common stock.

As at December 31, 2017, ASC had 50 wholly-owned subsidiaries, the majority of which represent single ship-owning companies for ASC s fleet, and one 50%-owned joint venture entity which provides technical management services to the majority of the ASC fleet. Ardmore Shipping (Bermuda) Limited, a wholly-owned subsidiary incorporated in Bermuda, carries out the Company s management services and associated functions. Ardmore Shipping Services (Ireland) Limited, a wholly-owned subsidiary incorporated in Ireland, provides the Company s corporate, accounting, fleet administration and operations services. Each of Ardmore Shipping (Asia) Pte. Limited and Ardmore Shipping (Americas) LLC, wholly-owned subsidiaries incorporated in Singapore and Delaware, respectively, performs commercial management and chartering services for the Company.

### 1.3. Vessels

Ardmore's fleet as at December 31, 2017, comprised the following:

Vessel Name	Type	Dwt Tonnes	IMO	Built	Country	Flag	Specification
<i>Ardmore Seavariant</i>	Product/Chemical	49,998	2/3	Feb-13	Korea	MI	Eco-design
<i>Ardmore Seaventure</i>	Product/Chemical	49,998	2/3	Jun-13	Korea	MI	Eco-design
<i>Ardmore Seavantage</i>	Product/Chemical	49,997	2/3	Jan-14	Korea	MI	Eco-design
<i>Ardmore Seavanguard</i>	Product/Chemical	49,998	2/3	Feb-14	Korea	MI	Eco-design
<i>Ardmore Sealion</i>	Product/Chemical	49,999	2/3	May-15	Korea	MI	Eco-design
<i>Ardmore Seafox</i>	Product/Chemical	49,999	2/3	Jun-15	Korea	MI	Eco-design
<i>Ardmore Seawolf</i>	Product/Chemical	49,999	2/3	Aug-15	Korea	MI	Eco-design

F-7

---

TABLE OF CONTENTS**Ardmore Shipping Corporation****Notes to Consolidated Financial Statements  
(Expressed in U.S. dollars, unless otherwise stated)****1. Overview (continued)**

Vessel Name	Type	Dwt Tonnes	IMO	Built	Country	Flag	Specification
<i>Ardmore Seahawk</i>	Product/Chemical	49,999	2/3	Nov-15	Korea	MI	Eco-design
<i>Ardmore Endeavour</i>	Product/Chemical	49,997	2/3	Jul-13	Korea	MI	Eco-design
<i>Ardmore Enterprise</i>	Product/Chemical	49,453	2/3	Sep-13	Korea	MI	Eco-design
<i>Ardmore Endurance</i>	Product/Chemical	49,466	2/3	Dec-13	Korea	MI	Eco-design
<i>Ardmore Encounter</i>	Product/Chemical	49,478	2/3	Jan-14	Korea	MI	Eco-design
<i>Ardmore Explorer</i>	Product/Chemical	49,494	2/3	Jan-14	Korea	MI	Eco-design
<i>Ardmore Exporter</i>	Product/Chemical	49,466	2/3	Feb-14	Korea	MI	Eco-design
<i>Ardmore Engineer</i>	Product/Chemical	49,420	2/3	Mar-14	Korea	MI	Eco-design
<i>Ardmore Seafarer</i>	Product/Chemical	45,744	3	Aug-04	Japan	MI	Eco-mod
<i>Ardmore Seatrader</i>	Product	47,141		Dec-02	Japan	MI	Eco-mod
<i>Ardmore Seamaster</i>	Product/Chemical	45,840	3	Sep-04	Japan	MI	Eco-mod
<i>Ardmore Seamariner</i>	Product/Chemical	45,726	3	Oct-06	Japan	MI	Eco-mod
<i>Ardmore Sealeader</i>	Product	47,463		Aug-08	Japan	MI	Eco-mod
<i>Ardmore Sealifter</i>	Product	47,472		Jul-08	Japan	MI	Eco-mod
<i>Ardmore Dauntless</i>	Product/Chemical	37,764	2	Feb-15	Korea	MI	Eco-design
<i>Ardmore Defender</i>	Product/Chemical	37,791	2	Feb-15	Korea	MI	Eco-design
<i>Ardmore Cherokee</i>	Product/Chemical	25,215	2	Jan-15	Japan	MI	Eco-design
<i>Ardmore Cheyenne</i>	Product/Chemical	25,217	2	Mar-15	Japan	MI	Eco-design
<i>Ardmore Chinook</i>	Product/Chemical	25,217	2	Jul-15	Japan	MI	Eco-design
<i>Ardmore Chippewa</i>	Product/Chemical	25,217	2	Nov-15	Japan	MI	Eco-design
<b>Total</b>	<b>27</b>	<b>1,202,568</b>					

**2. Significant accounting policies****2.1. Basis of preparation**

The accompanying consolidated financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles ( U.S. GAAP ). The consolidated financial statements include the accounts of ASC and its subsidiaries. All subsidiaries are 100% directly or indirectly owned by ASC. One 50% owned joint venture entity is accounted for using the equity method (please refer to 2.20 below for more details). All intercompany balances and transactions have been eliminated on consolidation.

## **2.2. Uses of estimates**

The preparation of the consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. On an on-going basis, management evaluates the estimates and judgments, including those related to uncompleted voyages, future drydock dates, the selection of useful lives for tangible assets, expected future cash flows from long-lived assets to support impairment tests, provisions necessary for accounts receivables, the selection of inputs used in the valuation model for share-based payment awards, provisions for legal disputes and contingencies. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable. Actual results could differ from those estimates.

## **2.3. Reporting currency**

The consolidated financial statements are stated in U.S. Dollars. The functional currency of Ardmore is U.S. Dollars because Ardmore operates in international shipping markets which typically utilize the U.S. Dollar as the functional currency. Transactions involving other currencies during the year are converted

TABLE OF CONTENTS

## **Ardmore Shipping Corporation**

### **Notes to Consolidated Financial Statements (Expressed in U.S. dollars, unless otherwise stated)**

#### **2. Significant accounting policies (continued)**

into U.S. Dollars using the exchange rates in effect at the time of the transactions. At the balance sheet date, monetary assets and liabilities that are denominated in currencies other than U.S. Dollar are translated to reflect the year end exchange rates. Resulting gains and losses are included in the accompanying consolidated statement of operations.

#### **2.4. Recent accounting pronouncements**

In May 2014, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2014-09, Revenue from Contracts with Customers, or ASC 606, a standard that will supersede virtually all of the existing revenue recognition guidance in U.S. GAAP. The main principle of ASC 606 is that a company should recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. To achieve this principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract(s), (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract(s), and (v) recognize revenue when, or as, the entity satisfies a performance obligation. The new standard became effective for us on January 1, 2018. The impact of ASC 606 on our consolidated financial statements is described below.

In February 2016, the FASB issued ASC 842, Leases ( ASC 842 ), a standard which will replace previous topics on lease accounting. The revised guidance will require lessees to recognize on their balance sheet a right of use asset and corresponding liability in respect of all material lease contracts. Ardmore currently recognizes on its balance sheet those leases classified as capital leases. Those leases that are currently accounted for as operating leases (primarily for office space) will be included on Ardmore's balance sheet as a right of use asset and related lease liability in accordance with the new guidance for an amount of approximately \$2 million. There will be no significant impact on the statement of operations or cashflows. ASC 842 and related amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted, and requires the modified retrospective method of adoption. We are adopting this standard at the same time as ASC 606.

In applying ASC 606 and ASC 842, we have determined that certain of our spot charters should be considered operating leases, under ASC 842, with the Company as lessor, when the charterer has the right to obtain substantially all of the benefits and can direct how and for what purposes the vessel will be used and there are no substantive substitution rights. We will assess new spot charter contracts to determine whether they should be recognized under ASC 606 or ASC 842. Any future spot charter that does not contain a lease will be accounted for under ASC 606, whereby the period over which we recognize revenue will change. At present revenue is recognized from the later of signing of an agreement, or previous discharge date if there is a previous commitment, until completion of cargo discharge. Under ASC 606 revenue would be recognized from when the vessel arrives at the load port until completion of cargo discharge.

For voyages in progress at December 31, 2017, we have determined these constitute leases under ASC 842 and that the commencement date is the later of signing of an agreement or previous discharge date if there is a previous commitment. Based on this assessment, we have determined that no material adjustment to opening retained earnings at January 1, 2018 will be needed in order to be compliant with ASC 606 and ASC 842 at adoption.

We do not anticipate a significant impact of ASC 606 or ASC 842 on our consolidated financial statements as regards our pool arrangements. In respect of time charter arrangements, revenue is currently accounted for under ASC 840 and we do not anticipate any significant impact of ASC 606 or ASC 842.

In January 2018, the FASB issued a proposed amendment to ASU 2016-02 that would allow lessors to elect, as a practical expedient, to not separate lease and non-lease components and allow these components to be accounted for as a single lease component if both (i) the timing and pattern of the revenue recognition for the

F-9

---



TABLE OF CONTENTS

## **Ardmore Shipping Corporation**

### **Notes to Consolidated Financial Statements (Expressed in U.S. dollars, unless otherwise stated)**

#### **2. Significant accounting policies (continued)**

non-lease component and the related lease component are the same and (ii) the combined single lease component would be classified as an operating lease.

If the proposed practical expedient mentioned above is adopted and elected, it is expected that revenue from spot charters will be presented under a single lease component presentation. However, without the proposed practical expedient, it is expected that spot charter revenue will be separated into lease and non-lease components, respectively.

In August 2016, the FASB issued an update to ASC 230, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments based on a consensus of the Emerging Issues Task Force (EITF), to address the classification of certain cash receipts and cash payments on the statement of cash flows. The new guidance also clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. The standard will be effective for annual and interim periods beginning after December 15, 2017, with early adoption permitted. Entities are required to apply the guidance retrospectively. The Company does not anticipate any significant impact of this standard on its consolidated financial statements and related disclosures.

In November 2016, the FASB issued an update to ASC 230, Statement of Cash Flows (Topic 230): Restricted Cash, to address classification of activity related to restricted cash and restricted cash equivalents in the cash flows. The standard eliminates the presentation of transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. When cash, cash equivalents, restricted cash and restricted cash equivalents are presented in more than one line item on the balance sheet, a reconciliation of the totals in the cash flows to the related captions in the balance sheet are required, either on the face of the cash flow or in the notes to the financial statements. Additional disclosures are required for the nature of the restricted cash and restricted cash equivalents. The standard will be effective for fiscal years and interim periods beginning after December 15, 2017.

Early adoption is permitted. The Company does not anticipate any significant impact of this standard on its consolidated financial statements and related disclosures.

In February 2017, FASB issued ASC 610, Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20). This standard contains final guidance that clarifies the scope and application of ASC 610-20 on the sale or transfer of non-financial assets and in substance non-financial assets to non-customers, including partial sales. This standard applies to non-financial assets, including real estate, ships and intellectual property, and clarifies that the derecognition of all businesses is in the scope of ASC 810. This standard will be effective for annual and interim periods beginning after December 15, 2017, with early adoption permitted. The Company does not anticipate any significant impact of this standard on its consolidated financial statements and related disclosures.

In May 2017, the FASB issued ASC 718, Compensation – Stock Compensation (Topic 718) to provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification

accounting in Topic 718. This standard will be effective for annual and interim periods beginning after December 15, 2017, with early adoption permitted. The Company does not anticipate any significant impact of this standard on its consolidated financial statements and related disclosures.

## **2.5. Cash and cash equivalents**

Ardmore classifies investments with an original maturity date of three months or less as cash and cash equivalents.

## **2.6. Receivables, trade**

Receivables, trade include amounts due from charterers for hire and other recoverable expenses due to Ardmore. At the balance sheet date, all potentially uncollectible accounts are assessed individually for the purposes of determining the appropriate provision for doubtful accounts.

F-10

---

TABLE OF CONTENTS

## **Ardmore Shipping Corporation**

### **Notes to Consolidated Financial Statements (Expressed in U.S. dollars, unless otherwise stated)**

#### **2. Significant accounting policies (continued)**

##### **2.7. Working capital advances**

Working capital advances relate to capital advanced directly to ship pools in which Ardmore's vessels operate. All working capital amounts are classified as current assets where it is expected that the amounts advanced will be realized within one year.

##### **2.8. Prepayments**

Prepayments consist of payments in advance for insurance or other ad hoc prepaid purchases.

##### **2.9. Advances and deposits**

Advances and deposits primarily include amounts advanced to third-party technical managers for expenses incurred by them in operating the vessels, together with other necessary deposits paid during the course of business.

##### **2.10. Other receivables**

Other receivables primarily relate to insurance claims outstanding, and certain assets held by vessel managers. Insurance claims are recorded, net of any deductible amounts, at the time Ardmore realizes insured damages, where recovery is highly likely under the related insurance policies and where Ardmore can make an estimate of the amount to be reimbursed following the insurance claim. At the balance sheet date, all potentially uncollectible accounts are assessed individually for the purposes of determining the appropriate provision for doubtful accounts.

##### **2.11. Inventories**

Inventories consist of bunkers, lubricating oils and other consumables on board the Company's vessels. Inventories are valued at the lower of cost or market value on a first-in first-out basis. Cost is based on the normal levels of cost and comprises the cost of purchase, being the suppliers' invoice price with the addition of charges such as freight or duty where appropriate.

##### **2.12. Vessels**

Vessels are recorded at their cost less accumulated depreciation. Vessel cost comprises acquisition costs directly attributable to the vessel and the expenditures made to prepare the vessel for its initial voyage. Vessels are depreciated

on a straight-line basis over their estimated useful economic life from the date of initial delivery from the shipyard.

The useful life of Ardmore's vessels is estimated at 25 years from the date of initial delivery from the shipyard. Depreciation is based on cost less estimated residual scrap value. Residual scrap value is estimated as the lightweight tonnage of each vessel multiplied by the estimated scrap value per ton. Ardmore capitalizes and depreciates the costs of significant replacements, renewals and upgrades to its vessels over the shorter of the vessel's remaining useful life or the life of the renewal or upgrade. The amount capitalized is based on management's judgment as to expenditures that extend a vessel's useful life or increase the operational efficiency of a vessel. Costs that are not capitalized are recorded as a component of direct vessel operating expenses during the period incurred. Expenses for routine maintenance and repairs are expensed as incurred.

## 2.13. Impairment

Vessels and equipment that are held and used are assessed for impairment when events or circumstances indicate the carrying amount of the asset may not be recoverable. When such indicators are present, a vessel to be held and used is tested for recoverability by comparing the estimate of future undiscounted net operating cash flows expected to be generated by the use of the vessel over its remaining useful life and its eventual disposition to its carrying amount. Net operating cash flows are determined by applying various assumptions

F-11

---

TABLE OF CONTENTS

## **Ardmore Shipping Corporation**

### **Notes to Consolidated Financial Statements (Expressed in U.S. dollars, unless otherwise stated)**

#### **2. Significant accounting policies (continued)**

regarding future revenues net of commissions, operating expenses, scheduled drydockings, expected offhire and scrap values, and taking into account historical revenue data and published forecasts on future world economic growth and inflation. An impairment charge is recognized if the carrying value is in excess of the estimated future undiscounted net operating cash flows. The impairment loss is measured based on the excess of the carrying amount over the fair market value of the asset.

#### **2.14. Drydock expenditure**

Vessels are typically drydocked every three to five years. Expenditures incurred in drydocking are deferred and amortized until the next scheduled drydocking. Ardmore only includes in deferred drydocking costs those direct costs that are incurred as part of the drydocking to meet regulatory requirements, expenditures that add economic life to the vessel, and expenditures that increase the vessels earnings capacity or improve the vessels operating efficiency.

Expenses for routine maintenance and repairs are expensed as incurred.

#### **2.15. Vessels under construction**

The carrying value of the vessels under construction represents the accumulated costs to the consolidated balance sheet date which Ardmore has had to pay by way of purchase instalments and other capital expenditures, together with capitalized interest and other pre-delivery costs. The amount of interest expense capitalized in an accounting period is determined by applying an interest rate ( the capitalization rate ) to the average amount of accumulated expenditures for the asset during the period. The capitalization rates used in an accounting period are based on the rates applicable to borrowings outstanding during the period. If Ardmore's borrowings are directly attributable to the vessels under construction, Ardmore uses the rate on that borrowing as the capitalization rate. If average accumulated expenditures for the asset exceed the amounts of specific borrowings associated with the asset, the capitalization rate applied to such excess is a weighted average of the rates applicable to other borrowings of Ardmore. Ardmore does not capitalize amounts in excess of actual interest expense incurred in the period. No charge for depreciation is made until the vessel is available for use.

#### **2.16. Vessels held for sale**

Assets are classified as held for sale when management, having the authority to approve the action, commits to a plan to sell the asset, the sale is probable within one year, and the asset is available for immediate sale in its present condition. Consideration is given to whether an active program to locate a buyer has been initiated, whether the asset is marketed actively for sale at a price that is reasonable in relation to its current fair value, and whether 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. When assets are classified as held for sale, they are tested for impairment. An impairment charge is recognized when the carrying value of the asset exceeds the estimated fair value, less transaction costs.

Assets classified as held for sale are no longer depreciated.

## **2.17. Deposit for vessel acquisition**

Cash paid as deposit for an acquisition of a vessel that is considered restricted cash.

## **2.18. Leasehold improvements**

Leasehold improvements relate to fit-out costs for work completed on Ardmore's offices at One Albert Quay, Cork, Ireland. These are recorded at their cost less accumulated depreciation and are depreciated over the life of the lease of ten years.

## **2.19. Other non-current assets**

Other assets relate to office equipment, fixtures and fittings. These are recorded at their cost less accumulated depreciation and are depreciated based on an estimated useful life of five years.

F-12

---

TABLE OF CONTENTS

## **Ardmore Shipping Corporation**

### **Notes to Consolidated Financial Statements (Expressed in U.S. dollars, unless otherwise stated)**

#### **2. Significant accounting policies (continued)**

##### **2.20. Equity accounted investments**

Ardmore's investment in Anglo Ardmore Ship Management Limited is accounted for using the equity method of accounting. Under the equity method of accounting, investments are stated at initial cost and are adjusted for subsequent additional investments and the Company's proportionate share of earnings or losses and distributions. Ardmore evaluates its equity accounted investment for impairment when events or circumstances indicate that the carrying value of such investment may have experienced an other than temporary decline in value below its carrying value. If the estimated fair value is less than the carrying value, the carrying value is written down to its estimated fair value and the resulting impairment is recorded in Ardmore's consolidated statements of operations.

##### **2.21. Payables, trade**

Payables, trade include all accounts payable and accrued liabilities in relation to the operating and running of the vessels, along with amounts due for general and administrative expenses.

##### **2.22. Other payables**

Other payables primarily consist of amounts due for minor ad hoc payables.

##### **2.23. Capital leases**

Capital leases relate to financing arrangements for vessels in operation. Interest costs are expensed to interest expense and finance costs in the consolidated statement of operations using the effective interest method over the life of the lease.

##### **2.24. Contingencies**

Claims, suits and contingencies arise in the ordinary course of Ardmore's business. Ardmore provides for these contingencies when (i) it is probable that a liability has been incurred at the date of the financial statements and (ii) the amount of the loss can be reasonably estimated. Disclosure in the notes to the financial statements is required for contingencies that do not meet both these conditions if there is a reasonable possibility that a liability may have been incurred at the balance sheet date. Any such matters that should be disclosed, or for which a provision should be established in the accompanying consolidated financial statements, are discussed in Note 20 to the consolidated financial statements.

## **2.25. Distributions to shareholder**

Distributions to shareholders are applied first to retained earnings. When retained earnings are not sufficient, distributions are applied to the additional paid in capital account. Ardmore operates a policy of paying out distributions equal to 60% of Earnings from Continuing Operations.

## **2.26. Equity issuance costs**

Incremental costs incurred that are directly attributable to a proposed or actual offering of equity securities are deferred and deducted from the related proceeds of the offering, and the net amount is recorded as contributed shareholders equity in the period when such shares are issued. Other costs incurred that are not directly attributable, but are related, to a proposed or actual offering are expensed as incurred.

## **2.27. Debt issuance costs**

Financing charges including fees, commissions and legal expenses associated with securing loan facilities and capital lease agreements are presented in the consolidated balance sheet as a direct deduction from the carrying amount of debt liability. These costs are amortized to interest expense and finance costs in the consolidated statement of operations using the effective interest method over the life of the related debt.



TABLE OF CONTENTS

## **Ardmore Shipping Corporation**

### **Notes to Consolidated Financial Statements (Expressed in U.S. dollars, unless otherwise stated)**

#### **2. Significant accounting policies (continued)**

##### **2.28. Share based compensation**

Ardmore may grant share-based payment awards, such as restricted stock units, as incentive-based compensation to certain employees. Ardmore measures the cost of such awards using the grant date fair value of the award and recognizes that cost, net of estimated forfeitures, over the requisite service period, which generally equals the vesting period. If the award contains a market condition, such conditions are included in the determination of the fair value of the stock unit. Once the fair value has been determined, the associated expense is recognized in the consolidated statement of operations over the requisite service period.

##### **2.29. Treasury stock**

When shares are acquired for a reason other than formal or constructive retirement, the shares are presented separately as a deduction from equity. If the shares are retired or subsequently sold, any gain would be allocated as a reduction in additional paid in capital and any loss as a reduction in retained earnings.

##### **2.30. Dividend Reinvestment Plan**

In April 2015, Ardmore established a Dividend Reinvestment Plan ( DRIP ) to enable shareholders to reinvest their quarterly dividend in common shares of the Company. The Form F-3D registration statement detailing these shares is available from the SEC website. The DRIP allows for the purchase of additional common shares by either full dividend reinvestment or partial dividend reinvestment.

When a shareholder signs up to the plan there are two options available to Ardmore when sourcing the shares for settlement under the DRIP.

1. Open Market ( OM ): Ardmore issues shares already available in the open market or in privately negotiated transactions.

2. Original Issue ( OI ): Ardmore registers and issues additional new shares.

The purchase price for shareholders of common shares under the DRIP depends on which option Ardmore chooses.

For OM shares the price is the weighted average of the actual price paid for all shares purchased by the Transfer Agent on behalf of the participants of the DRIP. For OI shares the price is the daily high and the daily low average share price for the five business days immediately preceding the dividend payment date. In instances where Ardmore chooses OM settlement, the accounting treatment is the same as when a regular dividend is paid and not reinvested by shareholders, since Ardmore makes a cash payment equal to the amount of the dividend.

In instances where Ardmore chooses OI settlement, we record an increase in Share Capital for the par value of the shares and record any excess of market value over par within Additional Paid in Capital. The dividend is distributed first from retained earnings but is applied to additional paid in capital if retained earnings are not sufficient.

In instances where Ardmore utilizes existing treasury shares (which can only occur under an OI transaction), we reduce Treasury Shares and increase Share Capital for the par value of the shares to be issued. Any excess of market value over cost is recorded in Additional Paid in Capital. If a gain arises on utilizing Treasury Stock for the dividend reinvestment, we recognize the gain within Additional Paid in Capital. If a loss arises, we record the loss within retained earnings.

## **2.31. Financial instruments**

The carrying values of cash and cash equivalents, accounts receivable and accounts payable reported in the consolidated balance sheet are reasonable estimates of their fair values due to their short-term nature. The fair values of long-term debt approximate the recorded values due to the variable interest rates payable.

F-14

---

TABLE OF CONTENTS

## **Ardmore Shipping Corporation**

### **Notes to Consolidated Financial Statements (Expressed in U.S. dollars, unless otherwise stated)**

#### **2. Significant accounting policies (continued)**

##### **2.32. Revenues and expenses**

###### **2.32.1. Time charter revenues**

If a time charter agreement exists, the rate is fixed or determinable, service is provided and collection of the related revenue is reasonably assured, Ardmore recognizes revenues over the term of the time charter. Ardmore does not recognize revenue during days the vessel is offhire. Where the time charter contains a profit or loss sharing arrangement, the profit or loss is recognized based on amounts earned or incurred as of the reporting date.

###### **2.32.2. Pool revenues**

Revenues and voyage expenses of Ardmore's vessels operating in commercial pooling arrangements are pooled with the revenues and voyage expenses of other pool participants. The resulting net pool revenues, calculated on a time charter equivalent basis, are allocated to the pool participants according to an agreed formula. The formulas used to allocate net pool revenues vary among different pools but generally allocates revenues to pool participants on the basis of the number of days a vessel operates in the pool with weighted adjustments made to reflect the vessels' differing capacities and performance capabilities. Ardmore accounts for its vessels' share of net pool revenue on the allocated time charter equivalent on a monthly basis. Net pool revenues due from the pool are included in receivables, trade.

###### **2.32.3. Voyage revenues**

Revenues from voyage charters on the spot market are recognized ratably on a discharge-to-discharge basis i.e. from when cargo is discharged (unloaded) at the end of one voyage to when it is discharged after the next voyage, provided an agreed non-cancelable charter between Ardmore and the charterer is in existence, the charter rate is fixed or determinable and collectability is reasonably assured. Revenue under voyage charters will not be recognized until a charter has been agreed even if the vessel has discharged its previous cargo and is proceeding to an anticipated port of loading. Demurrage revenue, which is included in voyage revenues, represents payments by the charterer to Ardmore when the loading or discharging time exceeds the stipulated time in the voyage charter, and is recognized ratably on a discharge-to-discharge basis i.e. from when cargo is discharged (unloaded) at the end of one voyage to when it is discharged after the next voyage, the amount is fixed or determinable and collection is reasonably assured.

###### **2.32.4. Expenses**

All voyage expenses are expensed as incurred. Under time charters or pool employment, expenses such as bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls and agency fees are paid by the charterers.

Under voyage charters, these expenses are borne by Ardmore and expensed as incurred.

All commissions and administration fees are expensed as incurred which is over the term of the employment of the vessel.

Vessel operating expenses are costs that are directly attributable to the operation of the vessels such as costs of crewing, repairs and maintenance, insurance, stores, lube oils, communication expenses, and technical management fees. Vessel operating expenses are expensed as incurred.

## **2.32.5. Charter hire costs**

Charter hire costs relate to amounts paid for chartering in vessels. Charter hire costs are expensed to the statement of operations as incurred.

## **2.33. Income taxes**

### **Republic of the Marshall Islands**

Ardmore Shipping Corporation, Ardmore Shipping LLC, Ardmore Maritime Services LLC, and all vessel owning subsidiaries are incorporated in the Republic of the Marshall Islands. Ardmore Shipping Corporation

TABLE OF CONTENTS

## **Ardmore Shipping Corporation**

### **Notes to Consolidated Financial Statements (Expressed in U.S. dollars, unless otherwise stated)**

#### **2. Significant accounting policies (continued)**

believes that neither it, nor its subsidiaries, are subject to taxation under the laws of the Republic of the Marshall Islands and that distributions by its subsidiaries to Ardmore Shipping Corporation will not be subject to any taxes under the laws of the Republic of the Marshall Islands.

##### **Bermuda**

Ardmore Shipping (Bermuda) Limited is incorporated in Bermuda. Ardmore Shipping Corporation, Ardmore Shipping LLC and Ardmore Shipping (Bermuda) Limited are tax residents of Bermuda. Ardmore Shipping Corporation believes that neither it, nor its subsidiaries, are subject to taxation under the laws of Bermuda and that distributions by its subsidiaries to Ardmore Shipping Corporation will not be subject to any taxes under the laws of Bermuda.

##### **Ireland**

Ardmore Shipholding Limited and Ardmore Shipping Services (Ireland) Limited are incorporated in Ireland. Ardmore Shipholding Limited no longer actively operates as a company and as such is not anticipated to generate trading income subject to corporation tax in Ireland.

Ardmore Shipping Services (Ireland) Limited's trading profits are taxable at the standard corporation tax rate which is currently 12.5% based on generally accepted accounting principles in Ireland. Any non-trading/passive income is taxed at the higher corporation tax rate which is currently 25%.

##### **United States of America**

Ardmore Shipping (Americas) LLC ( ASUS ) and Ardmore Trading (USA) LLC are incorporated in Delaware and treated as corporations for U.S. tax purposes. ASUS and ATUS will be subject to U.S. tax on their worldwide net income.

##### **Singapore**

Ardmore Shipping (Asia) Pte. Limited and Ardmore Tanker Trading (Asia) Pte. Limited are incorporated in Singapore. Ardmore Shipping (Asia) Pte. Limited qualified as an Approved International Shipping Enterprise by the Singapore authorities with effect from August 1, 2015. This entitles the company to tax exemption on profits derived from ship operations for any ships which are owned or chartered in by Ardmore Shipping (Asia) Pte. Limited.

Ardmore Tanker Trading (Asia) Pte. Limited will be subject to Singapore tax on its worldwide profits. However, the company had not commenced business as at December 31, 2017 and therefore we do not expect it to be taxed for

2017.

### **Deferred taxation**

Deferred income tax assets and liabilities are recognized for the future tax consequences attributed to differences between the financial statements and tax basis of existing assets and liabilities using enacted rates applicable to the periods in which the differences are expected to affect taxable income. Deferred income tax balances included on the consolidated balance sheet reflect the effects of temporary differences between the carrying amounts of assets and liabilities and their tax basis and are stated at enacted tax rates expected to be in effect when taxes are actually paid or recovered. Deferred income tax assets represent amounts available to reduce income taxes payable on taxable income in future years. The recoverability of these future tax deductions is evaluated by assessing the adequacy of future taxable income, including the reversal of temporary differences and forecasted operating earnings. If it is deemed more likely than not that the deferred tax assets will not be realized Ardmore provides for a valuation allowance. Income taxes have been provided for all items included in the consolidated statement of operations regardless of when such items were reported for tax purposes or when the taxes were actually paid or refunded. Deferred tax for the year ended December 31, 2017 amounted to \$0 (2016: \$0).

F-16

---

TABLE OF CONTENTS**Ardmore Shipping Corporation****Notes to Consolidated Financial Statements  
(Expressed in U.S. dollars, unless otherwise stated)****2. Significant accounting policies (continued)****Uncertainties related to income taxes**

Companies are to determine whether it is more-likely-than-not that the tax position taken or expected to be taken in a tax return will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. If a tax position meets the more-likely-than-not threshold it is measured to determine the amount of benefit to recognize in the financial statements. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. Uncertainties related to income taxes recognized for the year ended December 31, 2017 amounted to \$0 (2016: \$0).

**3. Business and segmental reporting**

Ardmore is primarily engaged in the ocean transportation of petroleum and chemical products in international trade through the ownership and operation of a fleet of tankers. Tankers are not bound to specific ports or schedules and therefore can respond to market opportunities by moving between trades and geographical areas. Ardmore charters its vessels to commercial shippers through a combination of time-charter, pool and spot arrangements. The chief operating decision maker ( CODM ) 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 vessel employment, management cannot and does not identify expenses, profitability or other financial information for these charters or other forms of employment. As a result, the CODM reviews operating results solely by revenue per day and operating results of the fleet. Furthermore, when Ardmore charters a vessel to a charterer, the charterer is free to trade the vessel worldwide (subject to certain sanctions-related restrictions) and, as a result, the disclosure of geographic information is impracticable. In this respect, Ardmore has determined that it operates under one reportable segment, relating to its operations of its vessels.

The following table presents consolidated revenues for customers that accounted for more than 10% of Ardmore's consolidated revenues during the periods presented:

	For the year ended			
	Dec 31, 2017		Dec 31, 2016	Dec 31, 2015
Navig8 Group	< 10	%	19,158,623	17,940,808
Vitol	34,797,654		43,960,560	20,232,481
Trafigura	< 10	%	17,498,550	<10 %

## 4. Cash and cash equivalents

	As at	
	Dec 31, 2017	Dec 31, 2016
Cash and cash equivalents	39,457,407	55,952,873

Ardmore is required to maintain a minimum cash balance in accordance with its long-term debt facility agreement (see Note 8).

F-17

---



TABLE OF CONTENTS

## **Ardmore Shipping Corporation**

### **Notes to Consolidated Financial Statements (Expressed in U.S. dollars, unless otherwise stated)**

#### **5. Receivables, trade**

There was no provision for doubtful accounts as at December 31, 2017 (2016: \$58,430). The maximum amount of loss due to the credit risk is the full amount of trade receivables. All trade receivables are current. The carrying value of receivables approximates their fair value.

#### **6. Working capital advances**

At the balance sheet date, all potentially uncollectible working capital advances are assessed individually for purposes of determining the appropriate provision for doubtful accounts. There was no provision for doubtful advances at December 31, 2017 (2016: \$0).

#### **7. Non-current assets**

The scrap value of the vessels is estimated at \$300 (2016: \$300) per lightweight ton. Interest capitalized in relation to vessels under construction during the year ended December 31, 2017 was nil (2016: \$0). Vessels, which are owned and operated by Ardmore, have been provided as collateral under certain loan agreements entered into by Ardmore (see Note 8). Sellers credit in relation to the capital leases for the *Ardmore Sealeader* and *Ardmore Sealifter* of \$2.9 million are included within non-current assets. (see note 9). Leasehold improvements consist of fit-out costs in relation to work completed on Ardmore's offices at One Albert Quay, Cork, Ireland. Other non-current assets consist of office equipment, fixtures and fittings and a deposit of \$1.6 million for the acquisition of the *Ardmore Sealancer*.

No impairment has been recognized as at the balance sheet date.

#### **8. Debt**

As at December 31, 2017, Ardmore had six loan facilities, which it has used primarily to finance vessel acquisitions or vessels under construction and also for working capital. ASC's applicable ship-owning subsidiaries have granted first-priority mortgages against the relevant vessels in favor of the lenders as security for Ardmore's obligations under the loan facilities, which totaled 24 vessels as at December 31, 2017. ASC and its subsidiary ASLLC have provided guarantees in respect of the loan facilities. ASC have granted a guarantee over its trade receivables in respect of the ABN AMRO Revolving Facility. These guarantees can be called upon following a payment default. The outstanding principal balances on each loan facility as at December 31, 2017 and 2016 were as follows:

	As at Dec 31, 2017	Dec 31, 2016
NIBC Bank Facility	8,885,000	10,305,000

Edgar Filing: Ardmore Shipping Corp - Form 20-F

CACIB Bank Facility	34,100,000	36,900,000
ABN/DVB/NIBC Joint Bank Facility	162,115,591	204,090,550
Nordea/SEB Joint Bank Facility	132,272,938	142,688,402
ABN AMRO Facility	64,201,180	70,282,505
ABN AMRO Revolving Facility	11,092,158	
<b>Total debt</b>	<b>412,666,867</b>	<b>464,266,457</b>
Deferred finance fees	(8,243,297 )	(11,053,351 )
<b>Net total debt</b>	<b>404,423,570</b>	<b>453,213,106</b>
Current portion of long-term debt	39,282,538	44,313,149
Current portion of deferred finance fees	(2,210,990 )	(2,485,669 )
Total current portion of long-term debt	<b>37,071,548</b>	<b>41,827,480</b>
<b>Non-current portion of long-term debt</b>	<b>367,352,022</b>	<b>411,385,626</b>

F-18

---

TABLE OF CONTENTS

## Ardmore Shipping Corporation

### Notes to Consolidated Financial Statements (Expressed in U.S. dollars, unless otherwise stated)

#### 8. Debt (continued)

Future minimum scheduled repayments under Ardmore's loan facilities for each year are as follows:

	As at Dec 31, 2017
2018	39,282,538
2019	38,856,620
2020	38,856,620
2021	41,159,894
2022	189,430,411
2023	65,080,784
	<b>412,666,867</b>

#### NIBC Bank Facility

On September 12, 2014, one of ASC's subsidiaries entered into a \$13.5 million long-term loan facility with NIBC Bank N.V. to finance a secondhand vessel acquisition which delivered to Ardmore in 2014. The facility was drawn down in September 2014 and bears interest at a rate of LIBOR plus 2.90%. Principal repayments on the loans are made on a quarterly basis, with a balloon payment payable with the final instalment. The loan facility matures in September 2021.

#### CACIB Bank Facility

On May 22, 2014, two of ASC's subsidiaries entered into a \$39.0 million long-term loan facility with Credit Agricole Corporate and Investment Bank to finance two vessels under construction. On March 10, 2016, this facility was refinanced, the lenders provided an additional \$25 million commitment for additional financing and an additional tranche of \$2.3 million was drawn down. The \$25 million of additional financing was drawn and repaid in full during the three-month period ended September 30, 2016. Interest is calculated on each tranche at a rate of LIBOR plus 2.50%. Principal repayments on the loans are made on a quarterly basis, with a balloon payment payable with the final instalment. The full facility matures in 2022.

#### ABN/DVB/NIBC Joint Bank Facility

On January 13, 2016, 11 of ASC's subsidiaries entered into a \$213 million long-term loan facility with ABN AMRO Bank N.V. ( ABN ) and DVB Bank America N.V. to refinance existing facilities. The loan, was fully drawn down on January 22, 2016. Interest is calculated at a rate of LIBOR plus 2.55%. The loan matures in 2022. On August 4, 2016,

an incremental term loan of \$36.6 million was made under the amended facility in order to fund two vessel acquisitions, and NIBC Bank N.V. joined as an additional lender under the facility. The incremental term loan consists of two tranches, and interest is calculated at a rate of LIBOR plus 2.75%. The additional tranches mature in 2023. Principal repayments on the loans are made on a quarterly basis, with a balloon payment payable with the final instalment.

## **Nordea/SEB Joint Bank Facility**

On January 13, 2016, seven of ASC's subsidiaries entered into a \$151 million long-term loan facility with Nordea Bank AB (publ) and Skandinaviska Enskilda Banken AB (publ) to refinance existing facilities. The loan was fully drawn down on January 22, 2016. Interest is calculated at a rate of LIBOR plus 2.50%. Principal repayments on the loans are made on a quarterly basis, with a balloon payment payable with the final instalment. The loan matures in 2022.

TABLE OF CONTENTS

## **Ardmore Shipping Corporation**

### **Notes to Consolidated Financial Statements (Expressed in U.S. dollars, unless otherwise stated)**

#### **8. Debt (continued)**

##### **ABN AMRO Facility**

On July 29, 2016, four of ASC's subsidiaries entered into a \$71.3 million long-term loan facility with ABN AMRO for vessel acquisitions. Three of the four tranches under the facility were drawn down during the third quarter of 2016. The fourth tranche was drawn down in the fourth quarter of 2016. Interest is calculated at a rate of LIBOR plus 2.75%. Principal repayments on the loans are made on a quarterly basis, with a balloon payment payable with the final instalment. The loan matures in 2023.

##### **ABN AMRO Revolving Facility**

On October 24, 2017, Ardmore entered into a \$15 million revolving credit facility with ABN AMRO to fund working capital. Interest is calculated at a rate of LIBOR plus 3.5%. Interest payments are payable on a monthly basis. The facility matures in October 2019.

#### **Long-term debt financial covenants**

Ardmore's existing long-term debt facilities described above include certain covenants. The financial covenants require that ASC:

- maintain minimum solvency of not less than 30%;
- maintain minimum cash and cash equivalents based on the number of vessels owned and chartered-in and 5% of outstanding debt. The required minimum cash balance as of December 31, 2017, was \$22.3 million;
- ensure that the aggregate fair market value of the applicable vessels plus any additional collateral is, depending on the facility, no less than 130% of the debt outstanding for the facility;
- maintain a corporate net worth of not less than \$150 million; and
- maintain positive working capital, excluding balloon maturities.

The Company was in full compliance with all of its loan covenants as of December 31, 2017 and 2016.

#### **9. Capital leases**

On December 22, 2016, one of ASC's subsidiaries entered into an agreement for the sale and leaseback (under a capital lease arrangement) of the *Ardmore Seatrader*. This transaction was treated as a financing transaction. As part of this arrangement, the senior debt outstanding on the vessel of \$3.0 million was repaid in full on December 20, 2016. The capital lease is scheduled to expire in 2021 and includes a mandatory purchase obligation for Ardmore to repurchase the vessel, as well as a purchase option exercisable by Ardmore, which Ardmore could elect to exercise at an earlier

date.

F-20

---

TABLE OF CONTENTS**Ardmore Shipping Corporation****Notes to Consolidated Financial Statements  
(Expressed in U.S. dollars, unless otherwise stated)****9. Capital leases (continued)**

Effective May 30, 2017, two of ASC's subsidiaries entered into an agreement for the sale and leaseback (under a capital lease arrangement) of the *Ardmore Sealeader* and *Ardmore Sealifter*. This transaction was treated as a financing transaction. As part of this arrangement, the senior debt outstanding on the vessels of \$20.1 million was repaid in full on May 30, 2017. The capital leases are scheduled to expire in 2023 and include an obligation for Ardmore to repurchase the vessels, as well as purchase options exercisable by Ardmore. As part of the lease arrangement, Ardmore provided the purchasers with \$2.9 million in the aggregate which shall be repaid at the end of the lease period, or upon the exercise of any of the purchase options. This amount is included as a receivable within Other non-current assets, net in the consolidated balance sheet, with the associated capital lease liability presented gross of the \$2.9 million.

	As at	
	Dec 31, 2017	Dec 31, 2016
Current portion of capital lease obligations	3,783,044	181,047
Current portion of deferred finance fees	(245,578 )	(22,019 )
Non-current portion of capital lease obligations	39,402,440	9,064,702
Non-current portion of deferred finance fees	(445,887 )	(93,080 )
<b>Total capital lease obligations</b>	<b>42,494,019</b>	<b>9,130,650</b>
Amount receivable in respect of capital leases	(2,880,000 )	
<b>Net capital lease obligations</b>	<b>39,614,019</b>	<b>9,130,650</b>

The future minimum lease payments required under the capital leases at December 31, 2017, are as follows:

	As at
	Dec 31, 2017
2018	6,241,500
2019	6,241,500
2020	6,258,600
2021	12,457,300
2022	4,854,500
2023	16,808,800
<b>Total minimum lease payments</b>	<b>52,862,200</b>
Less amounts representing interest and deferred finance fees	(10,368,181)
<b>Net minimum lease payments</b>	<b>42,494,019</b>
Amount receivable in respect of capital leases	(2,880,000 )
<b>Adjusted net minimum lease payments</b>	<b>39,614,019</b>





TABLE OF CONTENTS**Ardmore Shipping Corporation****Notes to Consolidated Financial Statements  
(Expressed in U.S. dollars, unless otherwise stated)****9. Capital leases (continued)**

Assets recorded under capital leases consist of the following:

	As at	
	Dec 31, 2017	Dec 31, 2016
Vessels, Equipment & Deferred Drydock Expenditure	75,712,769	26,125,274
Accumulated Depreciation	(19,721,568)	(9,239,855)
	<b>55,991,201</b>	<b>16,885,419</b>

**10. Sale of Vessels**

In October 2015, Ardmore agreed to terms for the sale of the Ardmore Calypso and Ardmore Capella. Effective November 2015, Ardmore reclassified these vessels as vessels held for sale and ceased to depreciate the vessels. Ardmore exercised the purchase option for the two vessels during the second quarter of 2016 and repaid all amounts outstanding under the capital leases. The sale prices for the two vessels totalled \$38.5 million, resulting in an overall net gain of \$0.5 million when Ardmore delivered the vessels to the buyers during April and May of 2016.

In September 2016, Ardmore agreed to terms for the sale of the Ardmore Centurion. Effective September 2016 Ardmore reclassified the vessel as held for sale and ceased to depreciate the vessel. The sale price for the vessel was \$15.7 million, resulting in a net loss of \$3.1 million when the vessel delivered to the buyer in October.

The net loss on disposal of the vessels for the year ended December 31, 2016 is calculated as follows:

	Centurion	Calypso	Capella	Total
Sales proceeds	15,700,000	19,150,000	19,350,000	54,200,000
Net book value of vessels	(18,222,109)	(18,783,238)	(18,253,669)	(55,259,016)
Sales related costs	(531,001 )	(273,458 )	(228,210 )	(1,032,669 )
Lease termination costs and related finance fees		(254,731 )	(254,732 )	(509,463 )
<b>Net (Loss)/Gain</b>	<b>(3,053,110 )</b>	<b>(161,427 )</b>	<b>613,389</b>	<b>(2,601,148 )</b>

In 2017, there were no disposals of vessels.

**11. Risk Management**

## **11.1. Operational risk**

Ardmore is exposed to operating costs arising from various vessel operations. Key areas of operating risk include drydock, repair costs, insurance, piracy and fuel prices. Ardmore's risk management includes various strategies for technical management of drydock and repairs coordinated with a focus on measuring cost and quality. Ardmore's relatively young fleet helps to minimize the risk. Given the potential for accidents and other incidents that may occur in vessel operations, the fleet is insured against various types of risk. Ardmore has established a set of countermeasures in order to minimize the risk of piracy attacks during voyages, particularly through regions which the Joint War Committee or our insurers consider high risk, or which they recommend monitoring including the South China Sea, the Indian Ocean, the Red Sea, the Gulf of Aden, the Gulf of Guinea, Venezuela, and in certain areas of the Middle East, and increasingly the Sulu Archipelago and Indonesia in the South China Sea, to make the navigation safer for sea staff and to protect Ardmore's assets. The price and supply of fuel is unpredictable and can fluctuate from time to time. Ardmore periodically considers and monitors the need for fuel hedging to manage this risk.

## **11.2. Foreign exchange risk**

The majority of Ardmore's transactions, assets and liabilities are denominated in U.S. Dollars, the functional currency of Ardmore. Ardmore incurs certain general and operating expenses in other currencies (primarily the

F-22

---

TABLE OF CONTENTS

## **Ardmore Shipping Corporation**

### **Notes to Consolidated Financial Statements (Expressed in U.S. dollars, unless otherwise stated)**

#### **11. Risk Management (continued)**

Euro, Singapore Dollar and Pounds Sterling) and as a result there is a transactional risk to Ardmore that currency fluctuations will have a negative effect on the value of Ardmore's cash flows. Such risk may have an adverse effect on Ardmore's financial condition and results of operations. Ardmore believes these adverse effects to be immaterial and has not entered into any derivative contracts for either transaction or translation risk during the year.

#### **11.3. Interest rate risk**

The Company is exposed to the impact of interest rate changes primarily through borrowings that require the Company to make interest payments based on LIBOR. Significant increases in interest rates could adversely affect the Company's results of operations and its ability to repay debt. The Company monitors interest rate exposure and may enter into swap arrangements to hedge exposure where it is considered economically advantageous to do so.

The disclosure in the immediately following paragraph about the potential effects of changes in interest rates are based on a sensitivity analysis, which models the effects of hypothetical interest rate shifts. A sensitivity analysis is constrained by several factors, including the necessity to conduct the analysis based on a single point in time and by the inability to include the extraordinarily complex market reactions that normally would arise from the market shifts. Although the following results of a sensitivity analysis for changes in interest rates may have some limited use as a benchmark, they should not be viewed as a forecast. This forward-looking disclosure also is selective in nature and addresses only the potential impacts on the Company's borrowings.

Assuming the Company does not hedge its exposure to interest rate fluctuations, a hypothetical 100 basis-point increase or decrease in the Company's variable interest rates would have increased or decreased the Company's interest expense for the year period ended December 31, 2017 by \$4.6 million (2016: \$4.2 million) using the average long-term debt balance and actual interest incurred in each period.

#### **11.4. Credit risk**

There is a concentration of credit risk with respect to cash and cash equivalents to the extent that substantially all of the amounts are held in Nordea Bank, and in short-term funds (with a credit risk rating of at least AA) managed by Blackrock and State Street Global Advisors. While Ardmore believes this risk of loss is low, it will keep this under review and will revise its policy for managing cash and cash equivalents if considered advantageous and prudent to do so.

Ardmore limits its credit risk with trade accounts receivable by performing ongoing credit evaluations of its customers financial condition. It generally does not require collateral for its trade accounts receivable.

Ardmore may have a credit risk in relation to vessel employment and at times may have multiple vessels employed by one charterer. Ardmore considers and evaluates concentration of credit risk regularly and performs on-going evaluations of these charterers for credit risk and credit concentration risk. As at December 31, 2017 Ardmore's 27 vessels in operation were employed with 13 different charterers.

## 11.5. Income taxes

Ardmore's principal objective in relation to liquidity is to ensure that it has access, at minimum cost, to sufficient liquidity to enable it to meet its obligations as they fall due and to provide adequately for contingencies. Ardmore's policy is to manage its liquidity by strict forecasting of cash flows arising from or expense relating to time charter revenue, pool revenue, vessel operating expenses, general and administrative overhead and servicing of debt.

F-23

---

TABLE OF CONTENTS**Ardmore Shipping Corporation****Notes to Consolidated Financial Statements  
(Expressed in U.S. dollars, unless otherwise stated)****12. General and administrative expenses****12.1. Corporate**

	For the year ended		
	Dec 31, 2017	Dec 31, 2016	Dec 31, 2015
Staff salaries	6,851,692	5,709,919	4,786,078
Share based compensation (non-cash)	457,046	1,304,325	1,436,505
Office administration	2,538,973	2,565,838	2,069,969
Bank charges and foreign exchange	219,910	140,942	151,840
Auditors remuneration	558,600	513,429	481,492
Other professional fees	1,280,163	1,810,089	1,250,023
Other administration costs	72,633	11,183	242,969
	<b>11,979,017</b>	<b>12,055,725</b>	<b>10,418,876</b>

**12.2. Commercial and Chartering**

Commercial and chartering expenses are the expenses attributable to our chartering and commercial operations departments in connection with our spot trading activities.

	For the year ended		
	Dec 31, 2017	Dec 31, 2016	Dec 31, 2015
Staff salaries	1,934,923	1,039,169	124,410
Office administration	341,219	201,685	8,658
Other professional fees		426,213	127,693
Other administration costs	343,606	354,420	68,985
	<b>2,619,748</b>	<b>2,021,487</b>	<b>329,746</b>

**13. Interest expense and finance costs**

	For the year ended		
	Dec 31, 2017	Dec 31, 2016	Dec 31, 2015
Interest incurred	18,319,640	14,338,666	12,994,911
Capitalized interest			(2,423,688 )
Amortization of deferred finance charges	3,060,525	3,415,452	1,711,481
	<b>21,380,165</b>	<b>17,754,118</b>	<b>12,282,704</b>

## 14. Interest income

Interest income relates to bank interest received on Ardmore's cash and cash equivalents balances.

## 15. Income taxes

(Loss)/profit before taxes was derived from the following sources:

	For the year ended		
	Dec 31, 2017	Dec 31, 2016	Dec 31, 2015
Domestic	(12,430,768 )	3,808,366	32,034,825
	<b>(12,430,768 )</b>	<b>3,808,366</b>	<b>32,034,825</b>

F-24

---

TABLE OF CONTENTS**Ardmore Shipping Corporation****Notes to Consolidated Financial Statements  
(Expressed in U.S. dollars, unless otherwise stated)****15. Income taxes (continued)**

The components of the provision for income taxes are as follows:

	For the year ended		
	Dec 31, 2017	Dec 31, 2016	Dec 31, 2015
<b>Domestic</b>			
Current tax expenses	(59,567 )	(60,434 )	(79,860 )
<b>Income tax expense for year</b>	<b>(59,567 )</b>	<b>(60,434 )</b>	<b>(79,860 )</b>

All domestic tax for the years ended December 31, 2017, 2016 and 2015 arose under the Irish and U.S. tax jurisdictions.

**16. Net (loss) / earnings per share**

Basic and diluted (loss)/earnings per share is calculated by dividing the net (loss)/earnings available to common shareholders by the average number of common shares outstanding during the periods. Diluted earnings per share is calculated by adjusting the net (loss)/earnings available to common shareholders and the weighted average number of common shares used for calculating basic (loss)/earnings per share for the effects of all potentially dilutive shares. Such dilutive common shares are excluded when the effect would be to increase earnings per share or reduce a loss per share.

	For the year ended		
	Dec 31, 2017	Dec 31, 2016	Dec 31, 2015
<b>Numerator:</b>			
Net (loss)/profit	(12,490,335 )	3,747,932	31,954,965
<b>Denominator:</b>			
Weighted average number of shares outstanding	33,441,879	30,141,891	26,059,122
<b>Net (Loss)/Earnings per share, basic and diluted</b>	<b>(0.37 )</b>	<b>0.12</b>	<b>1.23</b>

For the year ended December 31, 2017, SARs granting the right to acquire 1,343,375 shares (2016: 1,343,375, 2015: 1,142,056) were outstanding. The SARs have been excluded from the computation of diluted earnings per share as they are anti-dilutive.

## 17. Related party transactions

As mentioned in Note 1 Overview 1.2 Management and Organizational Structure , as part of the GA Holdings LLC secondary public offering in November 2017, Ardmore repurchased 1,435,654 shares of its own common stock for \$11.1 million, in the aggregate and at a price per share equal to the price per share at which GA Holdings LLC sold shares to the underwriters in the public offering.

There were no other related party transactions during the year ended December 31, 2017. There were no related party transactions for the years ended December 31, 2016 and 2015.

## 18. Share based compensation

As at December 31, 2017, ASC had granted 1,349,154 SARs (inclusive of 5,779 forfeited SARs) to certain of its officers and directors under its 2013 Equity Incentive Plan. Under a SAR award, the grantee is entitled to receive the appreciation of a share of ASC's common stock following the grant of the award. Each SAR provides for a payment of an amount equal to the excess, if any, of the fair market value of a share of ASC's common stock at the time of exercise of the SAR over the per share exercise price of the SAR, multiplied by the number of shares for which the SAR is then exercised. Payment under the SAR will be made in the form of shares of ASC's common stock, based on the fair market value of a share of ASC's common stock at the time of exercise of the SAR.

F-25

---



TABLE OF CONTENTS**Ardmore Shipping Corporation****Notes to Consolidated Financial Statements  
(Expressed in U.S. dollars, unless otherwise stated)****18. Share based compensation (continued)**

The SAR awards provide that in no event will the appreciation per share for any portion of the SAR award be deemed to exceed four times (i.e. 400%) the per share exercise price of the SAR. In other words, the fair market value of a share of the Company's common stock for purposes of calculating the amount payable under the SAR is not deemed to exceed five times (i.e. 500%) the per share exercise price of the SAR. Any appreciation in excess of four times the per share exercise price of the SAR will be disregarded for purposes of calculating the amount payable under the SAR. Vesting on all awards up to July 31, 2016 was subject to certain market conditions being met. On that date the vesting reverted to being solely dependent on time of service. The grant date fair value was calculated by applying a model based on the Monte Carlo simulation. The model inputs were the grant price, dividend yield based on the initial intended dividend set out by the Company, a risk-free rate of return equal to the zero coupon U.S. Treasury bill commensurate with the contractual terms of the units and expected volatility based on the average of the most recent historical volatilities in the Company's peer group. A summary of awards, simulation inputs and outputs is as follows:

Date	SARs Awarded	Exercise Price	Vesting Period	Grant Price	Dividend Yield	Risk-free rate of Return	Expected Volatility	Weighted Average Fair Value @ grant date	Average Expected Exercise Life
01-Aug-13	1,078,125	\$ 14.00	5 yrs	\$ 14.00	2.87 %	2.15 %	54.89 %	\$ 4.28	4.9 yrs
12-Mar-14	22,118	\$ 13.66	3 yrs	\$ 13.66	2.93 %	2.06 %	56.31 %	\$ 4.17	4.6 yrs
01-Sept-14	5,595	\$ 13.91	3 yrs	\$ 13.91	2.88 %	2.20 %	53.60 %	\$ 4.20	4.5 yrs
06-Mar-15	37,797	\$ 10.25	3 yrs	\$ 10.25	3.90 %	1.90 %	61.38 %	\$ 2.98	4.2 yrs
15-Jan-16	205,519	\$ 9.20	3 yrs	\$ 9.20	6.63 %	1.79 %	58.09 %	\$ 2.20	4.0 yrs

The cost of each tranche is being recognized by the Company on a straight-line basis. The recognition of share-based compensation costs related to the tranches that vested before July 31, 2016 would have been accelerated if the market condition had been met and the requisite service period had been completed. The Company's policy for issuing shares upon the exercise, if any, of the SARs is to register and issue new common shares to the beneficiary. Changes in the SARs for the period ended December 31, 2017 is set forth below:

Edgar Filing: Ardmore Shipping Corp - Form 20-F

	No. of Units	Weighted average exercise price
Balance as at January 1, 2017	1,343,375	\$ 13.16
SARs granted during the year ended December 31, 2017		
SARs exercised/converted/expired during the year ended December 31, 2017		
SARs forfeited during the year ended December 31, 2017		
<b>Balance as at December 31, 2017 (none of which are exercisable or convertible)</b>	<b>1,343,375</b>	<b>\$ 13.16</b>

The total cost related to non-vested awards expected to be recognized through 2018 is set forth below:

Period	TOTAL
2018	155,219
	155,219

F-26

---

TABLE OF CONTENTS

## Ardmore Shipping Corporation

### Notes to Consolidated Financial Statements (Expressed in U.S. dollars, unless otherwise stated)

#### 19. Repurchase of common stock

On August 31, 2017, we announced that our board of directors had terminated our previous share repurchase plan and approved a new share repurchase plan (the New Plan), which authorizes us to repurchase up to \$25 million of shares of our common stock through to August 31, 2020. We may repurchase these shares in the open market or in privately negotiated transactions, at times and prices that are considered to be appropriate by us, but we are not obligated under the terms of the New Plan to repurchase any shares, and at any time we may suspend, delay or discontinue the New Plan.

During the year ended December 31, 2017, we repurchased 1,435,654 common shares at a weighted-average price of approximately \$7.72 per share for a total of approximately \$11.1 million from GA Holdings LLC, formerly our largest shareholder. The repurchase was conducted outside of the New Plan.

#### 20. Commitments and contingencies

As at December 31, 2017, Ardmore has the following commitments due:

	2018	2019	2020	2021	2026
Office space	394,076	337,328	298,439	1,526,481	
	<b>394,076</b>	<b>337,328</b>	<b>298,439</b>	<b>1,526,481</b>	

Debt commitments are disclosed above in Note 8.

#### 21. Subsequent events

Ardmore took delivery of the *Ardmore Sealancer* on January 23, 2018 for a purchase price of \$16.4 million. This vessel is a high-quality 47,500 DWT MR product tanker constructed at Onomichi Dockyard Co. Ltd. in Japan in 2008. A deposit of \$1.6 million was paid in December 2017.

In connection with the repurchase of its own common shares in November 2017, Ardmore granted the underwriter an option to purchase additional shares of its common stock, which option the underwriter exercised in January 2018, for a total of 305,459 shares, resulting in proceeds to the Company of \$2.4 million.

#### 22. Subsidiaries

The following is a list of ASC's direct and indirect wholly owned subsidiaries as of December 31, 2017:

Edgar Filing: Ardmore Shipping Corp - Form 20-F

Name of Company	Country of Incorporation	Principal Activities	Ownership (%)
Ardmore Shipping LLC	Marshall Islands	Holding company	100 %
Ardmore Shipholding Limited	Ireland	Holding company	100 %
Ardmore Maritime Services LLC	Marshall Islands	Holding company	100 %
Ardmore Shipping (UK) Limited	United Kingdom	Chartering services	100 %
Ardmore Shipping (Bermuda) Limited	Bermuda	Fleet management	100 %
Ardmore Shipping (Asia) Pte Limited	Singapore	Chartering services	100 %
Ardmore Shipping Americas LLC	United States	Chartering services	100 %
Ardmore Chartering LLC	Marshall Islands	Chartering services	100 %
Ardmore Shipping Services (Ireland) Limited	Ireland	Administration and transaction support	100 %
Ardmore Pool Holdings LLC	Marshall Islands	Holding company	100 %
Ardmore MR Pool LLC	Marshall Islands	Commercial management and chartering services	100 %
Ardmore Tanker Trading (Asia) Pte Ltd	Singapore	Commercial management and chartering services	100%

F-27

TABLE OF CONTENTS**Ardmore Shipping Corporation****Notes to Consolidated Financial Statements  
(Expressed in U.S. dollars, unless otherwise stated)****22. Subsidiaries (continued)**

Name of Company	Country of Incorporation	Principal Activities	Ownership (%)
Ardmore Trading (USA) LLC	United States	Commercial management and chartering services	100 %
Hebrides Shipco LLC	Marshall Islands	Dormant	100 %
Sole Shipco LLC	Marshall Islands	Ship ownership and operations	100 %
Biscay Shipco LLC	Marshall Islands	Dormant	100 %
Basket Shipco LLC	Marshall Islands	Ship ownership and operations	100 %
Brandon Shipco LLC	Marshall Islands	Dormant	100 %
Dover Shipco LLC	Marshall Islands	Ship ownership and operations	100 %
Humber Shipco LLC	Marshall Islands	Ship ownership and operations	100 %
Kilkee Shipco LLC	Marshall Islands	Dormant	100 %
Killary Shipco LLC	Marshall Islands	Ship ownership and operations	100 %
Kilmore Shipco LLC	Marshall Islands	Ship ownership and operations	100 %
Magee Shipco LLC	Marshall Islands	Dormant	100 %
Saltee Shipco LLC	Marshall Islands	Ship ownership and operations	100 %
Skellig Shipco LLC	Marshall Islands	Dormant	100 %
Tramore Shipco LLC	Marshall Islands	Ship ownership and operations	100 %
Ballycotton Shipco LLC	Marshall Islands	Ship ownership and operations	100 %
Wight Shipco LLC	Marshall Islands	Ship ownership and operations	100 %

Edgar Filing: Ardmore Shipping Corp - Form 20-F

Lundy Shipco LLC	Marshall Islands	Ship ownership and operations	100 %
Thames Shipco LLC	Marshall Islands	Ship ownership and operations	100 %
Valentia Shipco LLC	Marshall Islands	Dormant	100 %
Fair Isle Shipco LLC	Marshall Islands	Ship ownership and operations	100 %
Malin Shipco LLC	Marshall Islands	Ship ownership and operations	100 %
Tyne Shipco LLC	Marshall Islands	Dormant	100 %
Forties Shipco LLC	Marshall Islands	Dormant	100 %
Fitzroy Shipco LLC	Marshall Islands	Ship ownership and operations	100 %
Bailey Shipco LLC	Marshall Islands	Ship ownership and operations	100 %
Forth Shipco LLC	Marshall Islands	Ship ownership and operations	100 %
Viking Shipco LLC	Marshall Islands	Ship ownership and operations	100 %
Cromarty Shipco LLC	Marshall Islands	Ship ownership and operations	100 %
Shannon Shipco LLC	Marshall Islands	Ship ownership and operations	100 %
Rockall Shipco LLC	Marshall Islands	Dormant	100 %
Faroe Shipco LLC	Marshall Islands	Ship ownership and operations	100 %
Dogger Shipco LLC	Marshall Islands	Ship ownership and operations	100 %
Fisher Shipco LLC	Marshall Islands	Ship ownership and operations	100 %
Plymouth Shipco LLC	Marshall Islands	Ship ownership and operations	100 %
Portland Shipco LLC	Marshall Islands	Ship ownership and operations	100 %
Trafalgar Shipco LLC	Marshall Islands	Ship ownership and operations	100 %
Fastnet Shipco LLC	Marshall Islands	Ship ownership and operations	100 %

F-28

---