PERFORMANCE
Shipping Inc.

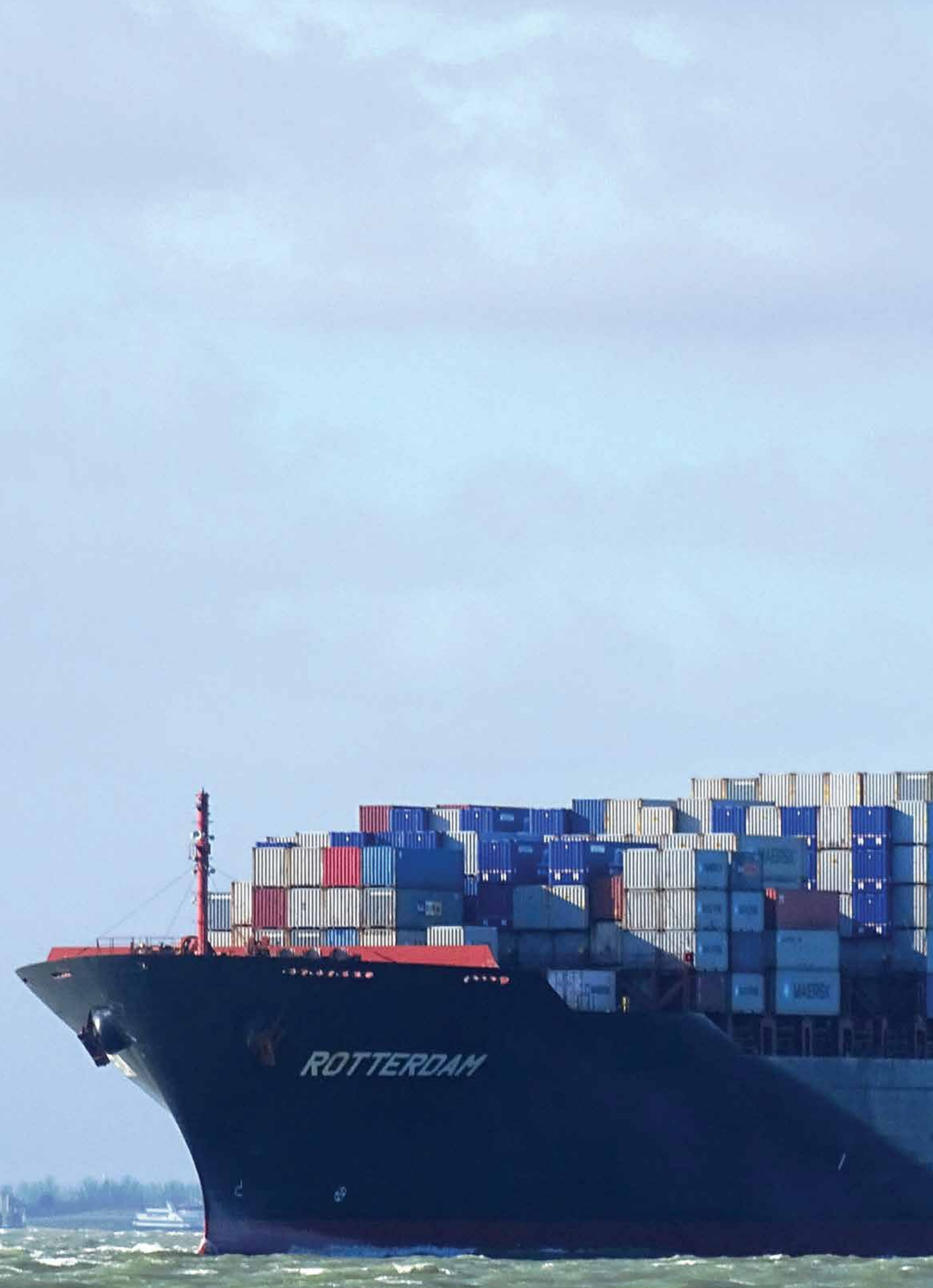
ANNUAL REPORT
2018

Performance Shipping Inc. Fleet List

Panamax Container Vessels					
Name of Vessel	Size (teu)	Type	Year Built	Builder	Classification Society
Domingo (ex Cap Domingo)	3.739	Geared Panamax	2001	Samsung Heavy Industries Co Ltd., Koje, South Korea	Bureau Veritas (BV)
Pamina (ex Santa Pamina)	5.042	Gearless Panamax	2005	Hyundai Heavy Industries Co Ltd., Ulsan, South Korea	Det Norske Veritas - Germanischer Lloyd (DNV-GL)
Post-Panamax Container Vessels					
Name of Vessel	Size (teu)	Type	Year Built	Builder	Classification Society
Pucon	6.541	Gearless Post-Panamax	2006	Hyundai Heavy Industries Co Ltd., Ulsan, South Korea	Bureau Veritas (BV)
Rotterdam	6.494	Gearless Post-Panamax	2008	Imabari Koyo Dockyard, Co., LTD, Mihara, Japan	Det Norske Veritas - Germanischer Lloyd (DNV-GL)

As of May 6, 2019

2018 ANNUAL REPORT
OF PERFORMANCE SHIPPING INC.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PERFORMANCE SHIPPING INC.

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This 2018 Annual Report of Performance Shipping Inc. (the "Company") is substantially derived from the Company's 2018 Annual Report filed on Form 20-F with the U.S. Securities and Exchange Commission (the "SEC") on March 18, 2019, which is available on the SEC's website at www.sec.gov. Additional information, including documents filed as exhibits to the Company's Form 20-F, is also available on the SEC's website.

FORWARD-LOOKING STATEMENTS

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

Please note in this annual report, "we", "us", "our" and "the Company" all refer to Performance Shipping Inc. and its subsidiaries, unless the context requires otherwise.

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

In addition to these important factors and matters discussed elsewhere herein, including under the heading "Item 3. Key Information – D. Risk Factors," important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include the strength of world economies, fluctuations in currencies and interest rates, general market conditions, including fluctuations in charter hire rates and vessel values, changes in demand in the container shipping industry, changes in the supply of vessels, changes in the Company's operating expenses, including bunker prices, crew costs, drydocking and insurance costs, our future operating or financial results, changes to our financial condition and liquidity, including our ability to pay amounts that we owe and obtain additional financing to fund capital expenditures, acquisitions and other general corporate activities, our ability to continue as a going concern, potential liability from pending or future litigation, changes in governmental rules and regulations or actions taken by regulatory authorities, general domestic and international political conditions, potential disruption of shipping routes due to accidents, labor disputes or political events, and other important factors described from time to time in the reports filed by the Company with the Securities and Exchange Commission, or the SEC.

We caution readers of this annual report not to place undue reliance on any forward-looking statements, which speak only as of their dates. We undertake no obligation to update or revise any forward-looking statements.

Operating and Financial Review and Prospects

The following management's discussion and analysis should be read in conjunction with our consolidated financial statements and their notes included elsewhere in this report. This discussion contains forward-looking statements that reflect our current views with respect to future events and financial performance. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, such as those set forth in the section entitled "Item 3. Key Information – D. Risk Factors" included in our Form 20-F filed with the SEC on March 18, 2019, and elsewhere in this report.

A. Operating Results

We charter our vessels to customers primarily pursuant to short-term and long-term time charters. Currently, we have secured time charters for all of our vessels, and the minimum remaining durations of our time charters are up to 2 months. Under our time charters, the charterer typically pays us a fixed daily charter hire rate and bears all voyage expenses, including the cost of bunkers (fuel oil) and port and canal charges. We remain responsible for paying the chartered vessel's operating expenses, including the cost of crewing, insuring, repairing and maintaining the vessel, the costs of spares and consumable stores, tonnage taxes, environmental costs and other miscellaneous expenses, and we also pay commissions to one or more unaffiliated ship brokers and to in-house brokers associated with the charterer for the arrangement of the relevant charter.

Factors Affecting Our Results of Operations

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

> ***Ownership days***. We define ownership days as the aggregate number of days in a period during which each vessel in our fleet has been owned by us. Ownership days are an indicator of the size of our fleet over a period and affect both the amount of revenues and the amount of expenses that we record during a period.

> ***Available days***. We define available days as the number of our ownership days less the aggregate number of days that our vessels are off-hire due to scheduled repairs or repairs under guarantee, vessel upgrades or special surveys including the aggregate amount of time that we spend positioning our vessels for such events. The shipping industry uses available days to measure the number of days in a period during which vessels should be capable of generating revenues.

> ***Operating days***. We define operating days as the number of our available days in a period less the aggregate number of days that our vessels are off-hire due to any reason, including unforeseen circumstances. The shipping industry uses operating days to measure the aggregate number of days in a period during which vessels actually generate revenues.

> ***Fleet utilization***. We calculate fleet utilization by dividing the number of our operating days during a period by the number of our available days during the period. The shipping industry uses fleet utilization to measure a company's efficiency in finding suitable employment for its vessels and minimizing the amount of days that its vessels are off-hire for reasons other than scheduled repairs or repairs under guarantee, vessel upgrades and special surveys including vessel positioning for such events.

> ***Time Charter Equivalent (TCE) rates***. We define TCE rates as our time charter revenues, net, less voyage expenses during a period divided by the number of our available days during the period, which is consistent with industry standards. TCE rate is a non-GAAP measure, and management believes it is useful to provide to investors because it is a standard shipping industry performance measure used primarily to compare daily earnings generated by vessels on time charters with daily earnings generated by vessels on voyage charters, because charter hire rates for vessels on voyage charters are generally not expressed in per day amounts while charter hire rates for vessels on time charters generally are expressed in such amounts.

- ***Daily Operating Expenses***. We define daily operating expenses as total vessel operating expenses, which include crew wages and related costs, the cost of insurance and vessel registry, expenses relating to repairs and maintenance, the costs of spares and consumable stores, lubricant costs, tonnage taxes, regulatory fees, environmental costs, lay-up expenses and other miscellaneous expenses divided by total ownership days for the relevant period.

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

	For the year ended December 31, 2018	For the year ended December 31, 2017	For the year ended December 31, 2016
Ownership days	2,307	4,178	4,780
Available days	2,284	4,155	4,735
Operating days	2,177	3,152	3,304
Fleet utilization	95.3 %	75.9 %	69.8 %
Time charter equivalent (TCE) rate (1)	$ 10,639	$ 5,320	$ 6,341
Daily operating expenses	$ 6,698	$ 5,441	$ 6,321

(1) Please see "Item 3. Key Information – A. Selected Financial Data" included in our Form 20-F filed with the SEC on March 18, 2019, for a reconciliation of TCE to GAAP measures.

Time Charter Revenues

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

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

Period charters refer to both time and bareboat charters. Vessels operating on time charters for a certain period of time provide more predictable cash flows over that period of time, but can yield lower profit margins than vessels operating in the spot charter market during periods characterized by favorable market conditions. Vessels operating in the spot charter market generate revenues that are less predictable but may enable their owners to capture increased profit margins during periods of improvements in charter rates although their owners would be exposed to the risk of declining charter rates, which may have a materially adverse impact on financial performance. As we employ vessels on period charters, future spot charter rates may be higher or lower than the rates at which we have employed our vessels on period charters.

Currently, all of the vessels in our fleet are employed on time charters. Our time charter agreements subject us to counterparty risk. In depressed market conditions, charterers may seek to renegotiate the terms of their existing charter 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, results of operations and cash flows.

Voyage Expenses

We incur voyage expenses that include port and canal charges, bunker (fuel oil) expenses and commissions. Port and canal charges and bunker expenses primarily increase in periods during which vessels are employed on voyage charters because these expenses are for the account of the owner of the vessels. Our vessels are currently employed under time charters, and these time charters require the charterer to bear all of those expenses. In addition to this, our laid up vessels, if any, do not incur bunkers costs. However, at times when our vessels are off-hire due to other reasons, we incur port and canal charges and bunker expenses.

We have paid commissions ranging from 0% to 5% of the total daily charter hire rate of each charter to unaffiliated ship brokers, depending on the number of brokers involved with arranging the charter. Our fleet manager, UOT, our wholly-owned subsidiary, receives commission that is equal to 2% of our gross revenues in exchange for providing us with technical and commercial management services in connection with the employment of our fleet. However, this commission is eliminated from our consolidated financial statements as an intercompany transaction.

Vessel Operating Expenses

Vessel operating expenses include crew wages and related costs, the cost of insurance and vessel registry, expenses relating to repairs and maintenance, the costs of spares and consumable stores, tonnage taxes, regulatory fees, environmental costs, lay-up expenses and other miscellaneous expenses. Other factors beyond our control, some of which may affect the shipping industry in general, including, for instance, developments relating to market prices for crew wages and insurance, may also cause these expenses to increase. In conjunction with our senior executive officers, UOT has established an operating expense budget for each vessel and performs the day-to-day management of our vessels under separate management agreements with our vessel-owning subsidiaries. We monitor the performance of UOT by comparing actual vessel operating expenses with the operating expense budget for each vessel. We are responsible for the costs of any deviations from the budgeted amounts.

Vessel Depreciation

We depreciate our vessels on a straight-line basis over their estimated useful lives which we estimate to be 30 years from the date of their initial delivery from the shipyard. Depreciation is based on the cost less the estimated salvage values. Each vessel's salvage value is the product of her light-weight tonnage and estimated scrap rate, which is estimated at $350 per light-weight ton for all vessels in our fleet. We believe that these assumptions are common in the containership industry.

General and Administrative Expenses

We incur general and administrative expenses, including our onshore related expenses such as legal and professional expenses. Certain of our general and administrative expenses are provided for under our Broker Services Agreement with Steamship Shipbroking Enterprises Inc. We also incur payroll expenses of employees and general and administrative expenses reflecting the costs associated with running a public company, including board of director costs, director and officer insurance, investor relations, registrar and transfer agent fees and legal and accounting costs related to our compliance with public reporting obligations and the Sarbanes-Oxley Act of 2002.

Interest and Finance Costs

In the past, we have incurred interest and finance costs in connection with our vessel-specific debt. Currently, and as of December 31, 2018, we had no debt outstanding.

Lack of Historical Operating Data for Vessels before their Acquisition

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

Consistent with shipping industry practice, we treat the acquisition of a vessel (whether acquired with or without charter) as the acquisition of an asset rather than a business. Although vessels are generally acquired free of charter, we have in the past and we may, in the future, acquire vessels with existing time charters. Where a vessel has been under a voyage charter, the vessel is delivered to the buyer free of charter, and it is rare in the shipping industry for the last charterer of the vessel in the hands of the seller to continue as the first charterer of the vessel in the hands of the buyer. In most cases, when a vessel is under time charter and the buyer wishes to assume that charter, the vessel cannot be acquired without the charterer's consent and the buyer's entering into a separate direct agreement with the charterer to assume the charter. The purchase of a vessel itself does not transfer the charter, because it is a separate service agreement between the vessel owner and the charterer.

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

- obtain the charterer's consent to us as the new owner;
- obtain the charterer's consent to a new technical manager;
- obtain the charterer's consent to a new flag for the vessel;
- arrange for a new crew for the vessel;

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

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

Our business is mainly comprised of the following elements:

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

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

- vessel maintenance and repair;
- crew selection and training;
- vessel spares and stores supply;
- contingency response planning;
- on board safety procedures auditing;
- accounting;
- vessel insurance arrangement;
- vessel chartering;
- vessel hire management;
- vessel surveying; and
- vessel performance monitoring.

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

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

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

> rates and periods of charterhire;

> levels of vessel operating expenses;

> depreciation expenses;

> financing costs; and

> fluctuations in foreign exchange rates.

See " Item 3. Key Information – D. Risk Factors" included in our Form 20-F filed with the SEC on March 18, 2019 for additional factors that may affect our business.

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

In "Critical Accounting Policies – Impairment of long-lived assets," we discuss our policy for impairing the carrying values of our vessels. Historically, the market values of vessels have experienced volatility, which from time to time may be substantial. As a result, the charter-free market value of certain of our vessels may have declined below those vessels' carrying value, even though we would not impair those vessels' carrying value under our accounting impairment policy. In 2018, we recorded impairment charges for the vessels *Hamburg* and *Pamina*, as our impairment test exercise indicated that their carrying values were not recoverable. In 2017, we recorded impairment charges for the vessels *Centaurus* and *New Jersey* as our impairment test exercise indicated that their carrying values were not recoverable.

Based on: (i) the carrying value of each of our vessels as of December 31, 2018 and 2017, and (ii) what we believe the charter-free market value of each of our vessels was as of December 31, 2018 and 2017, the aggregate carrying value of two vessels in our fleet as of December 31, 2018 and six vessels as of December 31, 2017 exceeded their aggregate charter-free market value by approximately $34.8 million and $72.8 million, respectively, as noted in the table below. This aggregate difference represents the approximate analysis of the amount by which we believe we would have to reduce our net income or increase our loss if we sold all of such vessels at December 31, 2018 and 2017, on industry standard terms, in cash transactions, and to a willing buyer where we were not under any compulsion to sell, and where the buyer was not under any compulsion to buy. For the purposes of this calculation, we have assumed that these two and six vessels, respectively, would be sold at prices that reflect our estimate of their charter-free market values as of December 31, 2018 and 2017.

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

> reports by industry analysts and data providers that focus on our industry and related dynamics affecting vessel values;

> news and industry reports of similar vessel sales;

> news and industry reports of sales of vessels that are not similar to our vessels where we have made certain adjustments in an attempt to derive information that can be used as part of our estimates;

- approximate market values for our vessels or similar vessels that we have received from shipbrokers, whether solicited or unsolicited, or that shipbrokers have generally disseminated;
- offers that we may have received from potential purchasers of our vessels; and
- vessel sale prices and values of which we are aware through both formal and informal communications with shipowners, shipbrokers, industry analysts and various other shipping industry participants and observers.

As we obtain information from various industry and other sources, our estimates of charter-free market values are inherently uncertain. In addition, vessel values are highly volatile; as such, our estimates may not be indicative of the current or future charter-free market values of our vessels or prices that we could achieve if we were to sell them. We also refer you to the risk factor under "Item 3. Key Information – D. Risk Factors" included in our Form 20-F filed with the SEC on March 18, 2019, entitled "Vessel values may fluctuate which may adversely affect our financial condition, result in the incurrence of a loss upon disposal of a vessel, impairment losses or increases in the cost of acquiring additional vessels".

				Carrying Value (in millions of US dollars)	
	Vessel	**TEU**	**Year Built**	**At December 31, 2018**	**At December 31, 2017**
1	Sagitta	3,426	2010	-	11.1*
2	Centaurus	3,426	2010	-	10.1
3	Domingo	3,739	2001	5.0	5.0
4	Puelo	6,541	2006	-	40.0*
5	Pucon	6,541	2006	38.4*	40.1*
6	March	5,576	2004	-	9.2
7	Great	5,576	2004	-	9.2
8	Pamina	5,042	2005	9.2	14.6*
9	New Jersey	4,923	2006	-	10.0
10	Rotterdam	6,494	2008	33.3*	34.5*
11	Hamburg	6,494	2009	-	36.0*
	Vessels Net Book Value			**85.9**	**219.8**

**Indicates vessels for which we believe, as of December 31, 2018 and December 31, 2017, the charter-free market value was lower than the vessel's carrying value. We believe that the aggregate carrying value of these vessels exceeded their aggregate charter-free market value by approximately $34.8 million and $72.8 million, respectively.*

Critical accounting policies

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

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

Accounting for Time Charter Revenues and Related Expenses

Revenues are generated from time charter agreements. According to the terms of a time-charter agreement, we charter our vessels to a charterer from the delivery of the vessel to the charterer (commencement date), for a fixed period of time, at rates that are generally determined in the main body of the charter agreements. Our time charter agreements were determined to contain a lease and are accounted for under ASC 842. Time charter revenues are recorded over the non-cancellable term of the charter as service is provided, while revenues from time charter agreements providing for varying charter rates over their term are accounted for on a straight line basis. Any off-hires are recognized as incurred. The non-lease components of the time charter agreements, primarily relating to operation and maintenance of the vessel, are accounted for along with the associated lease component as a single lease component, as revenue from such non-lease components is recognized ratably over the duration of the time charter, and is not predominant. Time charter agreements with the same charterer are accounted for as separate agreements according to the terms and conditions of each agreement. Under time charter agreements , the charterer typically pays a fixed daily or monthly rate for a fixed period of time for the use of the vessel. Payments are typically made in advance. Deferred revenue, if any, includes cash received prior to the balance sheet date for which all criteria for recognition as revenue would not be met, including any deferred revenue resulting from charter agreements providing for varying annual rates, which are accounted for on a straight line basis.

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

Vessel Cost

Vessels are stated at cost which consists of the contract price and costs incurred upon acquisition or delivery of a vessel from a shipyard. Subsequent expenditures for conversions and major improvements are also capitalized when they appreciably extend the life, increase the earnings capacity or improve the efficiency or safety of the vessels; otherwise these amounts are charged to expense as incurred.

Vessel Depreciation

We have recorded the value of our vessels at their cost, which includes acquisition costs directly attributable to the vessel and expenditures made to prepare the vessel for her initial voyage, less accumulated depreciation. We depreciate our containership vessels on a straight-line basis over their estimated useful lives, estimated to be 30 years from the date of initial delivery from the shipyard which we believe is also consistent with that of other shipping companies. Secondhand vessels are depreciated from the date of their acquisition through their remaining estimated useful life. Depreciation is based on cost less the estimated salvage value. Furthermore, we have historically estimated the salvage values of our vessels to be $200 to $350 per light-weight ton depending on the vessels age and market conditions, while effective July 1, 2013 we adjusted prospectively the scrap rate used to $350 per light-weight ton for all vessels in our fleet. A decrease in the useful life of a containership or in her salvage value would have the effect of increasing the annual depreciation charge. When regulations place limitations on the ability of a vessel to trade on a worldwide basis, the vessel's useful life is adjusted at the date such regulations are adopted.

Impairment of Long-lived Assets

We evaluate the carrying amounts, primarily for vessels and related drydock costs, and periods over which our long-lived assets are depreciated to determine if events have occurred which would require modification to their carrying values or useful lives. When the estimate of future undiscounted net operating cash flows, excluding interest charges, expected to be generated by the use of the asset is less than its carrying amount, we evaluate the asset for an impairment loss. Measurement of the impairment loss is based on the fair value of the asset. We determine the fair value of our assets based on our management's estimates and assumptions and by making use of available market data and taking into consideration third party valuations. In evaluating useful lives and carrying values of long-lived assets, management reviews certain indicators of potential impairment, such as undiscounted projected operating cash flows, vessel sales and purchases, business plans and overall market conditions. Recent economic and market conditions have had broad effects on participants in a wide variety of industries. The current conditions in the containerships market, including low charter rates and vessel market values, are conditions that we consider indicators of a potential impairment. Management also takes into account factors such as the vessels' age and employment prospects under the then current market conditions, and determines the future undiscounted cash flows considering its various alternatives, including sale possibilities existing for each vessel as of the testing dates.

We determine future undiscounted net operating cash flows for each vessel and compare them to the vessel's carrying value. The projected net operating cash flows are determined by considering the historical (excluding years with extraordinary figures) and estimated vessels' performance and utilization, the charter revenues from existing charters for the fixed fleet days and an estimated daily time charter equivalent for the unfixed days, based, to the extent applicable, on the most recent ten-year blended, for modern and older vessels, average historical 6-12 months time charter rates available for each type of vessel, considering also current market rates, over the remaining estimated life of each vessel net of brokerage commissions, expected outflows for scheduled vessels' maintenance and vessel operating expenses assuming an average annual inflation rate of 3.5%. Effective fleet utilization is assumed at 98%, if a vessel is not laid-up, taking into account the period(s) each vessel is expected to undergo its scheduled maintenance (drydocking and special surveys), as well as an estimate of 1% off hire days each year, which assumptions are in line with our historical performance and our expectations for future fleet utilization under our current fleet deployment strategy. The review of the vessel's carrying amounts in connection with the estimated recoverable amounts for 2018 and 2017 indicated impairment charges for certain of our vessels, amounting to $20.7 million and $8.4 million, respectively.

Set forth below is an analysis of the average estimated daily time charter equivalent rate used in our impairment analysis as of December 31, 2018:

		Average estimated daily time charter equivalent rate used
Up to 4,000 TEU	$	9,144
Between 4,000 TEU and 6,000 TEU	$	10,948
Above 6,000 TEU	$	21,106

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

	5-year period (in USD)	Impairment charge (in USD million)	3-year period (in USD)	Impairment charge (in USD million)	1-year period (in USD)	Impairment charge (in USD million)
Up to 4,000 TEU	8,509	0.0	8,154	0.0	10,942	0.0
Between 4,000 - 6,000 TEU	8,871	0.0	7,922	0.0	11,096	0.0
Above 6,000 TEU	18,798	0.0	15,525	12.7	18,138	0.0

Share Based Payments

We issue restricted share awards which are measured at their grant date fair value and are not subsequently re-measured. That cost is recognized under the straight-line method over the period during which an employee is required to provide service in exchange for the award—the requisite service period (usually the vesting period). When the service inception date precedes the grant date, we accrue the compensation cost for periods before the grant date based on the fair value of the award at the reporting date. In the period in which the grant date occurs, cumulative compensation cost is adjusted to reflect the cumulative effect of measuring compensation cost based on the fair value at the grant date. Forfeitures of awards are accounted for when and if they occur. If an equity award is modified after the grant date, incremental compensation cost will be recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately before the modification.

Results of Operations	For the Years Ended December 31,			
	2018	2017	variation	% change
	in millions of U.S. dollars			
Time charter revenues	25.6	23.8	1.8	8 %
Voyage expenses	(1.3)	(1.7)	0.4	-24 %
Vessel operating expenses	(15.5)	(22.7)	7.2	-32 %
Depreciation and amortization of deferred charges	(4.9)	(8.1)	3.2	-40 %
General and administrative expenses	(8.0)	(8.4)	0.4	-5 %
Impairment losses	(20.7)	(8.4)	(12.3)	146 %
(Loss) / gain on vessels' sale	(16.7)	0.9	(17.6)	-1956 %
Foreign currency (gains) / losses	-	0.1	(0.1)	-100 %
Interest and finance costs	(11.5)	(13.8)	2.3	-17 %
Interest income	(0.1)	0.1	-	0 %
Gain from bank debt write off	-	42.2	(42.2)	-

Year ended December 31, 2018 compared to the year ended December 31, 2017

Net Loss. Net loss for 2018 amounted to $52.9 million, compared to a net income of $3.8 million for 2017. The loss for 2018 includes $20.7 million in impairment charges for two vessels and $16.7 million of aggregate loss in connection with the sale of seven vessels. The net income for 2017 is mainly impacted by the gain from a debt write-off, net of related expenses, amounting to $42.2 million, arising from the settlement agreement with respect to the secured loan facility with RBS, which was signed on June 30, 2017, and was partially offset by $8.4 million of impairment charges recorded during the year for two of our vessels.

Time Charter Revenues. Time charter revenues in 2018 amounted to $25.6 million, compared to $23.8 million in 2017. The time charter revenues increased, mainly due to increased time charter rates achieved as a result of improved market conditions. This increase was partially counterbalanced by the loss of revenues, after the sale of the vessels *Doukato, March, Great, New Jersey, Sagitta, Centaurus, Puelo* and *Hamburg* from May 2017 to July 2018.

Voyage Expenses. Voyage expenses for 2018 amounted to $1.3 million, compared to $1.7 million in 2017. Voyage expenses mainly consist of bunkers costs and commissions paid to third party brokers. The decrease in voyage expenses in 2018 compared to 2017 was mainly due to significantly lower bunkers costs incurred, as a result of our increased fleet utilization in 2018, and was partially offset by increased commissions to third party brokers. As commissions are a percentage of time charter revenues, they follow the same trend as time charter revenues.

Vessel Operating Expenses. Vessel operating expenses amounted to $15.5 million in 2018, compared to $22.7 million in the prior year and mainly consist of expenses for running and maintaining our vessels, such as crew wages and related costs, consumables and stores, insurances, repairs and maintenance, environmental compliance costs and lay-up expenses. The decrease in vessel operating expenses in 2018 was attributable to the decrease in the size of our fleet, despite the fact that almost all major categories of average operating expenses have increased. The main average increases are reflected in the repairs, maintenance and crew costs, as a number of our vessels suffered vessel damages during the year and our crew officers received higher salaries in 2018 compared to 2017.

Depreciation and Amortization of Deferred Charges. Depreciation and amortization of deferred charges for 2018 amounted to $4.9 million, compared to $8.1 million in 2017 and mainly represents the depreciation expense of our containerships and the amortization charge of dry-docking costs for vessels. In 2018, depreciation expenses decreased, mainly as a result of the shrinkage of our fleet and also due to the impairment recorded for certain of our vessels, which also led to lower depreciation expense.

General and Administrative Expenses. General and administrative expenses for 2018 amounted to $8.0 million, compared to $8.4 million in 2017 and mainly consist of payroll expenses of office employees, consultancy fees, brokerage services fees, compensation cost on restricted stock awards, legal fees and audit fees. The decrease in general administrative expenses was mainly attributable to decreased audit, legal and shareholders' meeting fees, and was partially counterbalanced by increased compensation cost on restricted stock awards.

Impairment Losses. Impairment losses in 2018 and 2017 amounted to $20.7 million and $8.4 million, respectively, and represent non-cash impairment charges recorded for the vessels *Hamburg* and *Pamina* in 2018, and for the vessels *New Jersey* and *Centaurus*, in 2017, as the Company's assessment concluded that their book values were not recoverable.

Loss / (Gain) on Vessels' Sale. In 2018, loss on vessels' sale amounted to $16.7 million and relates to the sales of the vessels *March*, *Great, New Jersey, Sagitta, Centaurus, Puelo* and *Hamburg* from March to July 2018, respectively. Gain on vessels' sale amounted to $0.9 million in 2017, and relates to the sale of the vessel *Doukato* in May 2017.

Foreign Currency (Gains) / Losses. Foreign currency gain for 2018 amounted to $44 thousand, and mainly consist of unrealized exchange differences derived from the year-end valuation of accounts other than the U.S. Dollar. In 2017, there were foreign currency losses of $51 thousand.

Interest and Finance Costs. Interest and finance costs for 2018 amounted to $11.5 million, compared to $13.8 million for 2017 and consist of the interest expenses relating to our average debt outstanding during the respective periods and other loan fees and expenses. The decrease in 2018 was mainly attributable to the decrease of the interest expense, as a result of the full repayments of the DSI and Addiewell loans, together with the applicable discount premiums, in May and July 2018, respectively, and was partially counterbalanced by increased discount premium amortization. However, the average interest rates increased from 4.95% in 2017, to 6.11% in 2018.

Interest Income. Interest income for 2018 and 2017 amounted to $0.1 million, and consists of interest income received on deposits of cash and cash equivalents.

Year ended December 31, 2017 compared to the year ended December 31, 2016.

Net Income. Net income for 2017 amounted to $3.8 million, compared to a net loss of $149.0 million for 2016.

The net income for the year ended December 31, 2017, reflected a gain from a debt write-off, arising from the settlement agreement with respect to the secured loan facility with RBS, which was signed on June 30, 2017, and was partially offset by $8.4 million of impairment charges recorded during the year for two of our vessels. The specific gain, net of related expenses, amounted to $42.2 million. The loss for 2016 mainly includes $118.9 million of impairment charges for seven of our vessels.

Time Charter Revenues, net of prepaid charter revenue amortization. Time charter revenues, net of prepaid charter revenue amortization of nil and $3.8 million for 2017 and 2016 respectively, amounted to $23.8 million for 2017, compared to $33.2 million in 2016. The time charter revenues decreased, mainly as a result of the sale of the vessels *Hanjin Malta, Angeles* and *Doukato* from March 2016 to May 2017 and the lay-up of the vessel *New* Jersey from October 2016 and onwards. This decrease was partially counterbalanced by increased time charter rates achieved for the majority of the remaining vessels in the fleet.

Voyage Expenses. Voyage expenses for 2017 amounted to $1.7 million, compared to $3.2 million in 2016. Voyage expenses mainly consist of bunkers costs and commissions paid to third party brokers. The decrease in voyage expenses in 2017 compared to 2016 was mainly due to decreased bunkers costs and decreased commissions. In 2016 we incurred increased bunkers costs at the times when certain of our vessels were off-hire and idle (or in “hot” lay-up condition), while in 2017 our fleet utilization improved and our off-hire days mainly related to vessels’ “cold” lay-up condition, when vessels incur no bunkers consumption. As commissions are a percentage of time charter revenues, they follow the same trend with time charter revenues.

Vessel Operating Expenses. Vessel operating expenses amounted to $22.7 million in 2017, compared to $30.2 million in the prior year and mainly consist of expenses for running and maintaining our vessels, such as crew wages and related costs, consumables and stores, insurances, repairs and maintenance, environmental compliance costs and lay-up expenses. The decrease in 2017 was attributable to the decrease of our ownership days by 13% and also to the decrease of all major categories of operating expenses, such as average stores, spares and crew costs, as a result of increased “cold” lay-up days of the fleet in 2017, changes in crew composition and overall reduced supply of spares and other consumables in 2017, as part of the Company’s efforts to keep operating costs at minimum.

Depreciation and Amortization of Deferred Charges. Depreciation and amortization of deferred charges for 2017 amounted to $8.1 million, compared to $12.7 million in 2016 and mainly represents the depreciation expense of our containerships and the amortization charge of dry-docking costs for vessels. In 2017, the depreciation expense decreased, mainly as a result of the vessels’ impairment charges recorded as of September 30, 2016 for seven of our vessels. As of December 31, 2017, two of the Company’s vessels were classified in current assets as held for sale, with no material effect in the vessels’ depreciation expense.

General and Administrative Expenses. General and administrative expenses for 2017 amounted to $8.4 million, compared to $7.2 million in 2016 and mainly consist of payroll expenses of office employees, consultancy fees, brokerage services fees, compensation cost on restricted stock awards, legal fees and audit fees. The increase in general administrative expenses was mainly attributable to increased legal and shareholders’ meeting fees, as a result of increased corporate and capital activity in 2017.

Impairment Losses. Impairment losses in 2017 amounted to $8.4 million and represent non-cash impairment charges recorded during the year for the vessels *New Jersey* and *Centaurus*,for which the Company’s assessment concluded that their book values as of December 31, 2017 were not recoverable. In 2016, impairment losses amounted to $118.9 million and represent non-cash impairment charges recorded during the year for the vessels *Sagitta, Centaurus, Domingo, Doukato, Great, March* and *Angeles*.

Gain/ (Loss) on Vessels' Sale. Gain on vessels' sale amounted to $0.9 million in 2017, and relates to the sale of the vessel *Doukato* in May 2017, while in 2016, loss on vessels' sale amounted to $2.9 million and relates to the sale of the vessels *Hanjin Malta* and *Angeles* in March and November 2016, respectively.

Foreign Currency Losses. Foreign currency losses for 2017 amounted to $51 thousand, and mainly consist of unrealized exchange differences derived from the year-end valuation of accounts other than the U.S. Dollar. In 2016, there were foreign currency losses of $111 thousand.

Interest and Finance Costs. Interest and finance costs for 2017 amounted to $13.8 million, compared to $7.1 million for 2016 and consist of the interest expenses relating to our average debt outstanding during the respective periods and other loan fees and expenses. The increase in 2017 was mainly attributable to the increase of the average interest rates and the discount premium amortization in our loan agreements with Addiewell and DSI, counterbalanced by the decrease of our average total debt outstanding.

Interest Income. Interest income for 2017 and 2016 amounted to $0.1 million, and consists of interest income received on deposits of cash, cash equivalents and restricted cash.

Gain from Bank Debt Write Off. Gain from bank debt write off amounted to $42.2 million in 2017, and relates to a gain arising from the full and final settlement of our secured loan facility with RBS, which was agreed to on June 30, 2017. There was no such gain in 2016.

Inflation

Inflation does not have a material effect on our expenses given current economic conditions. In the event that significant global inflationary pressures appear, these pressures would increase our operating, voyage, administrative and financing costs.

B. Liquidity and Capital Resources

We have financed our capital requirements with cash flow from operations, equity contributions from shareholders and long- and medium-term debt. Our operating cash flow is generated from charters on our vessels, through our subsidiaries. Our main uses of funds have been capital expenditures for the acquisition of new vessels, expenditures incurred in connection with ensuring that our vessels comply with international and regulatory standards, repayments of loans and payments of dividends (which our board of directors determined to suspend in 2016). At times when we are not restricted by our lenders from acquiring additional vessels, we will require capital to fund vessel acquisitions and debt service.

As of December 31, 2018, we reported a working capital surplus of $9.1 million. Since 2017, our management has implemented a number of actions to manage the Company's working capital requirements. During 2018, we received $17.5 million of gross equity proceeds, and since December 31, 2018, we have received an additional $3.5 million of gross proceeds from the sale of preferred shares and exercise of preferred warrants. As of March 15, 2019, 96,540 warrants remain outstanding. In addition, in 2018 we received $92.9 million of net proceeds from the sale of seven of our vessels. Following these actions, we managed to fully repay our entire outstanding debt, by making use of vessels' sales proceeds and equity proceeds. Since then, our fleet comprises of four unencumbered vessels with zero debt outstanding. We expect that we will fund our operations either with cash on hand, cash generated from operations, bank debt and equity offerings, or a combination thereof, in the twelve-month period ending one year after the financial statements' issuance. Accordingly, there is no substantial doubt about our ability to continue as a going concern.

Cash Flow

As of December 31, 2018, cash and cash equivalents amounted to $10.5 million compared to $6.4 million for the prior year. We consider highly liquid investments such as time deposits and certificates of deposit with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents are primarily held in U.S. dollars.

Net Cash Used in Operating Activities

Net cash used in operating activities in 2018, 2017 and 2016 amounted to $0.3 million, $12.7 million and $12.0 million, respectively. Cash from operations in 2018 was marginally negative and its improvement compared to the prior years reflected the market improvement from the low vessels' performance in 2016 and 2017, when the prolonged weak charter market conditions in the containership sector led to low fleet utilization during both years through vessel lay-ups, increased off-hire days and reduced time charter rates.

Net Cash Provided by Investing Activities

Net cash provided by investing activities in 2018 was $93.2 million and consists of $92.9 million received from the sale of seven vessel during the year, $0.1 million paid for equipment additions, and finally $0.4 million received, representing insurance settlements.

Net cash provided by investing activities in 2017 was $6.7 million and consists of $5.9 million received from the sale of one vessel during the year, $15 thousand paid for equipment additions, and finally $0.8 million received, representing insurance settlements.

Net cash provided by investing activities in 2016 was $10.6 million and consists of $10.6 million received from the sale of two vessels during the year, $0.2 million paid for additional capitalized costs for one vessel, $29 thousand paid for equipment additions, and finally $0.2 million received, representing insurance settlements.

Net Cash Used in Financing Activities

Net cash used in financing activities in 2018 was $88.8 million and consists of $87.6 million of debt repayments to related parties, $18.5 million of debt repayments to unrelated parties, $17.4 million of net proceeds from our equity offering, and finally $0.1 million of finance costs that we paid for our loan agreements.

Net cash used in financing activities in 2017 was $4.9 million and consists of $75.0 million of loan proceeds from our new loan facilities with Addiewell and DSI, $111.5 million of debt repayments to unrelated parties, $32.0 million of net proceeds from our equity offering and $0.4 million of finance costs that we paid for our new loan agreements.

Net cash used in financing activities in 2016 was $19.7 million and consists of $19.2 million of debt repayments, $0.2 million of finance costs that we paid for our new loan agreement with RBS and $0.4 million of cash dividends paid to investors.

Loan Facilities

Diana Shipping Inc. (DSI) – Related party financing: On May 20, 2013, we, through our subsidiary Eluk Shipping Company Inc., entered into an unsecured loan agreement of up to $50.0 million with DSI, to be used to fund vessel acquisitions and for general corporate purposes. The loan was guaranteed by the Company and, until the amendment discussed below, it bore interest at a rate of LIBOR plus a margin of 5.0% per annum and a fee of 1.25% per annum ("back-end fee") on any amounts repaid upon any repayment or voluntary prepayment dates. In August 2013, the full amount was drawn down under the loan agreement which was originally repayable on August 20, 2017.

On September 9, 2015,the loan agreement with DSI was amended. The new loan agreement was extended until March 15, 2022 or such earlier date on which the outstanding principal balance of the loan was paid in full, provided for annual repayments of $5.0 million, plus a balloon installment at the final maturity date, and bore interest at LIBOR plus a margin of 3.0% per annum. We also agreed to pay at the date of the amendment the accumulated back-end fee, amounting to $1.3 million, and that no additional back-end fee would be charged thereafter. Furthermore, we agreed that we would pay at the final maturity date a flat fee of $0.2 million.

On September 12, 2016, we further amended the loan agreement with DSI. The loan was undertaken by our wholly-owned subsidiary Kapa Shipping Company Inc. and its repayment was immediately suspended and would not recommence until the later of: (i) September 15, 2018 and (ii) until the deferred tranche of the RBS supplemental agreement was fully repaid on June 15, 2021 or prepaid. Finally, the margin was revised to 3.35% per annum until December 31, 2018, thereafter reverting to 3.0% per annum until maturity.

On May 30, 2017, we issued 100 shares of our newly-designated Series C Preferred Stock, par value $0.01 per share, to DSI, in exchange for a reduction of $3.0 million in the principal amount of our outstanding loan, thus leaving an outstanding principal balance of $42.4 million as of that date.

On June 30, 2017, we refinanced our existing unsecured loan facility with DSI. The principal amount of the new secured loan was $82.6 million and included the $42.4 million outstanding principal balance as of June 30, 2017, increased by the flat fee of $0.2 million which was payable at maturity, and an additional $40.0 million, which was drawn to partially repay our then existing loan with RBS, discussed in Item 4A included in our Form 20-F filed with the SEC on March 18, 2019. The new DSI loan would mature on December 31, 2018, however the lenders had the option to request for full repayment after twelve months from the initial drawing. The loan also provided for an additional $5.0 million interest-bearing "discount premium", which was payable at maturity, but would be permanently waived and cancelled, in case the lenders exercised their option for full repayment within twelve months from drawing, subject to the terms of the Intercreditor Agreement with Addiewell. Moreover, the DSI loan was subordinated to the Addiewell loan, was secured by second priority mortgages over our vessels, bore interest at the rate of 6% per annum for the first twelve months, scaled to 9% per annum for the next three months, and further scaled to 12% per annum for the remaining three months until maturity, included financial and other covenants which stipulated the repayment with proceeds from the sale of our assets, proceeds from the issuance of new equity and proceeds from the exercise of existing warrants to purchase Series B Convertible Preferred Shares, and prohibited the payment of dividends.

During 2018, we repaid the entire outstanding loan balance and the entire discount premium using warrant proceeds and vessels' sales proceeds. Thus, as of December 31, 2018, and the date of this report, we have no outstanding loan with DSI.

Addiewell Ltd (Addiewell) – Unrelated party financing: On June 30, 2017, we partially funded the refinancing of the RBS loan, discussed in Item 4A included in our Form 20-F filed with the SEC on March 18, 2019, with proceeds under a new secured loan facility with Addiewell Ltd., an unaffiliated third party, in the amount of $35.0 million. Though

the loan was scheduled to mature on December 31, 2018, the lenders had the option to request full repayment after twelve months from the initial drawing. The loan also provided for an additional $10.0 million interest-bearing "discount premium", which was also payable at maturity, but would be permanently waived and cancelled in the event the lenders exercised their option for full repayment within twelve months from drawing. Moreover, the loan, which, until its full repayment, ranked senior to the loan agreement with DSI, was secured by first priority mortgages over our vessels, bore interest at the rate of 6% per annum for the first twelve months, scaled to 9% per annum for the next three months, and further scaled to 12% per annum for the remaining three months until maturity. Finally, the new loan facility included financial and other covenants which stipulated the repayment of the facility with proceeds from the sale of our assets, proceeds from the issuance of new equity and proceeds from the exercise of existing warrants to purchase Series B Convertible Preferred Shares and prohibited the payment of dividends.

During 2017, we repaid $26.5 million of our outstanding loan balance with Addiewell, and in 2018, we repaid the entire outstanding loan balance and the entire discount premium using warrant proceeds and vessels' sales proceeds. Thus, as of December 31, 2018, and the date of this report, we have no outstanding loan with Addiewell.

As of December 31, 2018 and the date of this annual report, we have not used any derivative instruments for hedging purposes or other purposes.

Capital Expenditures

Our future capital expenditures relate to the purchase of containerships and vessel upgrades.

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

C. Research and Development, Patents and Licenses

From time to time, we incur expenditures relating to inspections for acquiring new vessels that meet our standards. Such expenditures are capitalized to vessel's cost upon such vessel's acquisition or expensed, if the vessel is not acquired, however, historically, such expenses were not material.

D. Trend Information

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

With some exceptions, time charter rates for all containership sizes increased steadily from 2002 into 2005, in some cases rising by as much as 50.0%, as charter markets experienced significant growth. Demand for vessels was largely spurred on by growth in the volume of exports from China. In 2006, time charter rates weakened due to supply rising faster than demand and also market perception. This trend continued in 2007 and 2008, and in 2009 rates fell even further due to rising supply and very weak demand. With the recovery in demand since 2009 charter rates across most sizes have improved from the lows of 2009, although in a historical context they still remain low. As such, we cannot assure investors that we will be able to fix our vessels, upon expiration of their current charters, at average rates higher than or similar to those achieved in previous years.

E. Off-balance Sheet Arrangements

As of the date of this annual report, we do not have any off-balance sheet arrangements.

F. Tabular Disclosure of Contractual Obligations

The following table presents our contractual obligations as of December 31, 2018.

Contractual Obligations	**Payments due by period**				
	Total Amount	**Less than 1 year**	**2-3 years**	**4-5 years**	**More than 5 years**
Broker Services Agreement (1)	$ 420	$ 420	$ -	$ -	$
Total	$ 420	$ 420	$ -	$ -	$ -

(1) Our agreement with Steamship Shipbroking Enterprises Inc., dated April 2, 2018, expires on March 31, 2019. Please see "Item 6. Directors, Senior Management and Employees - B. Compensation" and "Item 7. Major Shareholders and Related Party Transactions – B. Related Party Transactions" included in our Form 20-F filed with the SEC on March 18, 2019 for more details.

G. Safe Harbor

See the section entitled "Forward-looking Statements" at the beginning of this annual report.

Directors, Senior Management and Employees

A. Directors and Senior Management

Set forth below are the names, ages and positions of our directors and executive officers. Our board of directors is elected annually on a staggered basis, and each director elected holds office for a three-year term and until his or her successor is elected and has qualified, except in the event of such director's death, resignation, removal or the earlier termination of his or her term of office. Officers are appointed from time to time by our board of directors and hold office until a successor is elected.

All of our executive officers are also executive officers of Diana Shipping Inc. (NYSE: DSX).

Name	**Age**	**Position**
Symeon Palios	77	Class III Director, Chief Executive Officer and Chairman of the Board
Anastasios Margaronis	63	Class II Director and President
Ioannis Zafirakis	47	Class I Director, Chief Strategy Officer and Secretary

Name	Age	Position
Andreas Michalopoulos	47	Chief Financial Officer and Treasurer
Semiramis Paliou	44	Chief Operating Officer
Giannakis (John) Evangelou	74	Class III Director
Antonios Karavias	77	Class I Director
Nikolaos Petmezas	70	Class III Director
Reidar Brekke	58	Class II Director

The term of the Class I directors expires in 2020, the term of the Class II directors expires in 2021 and the term of the Class III directors expires in 2022.

The business address of each officer and director is the address of our principal executive offices, which are located at Pendelis 18, 175 64 Palaio Faliro, Athens, Greece.

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

Symeon Palios has served as our Chief Executive Officer and Chairman of the Board since January 13, 2010 and has served as Chief Executive Officer and Chairman of the Board of Diana Shipping Inc. since February 21, 2005 and as a Director of that company since March 9, 1999. Mr. Palios also serves currently as the President of Diana Shipping Services S.A. Prior to November 12, 2004, Mr. Palios was the Managing Director of Diana Shipping Agencies S.A. Since 1972, when he formed Diana Shipping Agencies S.A., Mr. Palios has had overall responsibility for its activities. Mr. Palios has experience in the shipping industry since 1969 and expertise in technical and operational issues. He has served as an ensign in the Greek Navy for the inspection of passenger boats on behalf of Ministry of Merchant Marine and is qualified as a naval architect and engineer. Mr. Palios is a member of various leading classification societies worldwide and he is a member of the board of directors of the United Kingdom Freight Demurrage and Defense Association Limited. Since October 7, 2015, Mr. Palios has served as President of the Association "Friends of Biomedical Research Foundation, Academy of Athens". He holds a bachelor's degree in Marine Engineering from Durham University.

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

Ioannis Zafirakis serves as our Director, Chief Strategy Officer and Secretary since November 2018. Under his capacity as Chief Strategy Officer, Mr. Zafirakis is responsible for establishing and reviewing key strategic priorities and translating them into a comprehensive strategic plan, monitoring the execution of the plan, facilitating and driving key strategic initiatives through inception phase. He is also responsible for communicating the Company's strategy and overall goals internally and externally. He also serves as Director, Chief Strategy Officer and Secretary of Diana Shipping Inc. In addition, he is the Chief Strategy Officer of Diana Shipping Services S.A., where he also serves as Director and Treasurer. Since February 2005, Mr. Zafirakis served for the same companies in various positions such as Chief Operating Officer, Executive Vice-President and Vice-President. From June 1997 to February 2005 Mr. Zafirakis was employed by Diana Shipping Agencies S.A. where he held a number of positions in its finance and accounting department. From January 2010 to November 2018 Mr. Zafirakis served as Director, Chief Operating Officer and Secretary of Performance Shipping Inc. Mr. Zafirakis is a member of the Business Advisory Committee of the Shipping Programs of ALBA Graduate Business School at The American College of Greece. He holds a bachelor's degree in Business Studies from City University Business School in London and a master's degree in International Transport from the University of Wales in Cardiff.

Andreas Michalopoulos has served as our Chief Financial Officer and Treasurer since January 13, 2010. He has served in these positions with Diana Shipping Inc. since March 8, 2006, and he also serves as a Director of Diana Shipping Inc. since August 1, 2018. He started his career in 1993 when he joined Merrill Lynch Private Banking in Paris. In 1995, he became an International Corporate Auditor with Nestle SA based in Vevey, Switzerland and moved in 1998 to the position of Trade Marketing and Merchandising Manager. From 2000 to 2002, he worked for McKinsey and Company in Paris, France as an Associate Generalist Consultant before joining a major Greek Pharmaceutical Group with U.S. R&D activity as a Vice President of International Business Development and Member of the Executive Committee in 2002 where he remained until 2005. From 2005 to 2006, he joined Diana Shipping Agencies S.A. as a Project Manager. Mr. Michalopoulos graduated from Paris IX Dauphine University with Honors in 1993 obtaining an MSc in Economics and a master's degree in Management Sciences specialized in Finance. In 1995, he also obtained a master's degree in Business Administration from Imperial College, University of London. Mr. Andreas Michalopoulos is married to the youngest daughter of Mr. Symeon Palios, the Company's Chief Executive Officer and Chairman.

Semiramis Paliou has served as Chief Operating Officer of Performance Shipping Inc. since November 2018. Mrs. Paliou has 20 years of experience in shipping operations, technical management and crewing. Mrs. Paliou began her career at Lloyd's Register of Shipping from 1996 to 1998 as a trainee ship surveyor. She was then employed by Diana Shipping Agencies S.A. From 2007 to 2010 she was employed as a Director and President of Alpha Sigma Shipping Corp. From February 2010 to November 2015 she was the Head of the Operations, Technical and Crew department of Diana Shipping Services S.A. From November 2015 to October 2016 she served as Vice President of the same company. Since March 2015, Mrs. Semiramis Paliou serves as a Director of Diana Shipping Inc. From November 2016 to the end of July 2018, she served as Managing Director and Head of the Technical, Operations, Crew and Supply department of Unitized Ocean Transport Limited. As of August 2018, she is the Chief Operating Officer of Diana Shipping Inc. and Diana Shipping Services S.A. Mrs. Paliou obtained her BSc in Mechanical Engineering from Imperial College, London and her MSc in Naval Architecture from University College, London. In 2016 she completed a course in Finance for Senior Executives at Harvard Business School. She is the daughter of Symeon Palios, our Chief Executive Officer and Chairman, and is a member of the Greek committee of Det Norske Veritas - Germanischer Lloyd, a member of the Greek committee of Nippon Kaiji Kyokai and a member of the Greek committee of Bureau Veritas. Since March 2018, Mrs. Paliou is on the Board of Directors of the Hellenic Marine Environment Protection Association.

Giannakis (John) Evangelou has served as an independent Director and as the Chairman of our Audit Committee since February 8, 2011. Mr. Evangelou is also a member of the Board of Directors of Baker Tilly South East Europe, a professional services company. Mr. Evangelou retired from Ernst & Young (Hellas), which he joined as a partner in 1998, on June 30, 2010. During his 12 years at Ernst & Young, he acted as Transaction Support leader for Greece and a number of countries in Southeast Europe including Turkey, Bulgaria, Romania and Serbia. In addition to his normal duties as a partner, Mr. Evangelou held the position of Quality and Risk Management leader for Transaction Advisory Services responsible for a sub-area comprising 18 countries spanning from Poland and the Baltic in the North to Cyprus and Malta in the South. From 1986 through 1997, Mr. Evangelou held the position of Group Finance director at Manley Hopkins Group, a Marine Services Group of Companies. From 1991 through 1997, Mr. Evangelou served as Chief Accounting Officer for Global Ocean Carriers, a shipping company that was listed on a U.S. stock exchange during that time. From 1996 to 1998, Mr. Evangelou was an independent consultant and a member of the team that prepared Royal Olympic Cruises for its listing on Nasdaq. From 1974 through 1986, Mr. Evangelou was a partner of Moore Stephens in Greece. Additionally, Mr. Evangelou is a Fellow of the Institute of Chartered Accountants in England and Wales, a member of The Institute of Certified Public Accountants of Cyprus and a member of the Institute of Certified Accountants—Auditors of Greece.

Antonios Karavias has served as an independent Director and as the Chairman of our Compensation Committee and member of our Audit Committee since the completion of the private offering. Since 2007 Mr. Karavias has served as an Independent Advisor to the Management of Société Générale Bank and Trust and Marfin Egnatia Bank. Previously, Mr. Karavias was with Alpha Bank from 1999 to 2006 as a Deputy Manager of Private Banking and with Merrill Lynch as a Vice President from 1980 to 1999. He holds a bachelor's degree in Economics from Mississippi State University and a master's degree in Economics from Pace University.

Nikolaos Petmezas has served as an independent Director and as a member of our Compensation Committee since the completion of our private offering in 2010. From 2001 until mid-2015, Mr. Petmezas served as the Chief Executive Officer of Maersk-Svitzer-Wijsmuller B.V. Hellenic Office and, prior to its acquisition by Maersk, as a Partner and as Chief Executive Officer of Wijsmuller Shipping Company B.V. He has also served since 1989 as the Chief Executive Officer of N.G. Petmezas Shipping and Trading, S.A., and since 1984 as the Chief Executive Officer of Shipcare Technical Services Shipping Co. LTD. Since 1995, Mr. Petmezas has served as the Managing Director of Kongsberg Gruppen A.S. (Hellenic Office) and, from 1984 to 1995, as the Managing Director of Kongsberg Vaapenfabrik A.S. (Hellenic Branch Office). Mr. Petmezas served on the Board of Directors of Neorion Shipyards, in Syros, Greece from 1989 to 1992. Mr. Petmezas began his career in shipping in 1977, holding directorship positions at Austin & Pickersgill Ltd. Shipyard and British Shipbuilders Corporation until 1983. Mr. Petmezas has been a member of the Advisory Committee of Westinghouse Electric and Northrop Grumman since 1983 and a Honorary Consul under the General Consulate of Sri Lanka in Greece since 1995. Mr. Petmezas holds degrees in Law and in Political Sciences and Economics from the Aristotle University of Thessaloniki and an LL.M. in Shipping Law from London University.

Reidar Brekke has served as an independent Director since June 1, 2010. Mr. Brekke has been a principal, advisor and deal-maker in the international energy, container logistics and transportation sector for the last 20+ years. Mr. Brekke is currently Senior Partner of Brightstar Capital Partners, a private equity firm focused on investing in closely held, middle-market companies. From 2012 – Sept 2018, he was President of Intermodal Holdings LP, a company investing in intermodal assets. In 2008he started his own firm, Energy Capital Solutions Inc., (New York and Florida) providing strategic and financial advisory services to international shipping, logistics and energy related companies. From 2003-2008 he served as Manager of Poten Capital Services LLC, a registered broker-dealer specializing in the maritime sector. Prior to 2003, Mr. Brekke was C.F.O., then President and C.O.O., of SynchroNet Marine, a logistics service provider to the global container transportation industry. From 1994 to 2000, he held several senior positions with American Marine Advisors, including Fund Manager of American Shipping Fund I LLC, and C.F.O. of its broker dealer subsidiary. Prior to this, Mr. Brekke was an Advisor for the Norwegian Trade Commission in New York and Oslo, Norway, and a financial

advisor in Norway. Mr. Brekke graduated from the New Mexico Military Institute in 1986 and in 1990 he obtained a MBA from the University of Nevada, Reno. He has been an adjunct professor at Columbia University's School of International and Public Affairs – Center for Energy, Marine Transportation and Public Policy, and is currently on the board of directors of Scorpio Tankers Inc. (NYSE: STNG) and two privately-held companies involved in container leasing and container rentals, sales and modifications.

B. Compensation

Since June 1, 2010, the members of our senior management have been compensated through their affiliation with Steamship Shipbroking Enterprises Inc. (or Steamship), a related party controlled by our Chief Executive Officer and Chairman of the Board Mr. Symeon Palios, as described under "Item 7. Major Shareholders and Related Party Transactions – B. Related Party Transactions" included in our Form 20-F filed with the SEC on March 18, 2019. Pursuant to the respective Broker Services Agreements, fees and bonuses payable to Steamship for brokerage services provided to us in 2018, 2017 and 2016, amounted to $2.1 million, $2.1 million and $2.0 million, respectively.

In 2018, our Board of Directors approved an award of restricted common stock, which was proposed by our Compensation Committee, with an aggregate value of $5.0 million to our executive officers and non-executive directors, as a one-time special award, in recognition of the successful refinancing of the RBS loan in 2017, which resulted in a significant gain of $42.2 million, net of expenses. The number of restricted common shares was determined in February 2019, at which time an aggregate of 5,747,786 restricted common shares were issued, of which 4,915,863 shares were issued to our executive officers. One third of these shares vested on the issuance date and the remainder will vest ratably over two years from the issuance date. In 2017, our Board of Directors approved an award of restricted common stock with an aggregate value of $380,000 to our executive officers and non-executive directors. The number of restricted common shares was determined in February 2018, at which time an aggregate of 161,700 restricted common shares were issued, of which 138,296 shares were issued to our executive officers. One third of these shares vested on the issuance date and the remainder will vest ratably over two years from the issuance date. In 2016, our executive officers also received a number of restricted stock awards, which however were adjusted to almost zero as a result of the reverse stock splits effected in 2017 and 2016.

Our non-executive directors receive annual compensation in the aggregate amount of $40,000 plus reimbursement of their out-of-pocket expenses incurred while attending any meeting of the board of directors or any board committee. In addition, a committee chairman receives an additional $20,000 annually, and other committee members receive an additional $10,000 annually. As noted above, in 2018, our Board of Directors approved an award of restricted common stock with an aggregate value of $5.0 million to our executive officers and non-executive directors. The number of restricted common shares was determined in February 2019, at which time an aggregate of 5,747,786 restricted common shares were issued, of which 831,923 shares were issued to our non-executive directors. Also, in 2017, our Board of Directors approved an award of restricted common stock with an aggregate value of $380,000 to our executive officers and non-executive directors. The number of restricted common shares was determined in February 2018, at which time an aggregate of 161,700 restricted common shares were issued, of which 23,404 shares were issued to our non-executive directors. One third of these shares vested on the issuance date and the remainder will vest ratably over two years from the issuance date. In 2016 our non-executive directors also received a number of restricted stock awards, which however were adjusted to zero as a result of the reverse stock splits effected in 2017 and 2016. We do not have a retirement plan for our officers or directors. For 2018, 2017, and 2016, fees, bonuses and expenses to non-executive directors amounted to $0.3 million, $0.3 million and $0.3 million, respectively.

In 2018, 2017, and 2016, compensation costs relating to the aggregate amount of restricted stock awards amounted to $1.6 million, $1.2 million and $1.1 million, respectively.

2015 Equity Incentive Plan

On May 5, 2015, we adopted an equity incentive plan, which we refer to as the 2015 Equity Incentive Plan, as amended from time to time, under which directors, officers, employees, consultants and service providers of us and our subsidiaries and affiliates would be eligible to receive options to acquire common stock, stock appreciation rights, restricted stock, restricted stock units and unrestricted common stock. The plan will expire ten years from its date of adoption unless terminated earlier by our board of directors. On February 9, 2018, our board of directors adopted Amendment No 1 to the 2015 Equity Incentive Plan, solely to increase the aggregate number of common shares issuable under the plan to 550,000 shares. As of the date of this annual report, we have issued 161,700 restricted shares under our 2015 Equity Incentive Plan, as amended, to our executive officers and non-executive directors and 388,300 remain available for issuance.

Upon adoption of the 2015 Equity Incentive Plan, we terminated the 2012 Amended and Restated Equity Incentive Plan, adopted on February 21, 2012, which included substantially the same terms and provisions as the 2015 Equity Incentive Plan. We refer to this prior plan as the 2012 Equity Incentive Plan.

The 2015 Equity Incentive Plan is administered by our compensation committee, or such other committee of our board of directors as may be designated by the board to administer the plan.

Under the terms of the 2015 Equity Incentive Plan, stock options and stock appreciation rights granted under the plan will have an exercise price per common share equal to the market value of a common share on the date of grant, unless otherwise specifically provided in an award agreement, but in no event will the exercise price be less than the greater of (i) the market value of a common share on the date of grant and (ii) the par value of one share of common stock. Options and stock appreciation rights will be exercisable at times and under conditions as determined by the plan administrator, but in no event will they be exercisable later than ten years from the date of grant.

The plan administrator may grant shares of restricted stock and awards of restricted stock units subject to vesting and forfeiture provisions and other terms and conditions as determined by the plan administrator in accordance with the terms of the plan. Following the vesting of a restricted stock unit, the award recipient will be paid an amount equal to the number of restricted stock units that then vest multiplied by the 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 the plan and may amend outstanding awards issued pursuant to the plan, provided that no such amendment 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 such grantee. Shareholder approval of plan amendments will be required under certain circumstances. The plan administrator may cancel any award and amend any outstanding award agreement except no such amendment shall be made without shareholder approval if such approval is necessary to comply with any tax or regulatory requirement applicable to the outstanding award.

C. Board Practices

Actions by our Board of Directors

Our amended and restated bylaws provide that vessel acquisitions and disposals from or to a related party and long term time charter employment with any charterer that is a related party will require the unanimous approval of the independent members of our board of directors and that all other material related party transactions shall be subject to the approval of a majority of the independent members of the board of directors.

Committees of our Board of Directors

We have established an Audit Committee, comprised of two members of our board of directors, which is responsible for reviewing our accounting controls, recommending to the board of directors the engagement of our independent auditors, and pre-approving audit and audit-related services and fees. Each member has been determined by our board of directors to be "independent" under Nasdaq rules and the rules and regulations of the SEC. As directed by its written charter, the Audit Committee is responsible for reviewing all related party transactions for potential conflicts of interest and all related party transactions are subject to the approval of the Audit Committee. Mr. John Evangelou has served as the Chairman of the Audit Committee since February 8, 2011. We believe that Mr. Evangelou qualifies as an Audit Committee financial expert as such term is defined under SEC rules. Mr. Antonios Karavias serves as a member of our Audit Committee.

In addition, we have established a Compensation Committee, comprised of two independent directors, which, as directed by its written charter, is responsible for recommending to the board of directors our senior executive officers' compensation and benefits. Mr. Antonios Karavias serves as the Chairman of the Compensation Committee and Mr. Nikolaos Petmezas serves as a member of our Compensation Committee.

We have also established an Executive Committee comprised of three directors, Mr. Symeon Palios, our Chief Executive Officer and Chairman of the Board, Mr. Anastasios Margaronis, our President, and Mr. Ioannis Zafirakis, our Chief Strategy Officer and Secretary. The Executive Committee is responsible for the overall management of our business.

We also maintain directors' and officers' insurance, pursuant to which we provide insurance coverage against certain liabilities to which our directors and officers may be subject, including liability incurred under U.S. securities law.

D. Employees

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

The following table presents the number of shoreside personnel employed by our manager and the number of seafaring personnel employed by our vessel-owning subsidiaries as of December 31, 2018, 2017 and 2016:

	As of December 31, 2018	**As of December 31, 2017**	**As of December 31, 2016**
Shoreside	37	36	39
Seafaring	100	220	178
Total	**137**	**256**	**217**

E. Share Ownership

With respect to the total amount of common stock owned by our officers and directors individually and as a group, see “Item 7. Major Shareholders and Related Party Transactions – A. Major Shareholders” included in our Form 20-F filed with the SEC on March 18, 2019.

PERFORMANCE SHIPPING INC.

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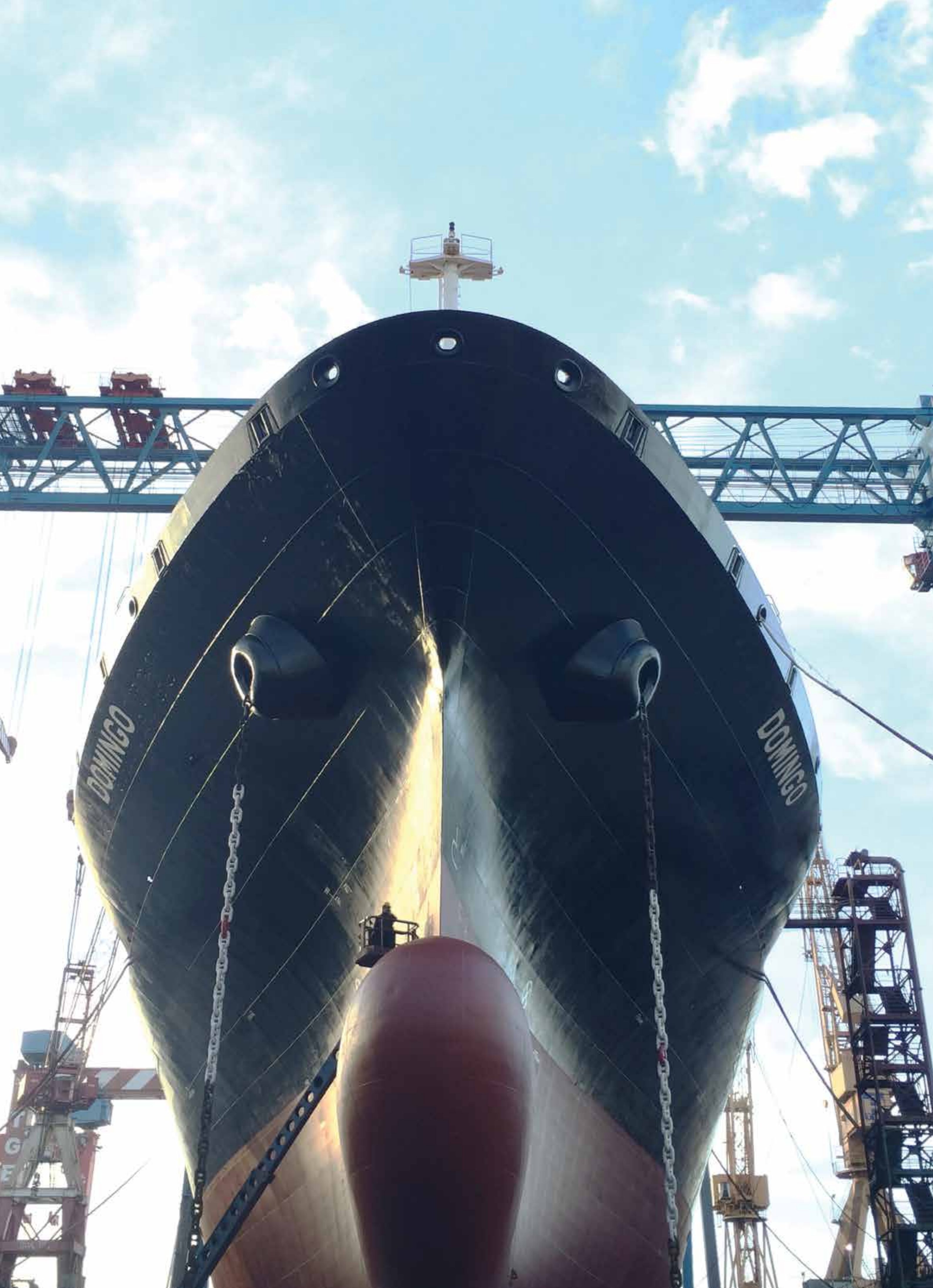
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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Performance Shipping Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Performance Shipping Inc. (the Company) as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income/loss, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2018, 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, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, 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 (Hellas) Certified Auditors-Accountants S.A.

We have served as the Company's auditor since 2010.

Athens, Greece

March 18, 2019

PERFORMANCE SHIPPING INC.

Consolidated Balance Sheets as at December 31, 2018 and 2017

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

ASSETS	2018	2017
CURRENT ASSETS:		
Cash and cash equivalents	$ 10,493	$ 6,444
Accounts receivable, trade	110	428
Inventories	634	1,667
Prepaid expenses and other assets	743	1,083
Vessels held for sale (Note 4)	-	18,378
Total current assets	11,980	28,000
FIXED ASSETS:		
Vessels, net (Note 4)	85,870	201,308
Property and equipment, net	998	911
Total fixed assets	86,868	202,219
Deferred charges, net	1,238	2,088
Total assets	$ 100,086	$ 232,307
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Unrelated party financing, net of unamortized deferred financing costs (Note 5)	$ -	$ 12,119
Related party financing, net of unamortized deferred financing costs (Note 3)	-	84,832
Accounts payable, trade and other	1,192	1,715
Due to related parties (Note 3)	4	65
Accrued liabilities	1,360	2,045
Deferred revenue	305	439
Total current liabilities	2,861	101,215
Other liabilities, non-current (Note 7)	1,649	320
Commitments and contingencies (Note 6)	-	-
STOCKHOLDERS' EQUITY:		
Preferred stock, $0.01 par value; 25,000,000 shares authorized, 350 and 389 issued and outstanding as at December 31, 2018 and 2017, respectively (Note 7)	-	-
Common stock, $0.01 par value; 500,000,000 shares authorized; 14,463,231 and 4,051,266 issued and outstanding as at December 31, 2018 and 2017, respectively (Note 7)	143	40
Additional paid-in capital (Note 7)	428,527	410,982
Other comprehensive income	57	6
Accumulated deficit	(333,151)	(280,256)
Total stockholders' equity	95,576	130,772
Total liabilities and stockholders' equity	$ 100,086	$ 232,307

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

PERFORMANCE SHIPPING INC.

Consolidated Statements of Operations

For the years ended December 31, 2018, 2017 and 2016

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

	2018	2017	2016
REVENUES:			
Time charter revenues (Note 1)	$ 25,566	$ 23,806	$ 36,992
Prepaid charter revenue amortization	-	-	(3,798)
Time charter revenues, net	$ 25,566	$ 23,806	$ 33,194
EXPENSES:			
Voyage expenses	1,267	1,702	3,169
Vessel operating expenses	15,453	22,732	30,213
Depreciation and amortization of deferred charges (Note 4)	4,945	8,147	12,740
General and administrative expenses (Notes 3 and 7)	8,030	8,366	7,241
Impairment losses (Note 4)	20,654	8,363	118,861
Loss / (gain) on vessels' sale (Note 4)	16,700	(945)	2,899
Foreign currency (gains) / losses	(44)	51	111
Operating loss	$ (41,439)	$ (24,610)	$ (142,040)
OTHER INCOME/(EXPENSES)			
Interest and finance costs (Notes 3, 5 and 8)	$ (11,520)	$ (13,843)	$ (7,094)
Interest income	64	87	120
Gain from bank debt write off (Note 3)	-	42,185	-
Total other income /(expenses), net	$ (11,456)	$ 28,429	$ (6,974)
Net income/ (loss)	$ (52,895)	$ 3,819	$ (149,014)
Earnings / (Loss) per common share, basic (Note 9)	$ (5.60)	$ 8.94	$ (100,821.38)
Earnings / (Loss) per common share, diluted (Note 9)	$ (5.60)	$ 8.94	$ (100,821.38)
Weighted average number of common shares, basic (Note 9)	9,450,555	427,333	1,478
Weighted average number of common shares, diluted (Note 9)	9,450,555	427,361	1,478

PERFORMANCE SHIPPING INC.

Consolidated Statements of Comprehensive Income / (Loss)

For the years ended December 31, 2018, 2017 and 2016

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

	2018	2017	2016
Net income / (loss)	$ (52,895)	$ 3,819	$ (149,014)
Other comprehensive income / (loss) (Actuarial gain / (loss))	51	26	(25)
Comprehensive income / (loss)	$ (52,844)	$ 3,845	$ (149,039)

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

PERFORMANCE SHIPPING INC.

Consolidated Statements of Stockholders' Equity

For the years ended December 31, 2018, 2017 and 2016

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

	Common Stock		Preferred Stock					
	# of Shares	Par Value	# of Shares	Par Value	Additional Paid-in Capital	Other Comprehensive Income / (Loss)	Accumulated Deficit	Total
Balance, December 31, 2015	1,519	$ -	-	$ -	$ 373,856	$ 5	$ (134,687)	$ 239,174
- Net loss	-	-	-	-	-	-	(149,014)	(149,014)
- Issuance of restricted stock and compensation cost on restricted stock (Note 7)	14	-	-	-	1,119	-	-	1,119
- Actuarial loss	-	-	-	-	-	(25)	-	(25)
- Dividends declared and paid (at $123.48, $123.48, $0.00 and $0.00 per share) (Note 9)	-	-	-	-	-	-	(374)	(374)
Balance, December 31, 2016	1,533	$ -	-	$ -	$ 374,975	$ (20)	$ (284,075)	$ 90,880
- Net income	-	-	-	-	-	-	3,819	3,819
- Issuance of Series B preferred stock, net of expenses (Note 7)	-	-	32,500	-	31,989	-	-	31,989
- Conversion of Series B preferred stock to common stock	4,049,733	40	(32,211)	-	(40)	-	-	-
- Issuance of Series C preferred stock (Notes 3 and 7)	-	-	100	-	3,000	-	-	3,000
- Compensation cost on restricted stock (Note 7)	-	-	-	-	1,058	-	-	1,058
- Actuarial gain	-	-	-	-	-	26	-	26
Balance, December 31, 2017	4,051,266	$ 40	389	$ -	$ 410,982	$ 6	$ (280,256)	$ 130,772
- Net loss	-	-	-	-	-	-	(52,895)	(52,895)
- Issuance of Series B preferred stock, net of expenses (Note 7)	-	-	17,490	-	17,413	-	-	17,413
- Conversion of Series B preferred stock to common stock (Note 7)	10,250,265	102	(17,529)	-	(102)	-	-	-
- Issuance of restricted stock and compensation cost on restricted stock (Note 7)	161,700	1	-	-	234	-	-	235
- Actuarial gain	-	-	-	-	-	51	-	51
Balance, December 31, 2018	14,463,231	$ 143	350	$ -	$ 428,527	$ 57	$ (333,151)	$ 95,576

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

PERFORMANCE SHIPPING INC.

Consolidated Statements of Cash Flows

For the years ended December 31, 2018, 2017 and 2016

(Expressed in thousands of U.S. Dollars)

	2018	2017	2016
Cash Flows used in Operating Activities:			
Net income / (loss)	$ (52,895)	$ 3,819	$ (149,014)
Adjustments to reconcile net income / (loss) to net cash used in operating activities:			
Depreciation and amortization of deferred charges (Note 4)	4,945	8,147	12,740
Amortization of deferred financing costs (Note 8)	176	322	427
Amortization of discount premium (Notes 3 and 5)	8,990	6,010	-
Amortization of prepaid charter revenue	-	-	3,798
Impairment losses (Note 4)	20,654	8,363	118,861
Loss / (gain) on vessels' sale (Note 4)	16,700	(945)	2,899
Compensation cost on restricted stock awards (Note 7)	1,587	1,171	1,119
Gain from bank debt write off (Note 3)	-	(42,185)	-
Actuarial gain / (loss)	51	26	(25)
(Increase) / Decrease in:			
Accounts receivable, trade	318	43	282
Inventories	1,033	914	1,123
Prepaid expenses and other assets	(32)	639	(1,617)
Increase / (Decrease) in:			
Accounts payable, trade and other	(455)	175	(1,236)
Due to related parties	(61)	(40)	-
Accrued liabilities	(685)	995	(291)
Deferred revenue	(134)	331	(539)
Other liabilities, non current	(22)	36	50
Drydock costs	(500)	(474)	(540)
Net Cash used in Operating Activities	$ (330)	$ (12,653)	$ (11,963)
Cash Flows provided by Investing Activities:			
Vessel improvements	-	-	(194)
Proceeds from sale of vessels, net of expenses (Note 4)	92,905	5,895	10,618
Property and equipment additions	(126)	(15)	(29)
Insurance settlements	372	785	179
Net Cash provided by Investing Activities	$ 93,151	$ 6,665	$ 10,574
Cash Flows used in Financing Activities:			
Proceeds from a related party loan (Note 3)	-	40,000	-
Proceeds from an unrelated party loan (Note 5)	-	35,000	-
Repayments of a related party loan (Note 3)	(87,617)	-	-
Repayments of unrelated parties loans (Note 5)	(18,500)	(111,500)	(19,159)
Issuance of preferred stock, net of expenses (Note 7)	17,413	31,989	-
Payments of financing costs	(68)	(373)	(150)
Cash dividends (Note 9)	-	-	(374)
Net Cash used in Financing Activities	$ (88,772)	$ (4,884)	$ (19,683)
Net increase / (decrease) in cash, cash equivalents and restricted cash	$ 4,049	$ (10,872)	$ (21,072)
Cash, cash equivalents and restricted cash at beginning of the year	$ 6,444	$ 17,316	$ 38,388
Cash, cash equivalents and restricted cash at end of the year	$ 10,493	$ 6,444	$ 17,316
RECONCILIATION OF CASH, CASH EQUIVALENTS AND RESTRICTED CASH			
Cash and cash equivalents	$ 10,493	$ 6,444	$ 8,316
Restricted Cash	-	-	9,000
Cash, cash equivalents and restricted cash	$ 10,493	$ 6,444	$ 17,316
SUPPLEMENTAL CASH FLOW INFORMATION			
Related party loan reduction in exchange for preferred shares (Notes 3 and 7)	$ -	$ 3,000	$ -
Interest payments, net of amounts capitalized	$ 2,355	$ 7,724	$ 6,626

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

PERFORMANCE SHIPPING INC.
Notes to Consolidated Financial Statements
December 31, 2018

(Expressed in thousands of US Dollars – except for share and per share data, unless otherwise stated)

1. General Information

The accompanying consolidated financial statements include the accounts of Performance Shipping Inc. (or "PS"), (formerly Diana Containerships Inc., Note 12) and its wholly-owned subsidiaries (collectively, the "Company"). Performance Shipping Inc. was incorporated on January 7, 2010 under the laws of the Republic of Marshall Islands for the purpose of engaging in any lawful act or activity under the Marshall Islands Business Corporations Act.

At December 31, 2018, the Company reported a working capital surplus of $9,119. Since 2017, the Company's management has implemented a number of actions to manage the Company's working capital requirements. During 2018, the Company has managed to fully repay its entire outstanding debt, by making use of vessels' sales proceeds and equity proceeds (Notes 4 and 7) and since then, the Company's fleet comprises of four unencumbered vessels with zero debt outstanding. The Company expects that it will fund its operations either with cash on hand, cash generated from operations, bank debt and equity offerings, or a combination thereof, in the twelve-month period ending one year after the financial statements' issuance and accordingly, there is no substantial doubt about the Company's ability to continue as a going concern.

The Company is engaged in the seaborne transportation industry through the ownership of containerships and operates its fleet through Unitized Ocean Transport Limited, a wholly-owned subsidiary, while Wilhelmsen Ship Management LTD, an unaffiliated third party, provided management services to the laid-up vessels of the Company's fleet until March 2018, for a fixed monthly fee for each vessel. The fees payable to Wilhelmsen Ship Management LTD, amounted to $62, $697 and $604 for the years ended December 31, 2018, 2017 and 2016, respectively, and are included in Vessel operating expenses in the accompanying consolidated statements of operations. As at December 31, 2018, the Company was the sole owner of all outstanding shares of the following subsidiaries:

a/a	Company	Place of Incorporation	Vessel	Flag	TEU	Date built	Date acquired	Date sold
		Vessel Owning Subsidiaries - Panamax Vessels						
1	Rongerik Shipping Company Inc.	Marshall Islands	Domingo	Marshall Islands	3,739	Mar-01	Feb-12	-
2	Dud Shipping Company Inc.	Marshall Islands	Pamina	Marshall Islands	5,042	May-05	Nov-14	-
		Vessel Owning Subsidiaries - Post-Panamax Vessels						
3	Oruk Shipping Company Inc.	Marshall Islands	Pucon	Marshall Islands	6,541	Aug-06	Sep-13	-
4	Meck Shipping Company Inc.	Marshall Islands	Rotterdam	Marshall Islands	6,494	Jul-08	Sep-15	-
		Vessel Owning Subsidiaries - Sold Vessels						
5	Kapa Shipping Company Inc.	Marshall Islands	Angeles	Marshall Islands	4,923	Dec-06	Apr-15	Nov-16
6	Utirik Shipping Company Inc. (Note 4)	Marshall Islands	Doukato	Marshall Islands	3,739	Feb-02	Feb-12	Jun-17
7	Mago Shipping Company Inc. (Note 4)	Marshall Islands	New Jersey	Marshall Islands	4,923	Nov-06	Apr-15	Mar-18
8	Delap Shipping Company Inc. (Note 4)	Marshall Islands	March	Marshall Islands	5,576	May-04	Sep-14	Mar-18
9	Jabor Shipping Company Inc. (Note 4)	Marshall Islands	Great	Marshall Islands	5,576	Apr-04	Oct-14	Mar-18
10	Likiep Shipping Company Inc. (Note 4)	Marshall Islands	Sagitta	Marshall Islands	3,426	Jun-10	Jun-10	Apr-18
11	Orangina Inc. (Note 4)	Marshall Islands	Centaurus	Marshall Islands	3,426	Jul-10	Jul-10	May-18
12	Eluk Shipping Company Inc. (Note 4)	Marshall Islands	Puelo	Marshall Islands	6,541	Nov-06	Aug-13	Jun-18
13	Langor Shipping Company Inc. (Note 4)	Marshall Islands	Hamburg	Marshall Islands	6,494	Mar-09	Nov-15	Jul-18
		Other Subsidiaries						
14	Unitized Ocean Transport Limited	Marshall Islands	Management company		-	-	-	
15	Container Carriers (USA) LLC	Delaware - USA	Company's US representative		-	-	-	

Unitized Ocean Transport Limited (the "Manager" or "UOT"), was established for the purpose of providing the Company and its vessels with management and administrative services, effective March 1, 2013. The fees payable to UOT pursuant to the respective management and administrative agreements are eliminated in consolidation as intercompany transactions.

Container Carriers (USA) LLC ("Container Carriers"), was established in July 2014 in the State of Delaware, USA, to act as the Company's authorized representative in the United States.

During 2018, 2017 and 2016, charterers that accounted for more than 10% of the Company's hire revenues were as follows:

Charterer	2018	2017	2016
A	29 %	-	-
B	-	18 %	-
C	-	-	22 %
D	-	-	34 %
E	32 %	24 %	-
F	19 %	35 %	11 %

2. Recent Accounting Pronouncements and Significant Accounting Policies

Recent Accounting Pronouncements Adopted

On January 1, 2018, the Company adopted ASU No. 2016-13 "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" which amends guidance on reporting credit losses for assets held at amortized cost basis and available for sale debt securities. On the same date, the Company adopted ASU No. 2018-19, "Codification Improvements to Topic 326, Financial Instruments—Credit Losses". The amendments in this update clarify that receivables arising from operating leases are not within the scope of Subtopic 326-20. Instead, impairment of receivables arising from operating leases should be accounted for in accordance with Topic 842, Leases. The adoption of ASU No. 2016-13 and ASU No. 2018-19 did not have any effect in the Company's financial statements and disclosures.

On January 1, 2018, the Company adopted ASU No. 2016-15- Statement of Cash Flows Classification of Certain Cash Receipts and Cash Payments and ASU No. 2016-18—Statement of Cash Flows – Restricted Cash. The adoption of ASU No. 2016-15- Statement of Cash Flows Classification of Certain Cash Receipts and Cash Payments did not result in any changes in the classification of cash receipts and cash payments. The adoption of ASU No. 2016-18—Statement of Cash Flows – Restricted Cash, changed the presentation of restricted cash in cash flow, where amounts generally described as restricted cash and restricted cash equivalents are included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows.

On January 1, 2018, the Company adopted the ASU No. 2017-09, "Compensation — Stock Compensation (Topic 718), Scope of Modification Accounting", which clarifies and reduces both (1) diversity in practice and (2) cost and complexity when applying the guidance in Topic 718, Compensation—Stock Compensation, to a change to the terms or conditions of a share-based payment award. The adoption of ASU 2017-09 did not have a material effect in the Company's financial statements.

On January 1, 2018, the Company adopted the ASU 2014-09 (Topic 606 – Revenue from Contracts with Customers). The standard, as amended from time to time, outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers, supersedes most legacy revenue recognition guidance and expands disclosure requirements. The core principle of the guidance in Topic 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services by applying the following steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in each contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in each contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The Company elected to adopt ASC 606 by applying the modified retrospective method, to contracts that were in effect at January 1, 2018, the date of initial application. The Company has evaluated the impact of the standard after reviewing its contracts and has determined that all of its charter agreements contain a lease and were accounted for under ASC 842 as discussed below. Implementation of the new revenue standard did not have any impact on revenue recognition. The prior period comparative information has not been restated and continues to be reported under the accounting guidance in effect for those periods. There was no cumulative effect from the adoption of the new revenue standard to opening accumulated deficit as at January 1, 2018, and no impact on any of the line items reported in the Company's consolidated financial statements.

In the fourth quarter of 2018, the Company early adopted the ASU No. 2016-02, Leases (ASC 842), as amended from time to time, with the adoption reflected as of January 1, 2018, the beginning of the Company's annual period in accordance with ASC 250, by using the modified retrospective transition method. The Company elected to apply the additional optional transition method, under which an entity initially applies the new leases standard to existing leases at the beginning of the period of adoption through a cumulative effect adjustment to the opening accumulated deficit as of January 1, 2018. The prior period comparative information has not been restated and continues to be reported under the accounting guidance in effect for those periods (ASC 840), including the disclosure requirements. Also, the Company elected to apply a package of practical expedients which does not require the Company, as a lessor, to reassess: (1) whether any expired or existing contracts are or contain leases; (2) lease classification for any expired or existing leases; and (3) whether initial direct costs for any expired or existing leases would qualify for capitalization under ASC 842. As all existing contracts with charterers, at January 1, 2018, are operating leases and as the Company did not account for initial direct costs related to existing leases at January 1, 2018, there were no amounts to be recorded as a cumulative effect adjustment to opening accumulated deficit on January 1, 2018, and no impact on any of the line items reported in the Company's consolidated financial statements. The Company, as a lessor, also elected to apply the practical expedient which allowed it to account for the lease and the non-lease components of time charter agreements as one, as the criteria of the paragraphs ASC 842-10-15-42A through 42B are met. The Company did not have any material lease agreements in which it was a lessee at the adoption date.

Recent Accounting Pronouncements Not Yet Adopted

In August 2018, the FASB issued ASU No. 2018-13, "Fair Value Measurement (Topic 820)—Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement", which improves the effectiveness of fair value measurement disclosures. In particular, the amendments in this Update modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement, based on the concepts in FASB Concepts Statement, Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements, including the consideration of costs and benefits. The amendments in the Update apply to all entities that are required under existing GAAP, to make disclosures about recurring and non-recurring fair value measurements. ASU No. 2018-13 is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted upon issuance of this Update. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this Update and delay adoption of the additional disclosures until their effective date. The Company is currently assessing the impact that adopting this new accounting guidance will have on its consolidated financial statements and related disclosures.

In October 2018, the FASB issued ASU No. 2018-17, "Consolidation (Topic 810)—Targeted Improvements to Related Party Guidance for Variable Interest Entities". The Board is issuing this Update in response to stakeholders' observations that Topic 810, Consolidation, could be improved in the following areas: i) applying the variable interest entity (VIE) guidance to private companies under common control, ii) considering indirect interests held through related parties under common control for determining whether fees paid to decision makers and service providers are variable interests. The amendments in this Update improve the accounting for those areas, thereby improving general purpose financial reporting. ASU No. 2018-17 is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2019. All entities are required to apply the amendments in this Update retrospectively with a cumulative-effect adjustment to retained earnings at the beginning of the earliest period presented. Early adoption is permitted. The Company is currently assessing the impact that adopting this new accounting guidance will have on its consolidated financial statements and related disclosures.

Significant Accounting Policies

(a) Principles of Consolidation: The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles and include the accounts of Performance Shipping Inc. and its wholly-owned subsidiaries referred to in Note 1 above. All significant intercompany balances and transactions have been eliminated upon consolidation. Under Accounting Standards Codification ("ASC") 810 "Consolidation", the Company consolidates entities in which it has a controlling financial interest, by first considering if an entity meets the definition of a variable interest entity ("VIE") for which the Company is deemed to be the primary beneficiary under the VIE model, or if the Company controls an entity through a majority of voting interest based on the voting interest model. The Company evaluates financial instruments, service contracts, and other

arrangements to determine if any variable interests relating to an entity exist. The Company's evaluation did not result in an identification of variable interest entities as of December 31, 2018 and 2017.

(b) Use of Estimates: The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Other Comprehensive Income / (loss): The Company follows the provisions of Accounting Standard Codification (ASC) 220, "Comprehensive Income", which requires separate presentation of certain transactions, which are recorded directly as components of stockholders' equity. The Company presents Other Comprehensive Income / (Loss) in a separate statement according to ASU 2011-05.

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

(e) Cash and Cash Equivalents: The Company considers highly liquid investments such as time deposits, certificates of deposit and their equivalents with an original maturity of three months or less to be cash equivalents.

(f) Restricted Cash: Restricted cash, when applicable, includes minimum cash deposits required to be maintained under the Company's borrowing arrangements. The comparative amounts in the accompanying consolidated statements of cash flows have been reclassified due to the changes in the current presentation of restricted cash following the adoption as of January 1, 2018, of the ASU No. 2016-18 -Statement of Cash Flows - Restricted Cash.

(g) Accounts Receivable, Trade: The account includes receivables from charterers for hire, net of any provision for doubtful accounts. At each balance sheet date, all potentially uncollectible accounts are assessed individually for purposes of determining the appropriate provision for doubtful accounts. No provision for doubtful accounts has been made as of December 31, 2018 and 2017.

(h) Inventories: Inventories consist of lubricants and victualling which are stated at the lower of cost or net realizable value. Cost is determined by the first in, first out method. Net realizable value is defined as estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. Inventories may also consist of bunkers when the vessel operates under freight charter or when on the balance sheet date a vessel has been redelivered by her previous charterers and has not yet been delivered

to new charterers, or remains idle. Bunkers are also stated at the lower of cost or net realizable value and cost is determined by the first in, first out method.

(i) Prepaid/Deferred Charter Revenue: The Company records identified assets or liabilities associated with the acquisition of a vessel at their relative fair value, determined by reference to market data. The Company values any asset or liability arising from the market value of the time charters assumed when a vessel is acquired. The amount to be recorded as an asset or liability at the date of vessel delivery is based on the difference between the current fair market value of the charter and the net present value of future contractual cash flows. In determining the relative fair value, when the present value of the contractual cash flows of the time charter assumed is different than its current fair value, the difference, capped to the excess between the acquisition cost and the vessel's fair value on a charter free basis, is recorded as prepaid charter revenue or as deferred revenue, respectively. Such assets and liabilities, respectively, are amortized as a reduction of, or an increase in, revenue over the period of the time charter assumed.

(j) Vessel Cost: Vessels are stated at cost which consists of the contract price and costs incurred upon acquisition or delivery of a vessel from a shipyard. Subsequent expenditures for conversions and major improvements are also capitalized when they appreciably extend the life, increase the earnings capacity or improve the efficiency or safety of the vessels; otherwise these amounts are charged to expense as incurred.

(k) Vessel Depreciation: The Company depreciates containership vessels on a straight-line basis over their estimated useful lives, after considering the estimated salvage value. Each vessel's salvage value is the product of her light-weight tonnage and estimated scrap rate, which is estimated at $0.35 per light-weight ton for all vessels in the fleet. Management estimates the useful life of the Company's vessels to be 30 years from the date of initial delivery from the shipyard. Second-hand vessels are depreciated from the date of their acquisition through their remaining estimated useful life. When regulations place limitations on the ability of a vessel to trade on a worldwide basis, the vessel's useful life is adjusted at the date such regulations are adopted.

(l) Impairment of Long-Lived Assets: The Company follows ASC 360-10-40 "Impairment or Disposal of Long-Lived Assets", which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The Company reviews vessels for impairment whenever events or changes in circumstances indicate that the carrying amount of a vessel may not be recoverable. When the estimate of future undiscounted net operating cash flows, excluding interest charges, expected to be generated by the use of the vessel over her remaining useful life and her eventual disposition is less than her carrying amount, the Company evaluates the vessel for impairment loss. Measurement of the impairment loss is based on the fair value of the vessel. The fair value of the vessel is determined based on management estimates and assumptions and by making use of available market data and third party valuations. The Company evaluates the carrying amounts and periods over which vessels are depreciated to determine if events have occurred which would require modification to their carrying values or useful lives. In evaluating useful lives and carrying values of long-lived assets, management reviews certain indicators of potential impairment, such as undiscounted projected operating cash flows, vessel sales and purchases, business plans and overall market conditions. The current conditions in the containerships market with decreased charter rates and decreased vessel market values are conditions that the Company considers indicators of a potential

impairment. In developing estimates of future undiscounted cash flows, the Company makes assumptions and estimates about the vessels' future performance, with the significant assumptions being related to charter rates, fleet utilization, vessels' operating expenses, vessels' residual value, and the estimated remaining useful life of each vessel. The assumptions used to develop estimates of future undiscounted cash flows are based on historical trends as well as future expectations. The Company also takes into account factors such as the vessels' age and employment prospects under the then current market conditions, and determines the future undiscounted cash flows considering its various alternatives, including sale possibilities existing for each vessel as of the testing dates.

The Company determines undiscounted projected net operating cash flows for each vessel and compares it to the vessel's carrying value. The projected net operating cash flows are determined by considering the historical and estimated vessels' performance and utilization, the charter revenues from existing time charters for the fixed fleet days and an estimated daily time charter equivalent for the unfixed days (based, to the extent applicable, on the most recent 10 year average historical 6-12 months' time charter rates available for each type of vessel, considering also current market rates) over the remaining estimated life of each vessel, net of commissions, expected outflows for scheduled vessels' maintenance and vessel operating expenses assuming an average annual inflation rate of 3.5%. Effective fleet utilization is assumed to 98% in the Company's exercise, if vessel not laid-up, taking into account the period(s) each vessel is expected to undergo her scheduled maintenance (dry docking and special surveys), as well as an estimate of 1% off hire days each year, assumptions in line with the Company's historical performance. The review of the vessel's carrying amounts in connection with the estimated recoverable amounts for 2018, 2017 and 2016 indicated impairment charges for certain of the Company's vessels, which are separately reflected in the accompanying consolidated statements of operations (Note 4).

(m) Assets held for sale: It is the Company's policy to dispose of vessels and other fixed assets when suitable opportunities occur and not necessarily keep them until the end of their useful life. The Company classifies assets or assets in disposal groups as being held for sale in accordance with ASC 360-10-45-9 "Long-Lived Assets Classified as Held for Sale", when the following criteria are met: (i) management possessing the necessary authority has committed to a plan to sell the asset (disposal group); (ii) the asset (disposal group) is immediately available for sale on an "as is" basis; (iii) an active program to find the buyer and other actions required to execute the plan to sell the asset (disposal group) have been initiated; (iv) the sale of the asset (disposal group) is probable, and transfer of the asset (disposal group) is expected to qualify for recognition as a completed sale within one year; and (v) the asset (disposal group) is being actively marketed for sale at a price that is reasonable in relation to its current fair value and actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. In case a long-lived asset is to be disposed of other than by sale (for example, by abandonment, in an exchange measured based on the recorded amount of the nonmonetary asset relinquished, or in a distribution to owners in a spinoff) the Company continues to classify it as held and used until its disposal date. Long-lived assets or disposal groups classified as held for sale are measured at the lower of their carrying amount or fair value less cost to sell. These assets are not depreciated once they meet the criteria to be held for sale. The review of the related criteria for the year ended December 31, 2017 resulted in held for sale classification for certain of the Company's vessels (Note 4).

(n) Accounting for Revenues from Time Charters and Related Expenses: Revenues are generated from time charter agreements. According to the terms of a time-charter agreement, the Company charters its vessels

to a charterer from the delivery of the vessel to the charterer (commencement date), for a fixed period of time, at rates that are generally determined in the main body of the charter agreements. As discussed above under "Recent Accounting Pronouncements Adopted", the Company's time charter agreements were determined to contain a lease and are accounted for under ASC 842. Time charter revenues are recorded over the non-cancellable term of the charter as service is provided, while revenues from time charter agreements providing for varying charter rates over their term are accounted for on a straight line basis. Any off-hires are recognized as incurred. The non-lease components of the time charter agreements, primarily relating to operation and maintenance of the vessel, are accounted for along with the associated lease component as a single lease component, as revenue from such non-lease components is recognized ratably over the duration of the time charter, and is not predominant. Time charter agreements with the same charterer are accounted for as separate agreements according to the terms and conditions of each agreement. Under time charter agreements, the charterer typically pays a fixed daily or monthly rate for a fixed period of time for the use of the vessel. Payments are typically made in advance. Deferred revenue, if any, includes cash received prior to the balance sheet date for which all criteria for recognition as revenue would not be met, including any deferred revenue resulting from charter agreements providing for varying annual rates, which are accounted for on a straight line basis.

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

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

(p) Segmental Reporting: The Company has determined that it operates under one reportable segment, relating to its operations of the container vessels. The Company reports financial information and evaluates the operations of the segment by charter revenues and not by the length of ship employment for its customers, i.e. spot or time charters. The Company does not use discrete financial information to evaluate the operating results for each such type of charter. Although revenue can be identified for these types of charters, management cannot and does not identify expenses, profitability or other financial information for these charters. As a result, management, including the chief operating decision maker, reviews operating results solely by revenue per day and operating results of the fleet. Furthermore, when the Company charters a vessel to a charterer, the charterer is free to trade the vessel worldwide and, as a result, the disclosure of geographic information is impracticable.

(q) Accounting for Dry-Docking Costs: The Company follows the deferral method of accounting for dry-docking costs whereby actual costs incurred are deferred and amortized on a straight-line basis over the period through the date the next dry-docking will be scheduled to become due. Unamortized dry-docking costs of vessels that are sold are written off and included in the calculation of the resulting gain or loss in the year of the vessel's sale. The unamortized dry-docking cost is reflected in Deferred Charges, net, in the accompanying

consolidated balance sheets. Amortization of dry-docking costs, for 2018, 2017 and 2016 amounted to $518, $744 and $657, respectively, and is reflected in Depreciation and amortization of deferred charges, in the accompanying consolidated statement of operations.

(r) Financing Costs and Liabilities: Fees paid to lenders for obtaining new loans or refinancing existing ones are deferred and recorded as a contra to debt, in accordance with ASU 2015-13: Interest-Imputation of Interest. Other fees paid for obtaining loan facilities not used at the balance sheet date are capitalized as deferred financing costs. Fees are amortized to interest and finance costs over the life of the related debt using the effective interest method and, for the fees relating to loan facilities not used at the balance sheet date, according to the loan availability terms. Discount premiums (Notes 3 and 5) are accounted for similar to other financing fees. Unamortized fees relating to loans repaid or refinanced as debt extinguishment are expensed as interest and finance costs in the period the repayment or extinguishment is made. Loan commitment fees are charged to expense in the period incurred. A loan liability is derecognised when the Company pays the creditor and is relieved of its obligation for the liability. The difference between the settlement price and the net carrying amount of the debt being extinguished (which includes any deferred debt issuance costs) is recognized as a gain or loss in the statement of operations.

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

(t) Share Based Payment: The Company issues restricted share awards which are measured at their grant date fair value and are not subsequently re-measured. That cost is recognized under the straight-line method over the period during which an employee is required to provide service in exchange for the award—the requisite service period (usually the vesting period). When the service inception date precedes the grant date, the Company accrues the compensation cost for periods before the grant date based on the fair value of the award at the reporting date. In the period in which the grant date occurs, cumulative compensation cost is adjusted to reflect the cumulative effect of measuring compensation cost based on the fair value at the grant date. Forfeitures of awards are accounted for when and if they occur. If an equity award is modified after the grant date, incremental compensation cost will be recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately before the modification.

(u) Fair Value Measurements: The Company follows the provisions of ASC 820 “Fair Value Measurements and Disclosures”, which defines fair value and provides guidance for using fair value to measure assets and liabilities. The guidance creates a fair value hierarchy of measurement and describes fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. In accordance with the requirements of accounting guidance relating to Fair Value Measurements, the Company classifies and discloses its assets and liabilities carried at the fair value in one of the following categories:

> Level 1: Quoted market prices in active markets for identical assets or liabilities;

> Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data;

> Level 3: Unobservable inputs that are not corroborated by market data.

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

(w) Going Concern: The Company's policy is in accordance with ASU No. 2014-15, "Presentation of Financial Statements - Going Concern", issued in August 2014 by the FASB. ASU 2014-15 provides U.S. GAAP guidance on management's responsibility in evaluating whether there is substantial doubt about a company's ability to continue as a going concern and on related required footnote disclosures. For each reporting period, management is required to evaluate whether there are conditions or events that raise substantial doubt about a company's ability to continue as a going concern within one year from the date the financial statements are issued.

3. Transactions with Related Parties

(a) Altair Travel Agency S.A ("Altair"): The Company uses the services of an affiliated travel agent, Altair, which is controlled by the Company's CEO and Chairman of the Board. Travel expenses for 2018, 2017 and 2016 were $554, $672 and $864 respectively, and are included in Vessel operating expenses, in General and administrative expenses and in Loss / (gain) on vessels' sale in the accompanying consolidated statements of operations. As at December 31, 2018 and 2017, an amount of $4 and $21, respectively, was payable to Altair and is included in Due to related parties in the accompanying consolidated balance sheets.

(b) Steamship Shipbroking Enterprises Inc. ("Steamship Shipbroking"): Steamship Shipbroking, a company controlled by the Company's CEO and Chairman of the Board, provides brokerage services to DCI, pursuant to a Brokerage Services Agreement for a fixed fee. For 2018, 2017 and 2016, total brokerage fees and bonuses to Steamship Shipbroking amounted to $2,145, $2,100 and $2,005 respectively, and are included in General and administrative expenses in the accompanying consolidated statements of operations. As at December 31, 2018 and 2017 there was no amount due from or due to Steamship Shipbroking and an amount of $465 and $420, respectively, has been accrued for in connection with bonuses approved to Steamship Shipbroking and is included in Accrued liabilities in the accompanying consolidated balance sheets.

(c) Diana Shipping Inc. ("DSI"): The amounts of related party loans shown in the accompanying consolidated balance sheets are analyzed as follows:

	December 31, 2018	Current	Non- current	**December 31, 2017**	Current	Non-current
Diana Shipping Inc. - Term Loan	$ -	$ -	$ -	$ 82,617	82,617	$ -
Discount Premium payable to the lenders	-	-	-	2,292	2,292	-
less unamortized deferred financing costs	-	-	-	(77)	(77)	-
Related party financing, net of unamortized deferred financing costs	$ -	$ -	$ -	$ 84,832	$ 84,832	$ -

On May 20, 2013, the Company, through one of its subsidiaries, entered into an unsecured loan agreement of up to $50,000 with Diana Shipping Inc., to be used to fund vessel acquisitions and for general corporate purposes. Two amendments followed on September 9, 2015 and on September 12, 2016, which revised the main loan terms and, among others, extended its initial maturity, amended the annual repayment schedule and revised the applicable margins. On May 30, 2017, as discussed in Note 7, the Company issued 100 shares of its newly-designated Series C Preferred Stock to DSI, in exchange for a reduction of $3,000 in the principal amount of the Company's outstanding loan.

On June 30, 2017, the Company refinanced the above loan, which had an outstanding balance of $42,417 at that time, for $82,617. The newly-drawn amount of $40,000 was used to partially repay the Company's then existing loan with The Royal Bank of Scotland plc ("RBS"), whose settlement resulted in a net gain of $42,185 for the Company, which is reflected in Gain from bank debt write off in the accompanying consolidated statements of operations. The new loan would mature on December 31, 2018 and provided for an additional $5,000 interest-bearing "discount premium", which was payable at maturity and was recognized in Interest and finance costs in the accompanying consolidated statements of operations throughout the life of the loan, and in Related party financing, net of unamortized deferred financing costs in the accompanying consolidated balance sheets. The DSI loan was initially subordinated to the Addiewell loan (Note 5), and was secured by second priority mortgages over all the Company's containerships. After the full repayment of the Addiewell loan in May 2018, the DSI loan was secured by first priority mortgages over all the Company's containerships. It also bore interest at the rate of 6% per annum for the first twelve months, scaled to 9% per annum for the next three months and further scaled to 12% per annum for the remaining three months until maturity, included financial and other covenants which stipulated the repayment with proceeds from the sale of assets of the Company, proceeds from the issuance of new equity and proceeds from the exercise of existing warrants to purchase the Company's Series B Convertible Preferred Shares (Note 7) and prohibited the payment of dividends. During 2018, the Company has repaid in full the outstanding loan balance and the entire discount premium by making use of warrant proceeds (Note 7) and vessels' sales proceeds (Note 4), and accordingly, the loan agreement was terminated.

The weighted average interest rate of the DSI loan during 2018 and 2017 was 6.12% and 5.42%, respectively. For 2018, 2017 and 2016, interest expense incurred under the loan agreements with DSI amounted to $2,054, $3,656 and $1,692, respectively, while the discount premium amortization amounted to $2,708, $2,292 and $0, respectively. Interest expense and discount premium amortization are included in Interest and finance costs in the accompanying consolidated statements of operations. Accrued interest as of December 31, 2018 and 2017 amounted to $0 and $44, respectively, and is included in Due to related parties in the accompanying consolidated balance sheets.

4. Vessels, net

Vessels' disposals

In May 2017, the Company, through one of its subsidiaries, entered into a memorandum of agreement to sell the vessel "Doukato" to an unrelated party. The vessel was delivered to her new owners in June 2017, and the Company received sale proceeds, net of expenses, of $5,895. In October 2017, the Company, through two of its subsidiaries, entered into two memoranda of agreement to sell the vessels "March" and "Great". The vessels were classified on December 31, 2017 in current assets as held for sale, according to the provisions of ASC 360, as all criteria required for this classification were met. Furthermore, from February to May 2018, the Company, through five of its subsidiaries, entered into memoranda of agreement to sell the vessels "New Jersey", "Sagitta", "Centaurus", "Puelo" and "Hamburg" to unrelated parties. All seven vessels were delivered to their new owners from March to July 2018, and the Company received aggregate proceeds of $92,905, net of expenses. For 2018 and 2016, the aggregate loss from the sale of vessels, including direct to sale expenses, amounted to $16,700 and $2,899, respectively, while for 2017, the respective gain, net of direct to sale expenses, amounted to $945.The amounts are separately reflected in Loss / (Gain) on vessels' sale in the accompanying consolidated statements of operations. The Company used the proceeds from the sales of the vessels to repay indebtedness, according to the respective terms of the Company's then existing credit agreements (Notes 3 and 5).

Vessels' Impairment

In 2018, 2017 and 2016 the Company, after taking into account factors such as the vessels' age and employment prospects under the then current market conditions, determined the future undiscounted cash flows for each of its vessels, considering its various alternatives, including sale possibilities. This assessment concluded that the carrying value of two vessels in 2018, two vessels in 2017 and seven vessels in 2016 was not recoverable and accordingly, the Company has recognized an aggregate impairment loss of $20,654, $8,363, and $118,861, respectively, which is separately reflected in the accompanying statements of operations. The fair value of the vessels was determined through Level 2 inputs of the fair value hierarchy as determined by management, making also use of available market data for the market value of vessels with similar characteristics. The vessels were measured at fair value on a non-recurring basis as a result of the management's impairment test exercise. The aggregate fair value of the impaired vessels as of the testing dates was $29,074 in 2018, $20,050 in 2017 and $59,900 in 2016.

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

	Vessels' Cost	Accumulated Depreciation	Net Book Value
Balance, December 31, 2016	$ 286,991	$ (46,639)	$ 240,352
- Vessels' disposals	(9,951)	5,001	(4,950)
- Transfer to vessels held for sale	(21,350)	2,972	(18,378)
- Depreciation	-	(7,353)	(7,353)
- Impairment charges	(8,363)	-	(8,363)
Balance, December 31, 2017	$ 247,327	$ (46,019)	$ 201,308
- Vessels' disposals	(121,249)	30,853	(90,396)
- Depreciation	-	(4,388)	(4,388)
- Impairment charges	(20,654)	-	(20,654)
Balance, December 31, 2018	$ 105,424	$ (19,554)	$ 85,870

As at December 31, 2018, all the Company's vessels were unencumbered.

5. Unrelated Party Financing

The amounts of unrelated party financing shown in the accompanying consolidated balance sheets are analyzed as follows:

	December 31, 2018	Current	Non-current	December 31, 2017	Current	Non-current
Addiewell LTD - Term Loan	$ -	$ -	$ -	$ 8,500	$ 8,500	$ -
Discount Premium payable to the lenders	-	-	-	3,718	3,718	-
less unamortized deferred financing costs	-	-	-	(99)	(99)	-
Unrelated party financing, net of unamortized deferred financing costs	$ -	$ -	$ -	$ 12,119	$ 12,119	$ -

Addiewell Ltd ("Addiewell") – Loan Facility: On June 30, 2017, the Company partially funded the refinancing of its then existing loan with RBS, with proceeds under a new secured loan facility with Addiewell Ltd., an unaffiliated third party, for the amount of $35,000. The loan, which would mature on December 31, 2018, also provided for an additional $10,000 interest-bearing "discount premium", which was also payable at maturity and was recognized in Interest and finance costs in the accompanying consolidated statements of operations throughout the life of the loan, and in Unrelated party financing, net of unamortized deferred financing costs in the accompanying consolidated balance sheets. Moreover, the loan, which ranked senior to the loan agreement with DSI (Note 3), was

secured by first priority mortgages over all the Company's containerships, bore interest at the rate of 6% per annum for the first twelve months, scaled to 9% per annum for the next three months and further scaled to 12% per annum for the remaining three months until maturity. Finally, the loan facility included financial and other covenants which stipulated the repayment of the facility with proceeds from the sale of assets of the Company, proceeds from the issuance of new equity and proceeds from the exercise of existing warrants to purchase the Company's Series B Convertible Preferred Shares (Note 7), and prohibited the payment of dividends. During 2017, the Company repaid $26,500 of its outstanding loan balance, according to the respective terms of the loan agreement. During 2018, the Company has repaid in full the outstanding loan balance and the entire discount premium by making use of warrant proceeds (Note 7) and vessels' sales proceeds (Note 4), and accordingly, the loan agreement was terminated.

The weighted average interest rate of the Addiewell loan during 2018 and 2017 was 6.00% and 6.00%, respectively. For 2018, 2017 and 2016, interest expense incurred in connection with the Addiewell and the RBS loans, amounted to $247, $3,773 and $4,902, respectively, while the discount premium amortization amounted to $6,282, $3,718 and $0, respectively. Interest expense and discount premium amortization are included in Interest and finance costs in the accompanying consolidated statements of operations. Accrued interest as of December 31, 2018 and 2017, amounted to $0 and $9, respectively, and is included in Accrued liabilities in the accompanying consolidated balance sheets.

6. Commitments and Contingencies

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

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

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

(b) As at December 31, 2018, all our vessels were operating under time charter agreements. The minimum contractual annual charter revenues, net of related commissions to third parties, to be generated from the existing as at December 31, 2018, non-cancelable time charter contracts, are estimated at $5,702, until December 31, 2019.

7. Changes in Capital Accounts

(a) Reverse Stock Splits: During 2016 and 2017, the Company effected six reverse stock splits of its common shares, each which was approved by the Company's shareholders. More specifically, the Company effected: (i) on June 9, 2016, a one-for-eight reverse stock split, which was approved by shareholders at the Company's 2016 Annual Meeting of Shareholders held on February 24, 2016; (ii) on July 5, 2017, a one-for-seven reverse stock split; on July 27, 2017, a one-for-six reverse stock split; on August 24, 2017, a one-for-seven reverse stock split; and on September 25, 2017, a one-for-three reverse stock split, each approved by shareholders at the Company's 2017 Annual Meeting of Shareholders held on June 29, 2017; and (iii) on November 2, 2017, a one-for-seven reverse stock split, which was approved by shareholders at the Company's Special Meeting of Shareholders held on October 26, 2017. No fractional shares were issued in connection with the reverse splits. Shareholders who would otherwise hold fractional shares of the Company's common stock received a cash payment in lieu of such fractional share.

(b) Issuance of Series B Preferred Stock and Warrants to purchase Series B Preferred Stock: On March 21, 2017, the Company completed a registered direct offering of (i) 3,000 newly-designated Series B-1 convertible preferred shares, par value $0.01 per share, and common shares underlying such Series B-1 convertible preferred shares, and (ii) warrants to purchase 6,500 of Series B-1 convertible preferred shares, 6,500 of Series B-1 convertible preferred shares underlying such warrants, and common shares underlying such Series B-1 convertible preferred shares. Concurrently with the registered direct offering, the Company completed an offering of warrants to purchase 140,500 of Series B-2 convertible preferred shares in a private placement, in reliance on Regulation S under the Securities Act. The securities in the registered direct offering and private placement were issued and sold to Kalani Investments Limited (or "Kalani"), an entity not affiliated with the Company, pursuant to a Securities Purchase Agreement. In connection with the private placement, the Company entered into a Registration Rights Agreement with Kalani, pursuant to which the investor was granted certain registration rights with respect to the securities issued and sold in the private placement. The Series B convertible preferred shares are convertible at any time at the option of the holder into common shares at an initial conversion price of $7.00 per common share, provided that a certain minimum trading volume of the Company's common shares on the conversion date is met. At the option of Kalani, the preferred stock may be alternatively converted into common shares at a per share price equal to the higher of (i) 92.25% of the lowest daily volume weighted average price on any trading day during the 5 consecutive trading day period ending on and including the conversion date and (ii) $0.50. Kalani may elect to convert the preferred stock into shares of common stock at the conversion price or alternate conversion price then in effect, at any time. The Series B preferred warrants are exercisable into Series B convertible preferred shares at any time at the option of the holder thereof at an exercise price of $1,000 per Series B convertible preferred share.

The Company in its assessment for the accounting of the Series B-1 and B-2 convertible preferred shares has taken into consideration ASC 480 "Distinguishing liabilities from equity" and determined that the preferred shares should be classified as equity instead of liability. The Company further analysed key features of the preferred shares to determine whether these are more akin to equity or to debt and concluded that the Series B-1 and B-2 convertible preferred shares are equity-like. In its assessment, the Company identified certain embedded features, examined whether these fall under the definition of a derivative according to ASC 815 applicable guidance or whether certain of these features affected the classification. Derivative accounting was deemed inappropriate and

thus no bifurcation of these features was performed. Upon exercise of the warrants, the holder is entitled to receive preferred shares. ASC 480 "Distinguishing liabilities from equity" requires that a warrant which contains an obligation that may require the issuer to redeem the shares in cash, be classified as a liability and accounted for at fair value. The Company determined that the fair value of the warrants at inception and at December 31, 2018 is immaterial. As at December 31, 2018, 100,010 warrants remained outstanding.

In 2018 and 2017, the Company received net equity proceeds, after deducting offering expenses payable by the Company, of $17,413 and $31,989, respectively. In 2018, an aggregate of 17,490 preferred warrants were exercised for the sale of an equal number of preferred shares and, in aggregate, 17,529 Series B convertible preferred shares were converted to 10,250,265 common shares, thus leaving 250 Series B convertible preferred shares outstanding as of December 31, 2018. Subsequent to the balance sheet date, all outstanding preferred shares were converted to common shares (Note 12). In 2017, an aggregate of 32,500 Series B convertible preferred shares were issued, out of which 32,211 were converted to 4,049,733 common shares, thus leaving 289 Series B convertible preferred shares outstanding as of December 31, 2017.

(c) Issuance of Series C Preferred Stock: On May 30, 2017, the Company issued 100 shares of its newly-designated Series C Preferred Stock, par value $0.01 per share, to DSI, in exchange for a reduction of $3,000 in the principal amount of the Company's outstanding loan (Note 3). The Series C Preferred Stock has no dividend or liquidation rights. The Series C Preferred Stock votes with the common shares of the Company, and each share of the Series C Preferred Stock entitles the holder thereof to up to 250,000 votes, subject to a cap such that the aggregate voting power of any holder of Series C Preferred Stock together with its affiliates does not exceed 49.0%, on all matters submitted to a vote of the stockholders of the Company. The issuance of shares of Series C Preferred Stock to DSI was approved by an independent committee of the Board of Directors of the Company, which received a fairness opinion from independent third parties that the transaction was fair from a financial point of view to the Company. As of December 31, 2018, the 100 Series C Preferred Stock remained outstanding.

(d) Compensation Cost on Restricted Common Stock: On February 9, 2018, the Company's Board of Directors approved an amendment to the 2015 Equity Incentive Plan, to increase the aggregate number of shares issuable under the plan to 550,000 shares. On February 9, 2018, the Company issued 161,700 restricted common shares as an award to the executive management and the non-executive directors, pursuant to the Company's Board of Directors' decision of February 9, 2017. The fair value of the award was $380 and the number of shares issued was based on the share closing price of February 9, 2018. One third of the shares vested on February 9, 2018 and the remainder two thirds will vest ratably over two years from the issuance date. As at December 31, 2018, 388,300 restricted common shares remained reserved for issuance under the Plan.

Moreover, on February 15, 2018, the Company's Board of Directors approved a one-time award of restricted common stock, which was proposed by the Company's compensation committee, with an aggregate value of $5,000, to the Company's executive officers and non-executive directors, in recognition of the successful refinancing of the Company's RBS loan in 2017. In this respect, a number of 5,747,786 restricted shares were issued on February 15, 2019 and their number was defined based on the share closing price of February 15, 2019 (Note 12). One third of the shares vested on the issuance date and the remainder two thirds will vest ratably over two years from the issuance date. In 2018, compensation cost of $1,464 was recognized in connection with the specific

award and is included in General and administrative expenses in the accompanying consolidated statements of operations and in Other liabilities, non-current in the accompanying consolidated balance sheets.

During 2018, 2017 and 2016, aggregate compensation cost on restricted stock amounted to $1,587, $1,171, and $1,119 respectively, and is included in General and administrative expenses in the accompanying consolidated statements of operations. At December 31, 2018 and 2017, the total unrecognized compensation cost relating to restricted share awards was $3,680 and $267, respectively.

During the year ended December 31, 2018, the movement of the restricted stock cost was as follows:

	Number of Shares		Weighted Average Grant Date Price
Outstanding at December 31, 2017	-	$	-
Granted	161,700		2.35
Vested	(53,899)		2.35
Forfeited or expired	-		-
Outstanding at December 31, 2018	107,801	$	2.35

As at December 31, 2018, the weighted-average period over which the total compensation cost related to non-vested awards, as presented above, is expected to be recognized, is 0.61 years.

8. Interest and Finance Costs

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

		2018		2017		2016
Interest expense and other fees on unrelated party debt (Note 5)	$	6,529	$	7,491	$	4,902
Interest expense and other fees on related party debt (Note 3)		4,762		5,948		1,692
Amortization of deferred financing costs		176		322		427
Commitment fees and other		53		82		73
Total	$	11,520	$	13,843	$	7,094

9. Earnings / (Loss) per Share

All common shares issued (including the restricted shares issued under the equity incentive plan) are DCI's common stock and have equal rights to vote and participate in dividends, subject to forfeiture provisions set forth in the applicable award agreement. Unvested shares granted under the Company's incentive plan are entitled to receive dividends which are not refundable, even if such shares are forfeited, and therefore are considered participating securities for basic earnings per share calculation purposes. Dividends declared and paid in 2018, 2017 and 2016 were $0, $0 and $374, respectively. The calculation of basic earnings/ (loss) per share does not consider the non-vested shares as outstanding until the time-based vesting restrictions have lapsed. For 2018 and 2016, and on the basis that the Company incurred losses, the effect of the incremental shares assumed issued would have been anti-dilutive and therefore basic and diluted losses per share is the same amount. For 2017, the computation of diluted earnings per share reflects the potential dilution from conversion of outstanding preferred convertible stock calculated with the "if converted" method. No incremental shares were calculated with the treasury stock method for the unexercised warrants to issue preferred convertible shares.

	2018		2017		2016	
	Basic LPS	**Diluted LPS**	**Basic EPS**	**Diluted EPS**	**Basic LPS**	**Diluted LPS**
Net income/ (loss)	$ (52,895)	$ (52,895)	$ 3,819	$ 3,819	$ (149,014)	$ (149,014)
Net income/ (loss) available to common stockholders	(52,895)	(52,895)	3,819	3,819	(149,014)	(149,014)
Weighted average number of common shares outstanding	9,450,555	9,450,555	427,333	427,333	1,478	1,478
Effect of dilutive shares	-	-	-	28	-	-
Total shares outstanding	9,450,555	9,450,555	427,333	427,361	1,478	1,478
Earnings/(Loss) per common share	$ (5.60)	$ (5.60)	$ 8.94	$ 8.94	$ (100,821.38)	$ (100,821.38)

10. Income Taxes

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

The Company is potentially subject to a four percent U.S. federal income tax on 50% of its gross income derived by from its voyages that begin or end in the United States. However, under Section 883 of the Internal Revenue Code of the United States (the "Code"), a corporation is exempt from U.S. federal income taxation on its U.S.-source shipping income if: (a) it is organized in a foreign country that grants an equivalent exemption from tax to corporations organized in the United States (an "equivalent exemption"); and (b) either (i) more than 50% of the value of its common stock is owned, directly or indirectly, by "qualified shareholders,", which is referred to as the "50% Ownership Test," or (ii) its common stock is "primarily and regularly traded on an established securities market" in the United States or in a country that grants an "equivalent exemption" , which is referred to as the "Publicly-Traded Test."

The Marshall Islands, the jurisdiction where Performance Shipping Inc. and each of its vessel-owning subsidiaries are incorporated, grant an "equivalent exemption" to U.S. corporations. Therefore, the Company would be exempt from U.S. federal income taxation with respect to its U.S.-source shipping income if either the 50% Ownership Test or the Publicly-Traded Test is met.

Based on the trading and ownership of its stock, the Company believes that it satisfied the Publicly-Traded Test for its 2018 taxable year and intends to take this position on its 2018 U.S. federal income tax returns. Therefore, the Company does not expect to have any U.S. federal income tax liability for the year ended December 31, 2018.

11. Financial Instruments

The carrying values of temporary cash investments, accounts receivable and accounts payable approximate their fair value due to the short-term nature of these financial instruments. The fair value of long-term loans and restricted cash balances, bearing interest at variable interest rates, approximate their recorded values as at December 31, 2018 and 2017.

12. Subsequent Events

(a) Issuance and Conversion of Series B Preferred Shares: Subsequent to the balance sheet date and up to March 15, 2019, the 250 Series B-2 convertible preferred shares outstanding on December 31, 2018 were converted to common stock (Note 7). Additionally, the Company received $3,470 of gross proceeds from the exercise of 3,470 Series B-2 preferred warrants to purchase an equal number of Series B-2 convertible preferred shares. In aggregate, subsequent to the balance sheet date, 3,720 Series B-2 convertible preferred shares were converted to 5,348,947 common shares, thus leaving 0 Series B-2 convertible preferred shares outstanding on

March 15, 2019.

(b) Share Repurchase Program: On January 9, 2019, the Company announced that its Board of Directors authorized a share repurchase program to purchase up to an aggregate of $6,000 of the Company's common shares. The timing and amount of any repurchases will be determined by the Company's management team, and will depend on market conditions, capital allocation alternatives, applicable securities laws and other factors. The Board of Directors' authorization of the repurchase program is effective immediately and expires on December 21, 2019. Common shares repurchased as part of this program will be cancelled by the Company.

(c) Receipt of Nasdaq Notice: On January 15, 2019, the Company announced that it has received written notification from The Nasdaq Stock Market LLC ("Nasdaq") dated January 10, 2019, indicating that because the closing bid price of the Company's common stock for 30 consecutive business days was below the minimum $1.00 per share bid price requirement for continued listing on the Nasdaq Global Select Market, the Company is not in compliance with Nasdaq Listing Rule 5450(a)(1). The applicable grace period to regain compliance is 180 days, or until July 9, 2019 and the Company intends to cure the deficiency within the prescribed grace period.

(d) Determination of restricted stock awards approved in 2018: On February 15, 2019, the Company issued 5,747,786 restricted common shares as a one-time special award to the executive management and the non-executive Directors, pursuant to the Company's Board of Directors decision of February 15, 2018, in recognition of the successful refinancing of the RBS loan in 2017, which resulted in a significant gain of $42,185, net of expenses (Note 7). The fair value of the award is $5,000 and the number of shares issued was based on the share closing price of February 15, 2019. One third of the shares vested as of the issuance date and the remainder two thirds will vest ratably over two years from the issuance date.

(e) Company's Renaming: On February 19, 2019, the Company's Annual Meeting of Shareholders approved an amendment to the Company's Amended and Restated Articles of Incorporation to change the name of the Company to "Performance Shipping Inc.," which was effected on February 25, 2019. The Company's common shares will continue to trade on the Nasdaq Global Select Market under the ticker "DCIX".

Directors and Executive Officers

Symeon Palios
Chairman of the Board of Directors and Chief Executive Officer

Anastasios Margaronis
Director and President

Andreas Michalopoulos
Chief Financial Officer and Treasurer

Ioannis Zafirakis
Director, Chief Strategy Officer and Secretary

Semiramis Paliou
Chief Operating Officer

Eleni Leontari
Chief Accounting Officer

Antonios Karavias
Non-Executive Director

Nikolaos Petmezas
Non-Executive Director

Giannakis Evangelou
Non-Executive Director

Reidar Brekke
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Stock Listing
Performance Shipping Inc.'s stock is traded on the Nasdaq Global Market under the symbol "DCIX".

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