

Seaspan CORP  
Form 20-F  
March 26, 2019  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

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

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2018

OR

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

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

Date of event requiring this shell company report

For the transition period from                      to

Commission file number 1-32591

SEASPAN CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Republic of the Marshall Islands

(Jurisdiction of Incorporation or Organization)

Unit 2, 2nd Floor, Bupa Centre

141 Connaught Road West

Hong Kong, China

(Address of Principal Executive Offices)

Ryan Courson

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

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

Title of Each Class	Name of Each Exchange on which Registered
Class A Common Shares, par value of \$0.01 per share	New York Stock Exchange
Series D Preferred Shares, par value of \$0.01 per share	New York Stock Exchange
Series E Preferred Shares, par value of \$0.01 per share	New York Stock Exchange
Series G Preferred Shares, par value of \$0.01 per share	New York Stock Exchange
Series H Preferred Shares, par value of \$0.01 per share	New York Stock Exchange
Series I Preferred Shares, par value of \$0.01 per share	New York Stock Exchange
6.375% Senior Unsecured Notes due 2019	New York Stock Exchange
7.125% Senior Unsecured Notes due 2027	New York Stock Exchange
5.500% Senior Notes due 2025	New York Stock Exchange

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

None

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

None

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

176,871,891 Class A Common Shares, par value of \$0.01 per share

7,017,313 Series D Preferred Shares, par value of \$0.01 per share

5,415,937 Series E Preferred Shares, par value of \$0.01 per share

7,800,800 Series G Preferred Shares, par value of \$0.01 per share

9,025,105 Series H Preferred Shares, par value of \$0.01 per share

6,000,000 Series I Preferred Shares, par value of \$0.01 per share

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

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Yes No

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

Yes No

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

Yes No

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

Yes No

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

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

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

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

U.S. GAAP      International Financial Reporting Standards as Issued by the International Accounting Standards Board      Other

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

Item 17      Item 18

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

Yes No

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## SEASPAN CORPORATION

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PART I

Our disclosure and analysis in this Annual Report concerning our operations, cash flows, and financial position, including, in particular, the likelihood of our success in developing and expanding our business, include forward-looking statements (as such term is defined in Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act). Statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as “continue,” “expects,” “anticipates,” “intends,” “plans,” “believes,” “estimates,” “projections,” “forecasts,” “will,” “may,” “potential,” “should” and similar expressions are forward-looking statements. Although these statements are based upon assumptions we believe to be reasonable based upon available information, including projections of revenues, operating margins, earnings, cash flow, working capital and capital expenditures, they are subject to risks and uncertainties that are described more fully in this Annual Report in the section titled “Risk Factors.”

These forward-looking statements represent our estimates and assumptions only as of the date of this Annual Report and are not intended to give any assurance as to future results. As a result, you are cautioned not to rely on any forward-looking statements. Forward-looking statements appear in a number of places in this Annual Report. These statements include, among others:

- future operating or financial results;
- future growth prospects;
- our business strategy and capital allocation plans, and other plans and objectives for future operations;
- our primary sources of funds for our short, medium and long-term liquidity needs;
- our expectations as to impairments of our vessels, including the timing and amount of potential impairments;
- the future valuation of our vessels and goodwill;
- potential acquisitions, vessel financing arrangements and other investments, and our expected benefits from such transactions;
- future time charters and vessel deliveries, including replacement charters and future long-term charters for certain existing vessels;
- estimated future capital expenditures needed to preserve our capital base, and comply with regulatory standards, our expectations regarding future dry-docking and operating expenses, including ship operating expense and general and administrative expenses;
- our expectations about the availability of vessels to purchase and the useful lives of our vessels;
- availability of crew, number of off-hire days and dry-docking requirements;
- general market conditions and shipping market trends, including charter rates and factors affecting supply and demand;
- our financial condition and liquidity, including our ability to borrow funds under our credit facilities, our ability to obtain waivers or secure acceptable replacement charters under certain of our credit facilities, our ability to refinance our existing facilities and notes and to obtain additional financing in the future to fund capital expenditures, acquisitions and other general corporate activities;
- our continued ability to maintain, enter into or renew primarily long-term, fixed-rate time charters with our existing customers or new customers;
- the potential for early termination of long-term contracts and our potential inability to enter into, renew or replace long-term contracts;

• conditions in the public equity market and the price of our shares;  
• our ability to leverage to our advantage our relationships and reputation in the containership industry;  
• changes in governmental rules and regulations or actions taken by regulatory authorities, and the effect of governmental regulations on our business;  
• the financial condition of our customers, lenders and other counterparties and their ability to perform their obligations under their agreements with us;  
• our continued ability to meet specified restrictive covenants in our financing and lease arrangements, our notes and our preferred shares;  
• any economic downturn in the global financial markets and potential negative effects of any recurrence of such disruptions on our customers' ability to charter our vessels and pay for our services;  
• the values of our vessels and other factors or events that trigger impairment assessments or results;  
• taxation of our company and of distributions to our shareholders;  
• our exemption from tax on our U.S. source international transportation income;  
• potential liability from future litigation; and  
• other factors detailed in this Annual Report and from time to time in our periodic reports.

Forward-looking statements in this Annual Report are estimates and assumptions reflecting the judgment of senior management and involve known and unknown risks and uncertainties. These forward-looking statements are based upon a number of assumptions and estimates that are inherently subject to significant uncertainties and contingencies, many of which are beyond our control. Actual results may differ materially from those expressed or implied by such forward-looking statements. Accordingly, these forward-looking statements should be considered in light of various important factors, including, but not limited to, those set forth in "Item 3. Key Information—D. Risk Factors."

We do not intend to revise any forward-looking statements in order to reflect any change in our expectations or events or circumstances that may subsequently arise. We expressly disclaim any obligation to update or revise any of these forward-looking statements, whether because of future events, new information, a change in our views or expectations, or otherwise. You should carefully review and consider the various disclosures included in this Annual Report and in our other filings made with the Securities and Exchange Commission, or the SEC, that attempt to advise interested parties of the risks and factors that may affect our business, prospects and results of operations.

Unless we otherwise specify, when used in this Annual Report, the terms "Seaspan," the "Company," "we," "our" and "us" refer to Seaspan Corporation and its subsidiaries.

References to shipbuilders are as follows:

Shipbuilder	Reference
Jiangsu New Yangzi Shipbuilding Co., Ltd.	New Jiangsu
Jiangsu Yangzi Xinfu Shipbuilding Co., Ltd.	Jiangsu Xinfu

References to customers are as follows:

Customer	Reference
Arkas Line	Arkas
CMA CGM S.A.	CMA CGM
China COSCO Holdings Company Limited	COSCO
Hapag-Lloyd AG	Hapag-Lloyd
Hyundai Merchant Marine Co., Ltd., Seoul	HMM
Kawasaki Kisen Kaisha Ltd. <sup>(1)</sup>	K-Line
Korea Marine Transport Co., Ltd.	KMTC
Maersk Line A/S <sup>(2)</sup>	Maersk
MSC Mediterranean Shipping Company S.A.	MSC
Mitsui O.S.K. Lines, Ltd. <sup>(1)</sup>	MOL
Ocean Network Express Pte. Ltd. <sup>(1)</sup>	ONE
Yang Ming Marine Transport Corp.	Yang Ming Marine

<sup>(1)</sup> On April 1, 2018, MOL, K-Line and Nippon Yusen Kabushiki Kaisha integrated their container shipping businesses under a new joint venture company, ONE.

<sup>(2)</sup> A subsidiary of A.P. Moeller Maersk A/S.

We use the term “twenty foot equivalent unit,” or TEU, the international standard measure of containers, in describing the capacity of our containerships, which are also referred to as “our vessels”. We identify the classes of our vessels by the approximate average TEU capacity of the vessels in each class. However, the actual TEU capacity of a vessel may differ from the approximate average TEU capacity of the vessels in such vessel’s class.

## Glossary

We use a variety of operational terms and concepts in this Annual Report. These include the following:

**Annual Survey.** The inspection of a vessel pursuant to international conventions, by a classification society surveyor, on behalf of the flag state, that takes place every year.

**Ballast.** A voyage during which the ship is not laden with cargo.

**Bareboat Charter.** A charter of a vessel under which the shipowner is usually paid a fixed amount for a certain period of time during which the charterer is responsible for the vessel operating expenses, including crewing, and voyage expenses of the vessel and for the management of the vessel. A bareboat charter is also known as a “demise charter” or a “time charter by demise.”

**Bunkers.** Heavy fuel and diesel oil used to power a vessel’s engines.

**Charter.** The hire of a vessel for a specified period of time or a particular voyage to carry a cargo from a loading port to a discharging port. The contract for a charter is commonly called a charterparty.

**Charterer.** The party that charters a vessel.

**Charter hire.** A sum of money paid to the shipowner by a charterer for the use of a ship.

Classification society. An independent organization that certifies that a vessel has been built and maintained according to the organization's rules for that type of vessel and complies with the applicable rules and regulations of the flag state and the international conventions of which that country is a member. A vessel that receives its certification is referred to as being "in-class."

Dry-docking. The removal of a vessel from the water for inspection and, if needed, repair of those parts of a vessel that are below the water line. During dry-dockings, which are required to be carried out periodically, certain mandatory classification society inspections are carried out and relevant certifications are issued. Dry-dockings for containerships are generally required once every five years, which must be a "special survey."



Flag State. The country of a vessel's registry.

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

Hull. Shell or body of a vessel.

IMO. International Maritime Organization, a United Nations agency that issues international standards for shipping.

Intermediate survey. The inspection of a vessel by a classification society surveyor that takes place 24 to 36 months after each "special survey."

Newbuilding. A new ship under construction or just completed.

Off-charter. The period in which a vessel is not in service under a time charter and, accordingly, we do not receive hire.

Off-hire. The period in which a vessel is not available for service under a time charter and, accordingly, the charterer generally is not required to pay the hire rate. Off-hire periods can include days spent on repairs, dry-docking and surveys, whether or not scheduled.

Protection and indemnity insurance. Insurance obtained through a mutual association formed by shipowners to provide liability indemnification protection from various liabilities to which they are exposed in the course of their business, and which spreads the liability costs of each member by requiring contribution by all members in the event of a loss.

Scrapping. The sale of a ship as scrap metal.

Ship operating expense. The costs of operating a vessel, primarily consisting of crew wages and associated costs, insurance premiums, management fee, lubricants and spare parts, and repair and maintenance costs. Ship operating expenses exclude fuel cost, port expenses, agents' fees, canal dues and extra war risk insurance, as well as commissions, which are included in "voyage expenses."

Special survey. The inspection of a vessel by a classification society surveyor that takes place every five years, as part of the recertification of the vessel by a classification society.

Spot market. The market for immediate chartering of a vessel, usually for single voyages.

TEU. Twenty-foot equivalent unit, the international standard measure for containers and containership capacity.

Time charter. A charter under which the shipowner hires out a vessel for a specified period of time. The shipowner is responsible for providing the crew and paying vessel operating expenses, while the charterer is responsible for paying the voyage expenses and additional voyage insurance. The shipowner is paid the hire rate, which accrues on a daily basis.

Voyage expenses. Expenses incurred due to a ship's traveling from a loading port to a discharging port, such as fuel (bunkers) cost, port expenses, agents' fees, canal dues, extra war risk insurance and commissions.

Vessel operating expenses. The costs of operating a vessel, primarily consisting of crew wages and associated costs, insurance premiums, management fees, lubricants and spare parts, and repair and maintenance costs.

Item 1. Identity of Directors, Senior Management and Advisors  
Not applicable.

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## Item 2. Offer Statistics and Expected Timetable

Not applicable.

## Item 3. Key Information

## A. Selected Financial Data

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”).

	Year Ended December 31,				
	2018	2017	2016	2015	2014
Statements of operations data					
(in thousands of USD):					
Revenue	\$1,096,331	\$831,324	\$877,905	\$819,024	\$717,170
Operating expenses:					
Ship operating	219,270	183,916	192,327	193,836	166,097
Cost of services, supervision fees	—	1,300	7,390	1,950	—
Depreciation and amortization	245,801	199,938	216,098	204,862	181,527
General and administrative	31,565	40,091	32,118	27,338	30,462
Operating leases	129,747	115,544	85,910	40,270	9,544
Loss (gain) on disposals	—	(13,604)	31,876	—	—
Expenses related to customer					
bankruptcy	—	1,013	19,732	—	—
Vessel impairments	—	—	285,195	—	—
Operating earnings	469,948	303,126	7,259	350,768	329,540
Other expenses (income):					
Interest expense and amortization					
of deferred financing fees	212,065	116,389	119,882	108,693	98,501
Interest income	(4,197)	(4,558)	(8,455)	(11,026)	(10,653)
Refinancing expenses	—	—	1,962	5,770	70
Acquisition related gain on contract settlement	(2,430)	—	—	—	—
Change in fair value of financial					
instruments <sup>(1)</sup>	(15,490)	12,631	29,118	54,576	105,694
Equity income on investment	(1,216)	(5,835)	(188)	(5,107)	(256)
Other expense (income) <sup>(2)</sup>	2,418	9,262	3,979	(1,529)	4,937
Net earnings (loss)	\$278,798	\$175,237	\$(139,039)	\$199,391	\$131,247
Common shares outstanding:	176,835,837	131,664,101	105,722,646	98,622,160	96,662,928
Per share data (in USD):					
Basic earnings (loss) per Class A	\$1.34	\$0.94	\$(1.89)	\$1.46	\$0.80

common share					
Diluted earnings (loss) per Class A					
common share	1.31	0.94	(1.89 )	1.46	0.79
Dividends paid per Class A common					
share	0.50	0.75	1.50	1.47	1.35
Statement of cash flows data					
(in thousands of USD):					
Cash flows provided by (used in):					
Operating activities	\$483,851	\$323,219	\$311,087	\$335,872	\$342,959
Financing activities	206,354	(154,087 )	106,907	394,527	73,621
Investing activities <sup>(3)</sup>	(586,045 )	(283,856 )	(265,412 )	(716,634 )	(751,205 )

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	Year Ended December 31,				
	2018	2017	2016	2015	2014
Selected balance sheet data (at year end,					
in thousands of USD):					
Cash and cash equivalents	\$357,327	\$253,176	\$367,901	\$215,520	\$201,755
Current assets	453,840	381,405	510,109	540,163	516,926
Vessels <sup>(4)</sup>	5,926,274	4,537,216	4,883,849	5,278,348	5,095,723
Gross investment in lease	817,631	687,896	—	—	37,783
Goodwill	75,321	75,321	75,321	75,321	75,321
Other assets <sup>(5)</sup>	204,931	196,304	188,550	146,355	131,963
Fair value of financial instruments,					
short-term					
and long-term asset	113	—	11,338	33,632	37,677
Total assets	7,477,997	5,878,142	5,657,829	6,073,819	5,857,344
Current liabilities	929,394	443,934	484,844	423,801	415,795
Long-term deferred revenue	376,884	328,681	1,528	2,730	7,343
Long-term debt	2,764,900	2,192,833	2,569,697	3,072,058	3,052,941
Long-term obligations under capital					
lease	591,372	595,016	459,395	314,078	196,136
Fair value of financial instruments,					
long-term					
liability	127,172	168,860	200,012	336,886	387,938
Total shareholders' equity	2,459,979	1,949,432	1,747,249	1,776,183	1,745,224
Other data:					
Number of vessels in operation at year end	112	89	87	85	77
TEU capacity at year end	905,900	665,900	620,650	578,300	474,300
Fleet utilization <sup>(6)</sup>	97.8	% 95.7	% 96.0	% 98.5	% 99.0

(1) All of our derivative instruments, including interest rate swap agreements, swaption agreements and put instruments are marked to market and the changes in the fair value of these instruments are recorded in earnings.

(2) Certain information has been reclassified to conform with the financial statement presentation adopted for the current year; as a result, other expenses (income) includes undrawn credit facility fees.

(3) Prior to the adoption of Accounting Standards Update 2016-18, Statement of Cash Flows (Topic 320): Restricted Cash ("ASU 2016-18"), restricted cash was presented as an investing activity in our consolidated statement of cash flows. With the adoption of ASU 2016-18, on January 1, 2018, we exclude restricted cash as an investing activity on the consolidated statement of cash flows. As a result of adopting ASU 2016-18, cash used in investing activities increased by \$60,000,000 (December 31, 2014), decreased by nil (December 31, 2015), decreased by \$201,000 (December 31, 2016), and decreased by \$1,000 (December 31, 2017) from the amounts previously presented.

(4) Vessel amounts include the net book value of vessels in operation and vessels under construction.

(5) Certain information has been reclassified to conform with the financial statement presentation adopted for the current year; as a result, other assets includes deferred charges.

(6) Fleet utilization is based on the number of operating days divided by the number of ownership days during the year.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Some of the following risks relate principally to the industry in which we operate and to our business in general. Other risks relate principally to the securities market and to ownership of our shares or our 6.375% senior unsecured notes due 2019 (the "2019 Notes"), our 7.125% senior unsecured notes due 2027 (the "2027 Notes"), our 5.50% senior notes due 2025 (the "2025 Notes") and our 5.50% senior notes due 2026 (the "2026 Notes") or collectively our "Notes". The occurrence of any of the events described in this section could significantly and negatively affect our business, financial condition, operating results, ability to pay dividends on our shares, ability to

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pay interest and principal on our Notes, ability to redeem our preferred shares, or the trading price of our shares or Notes.

#### Risk Related to Macroeconomic Conditions and Our Industry Which May Impact Our Company

The business and activity levels of many of our customers, shipbuilders and third parties with which we do business and their respective abilities to fulfill their obligations under agreements with us, including payments for the chartering of our vessels, may be hindered by any deterioration in the industry, credit markets or other negative developments.

Our current vessels are primarily chartered to customers under long-term time charters and payments to us under those charters account for the vast majority of our revenue. Many of our customers finance their activities through cash flow from operations, the incurrence of debt or the issuance of equity. An over-supply of containership capacity and historically low freight rates resulted in many liner companies (including some of our customers) incurring losses in the recent past. During the financial and economic crises, commencing in 2007 and 2008, there occurred a significant decline in the credit markets and the availability of credit and other forms of financing. Additionally, the equity value of many of our customers substantially declined during that period. A reduction in cash flow resulting from low freight rates, a reduction in borrowing bases under reserve-based credit facilities, the limited or lack of availability of debt or equity financing, or a combination of such events, may reduce the ability of our customers to make charter payments to us. Any significant financial and economic disruption, or any other negative developments affecting our customers, or other third parties with which we do business, generally or specifically (such as the bankruptcy of a customer, decline in global trade, industry over-capacity of containerships, low freight rates, asset write-downs or incurring losses) could harm our business, results of operations and financial condition.

Similarly, shipbuilders that we engage to construct newbuilding vessels may be affected by future instability of the financial markets and other market conditions or developments, including the fluctuating price of commodities and currency exchange rates. In addition, the refund guarantors under future shipbuilding contracts (which are banks, financial institutions and other credit agencies that guarantee, under certain circumstances, the repayment of installment payments we make to the shipbuilders), may also be negatively affected by adverse market conditions and, as a result, may be unable or unwilling to meet their obligations to us due to their own financial condition. If our shipbuilders or refund guarantors are unable or unwilling to meet their obligations to us, this may harm our business, results of operations and financial condition.

As of March 1, 2019, newbuilding containerships with an aggregate capacity of 2.7 million TEUs, representing approximately 12.2% of the total worldwide containership fleet capacity as of that date, were under construction, and the global containership fleet is expected to grow based on various estimates. Global fleet capacity growth exceeded containership throughput growth in 2018, if this continues, it may lead to a reduction in charter hire rates for containership vessels. If such a reduction occurs or exists when we seek to charter newbuilding vessels, our growth opportunities may be diminished. If such a reduction occurs or exists upon the expiration or termination of our containerships' current time charters, we may only be able to re-charter our containerships at unprofitable rates, if at all.

A decrease in the level of export of goods or an increase in trade protectionism will harm our customers' business and, in turn, harm our business, results of operations and financial condition.

Most of our customers' containership business revenue is derived from the shipment of goods from the Asia Pacific region, primarily China, to various overseas export markets, including the United States and Europe. Any reduction in or hindrance to the output of China-based exporters could negatively affect the growth rate of China's exports and our customers' business. For instance, the government of China has implemented economic policies aimed at increasing domestic consumption of Chinese-made goods. This may reduce the supply of goods available for export and may, in turn, result in a decrease in shipping demand.





Our operations expose us to the risk that increased trade protectionism will harm our business. If global economic challenges exist, governments may turn to trade barriers to protect their domestic industries against foreign imports, thereby depressing shipping demand. In 2016, the United Kingdom resolved to leave the European Union, and it is not yet clear how it plans to approach international trade with the European Union and other trade partners. In the United States, the current U.S. administration rejects multilateral trade agreements in favor of bilateral relations and purports to seek more favorable terms in its dealings with its trade partners. For example, on January 23, 2017, the President of the United States signed an executive order withdrawing the United States from the Trans-Pacific Partnership, a global trade agreement intended to include the United States, Canada, Mexico, Peru and a number of Asian countries. On June 1, 2018, the U.S. Government began imposing tariffs on steel and aluminum imports. In response to these tariffs, several major U.S. trading partners have imposed, or announced their intention to impose, tariffs on U.S. goods. On July 6, 2018, the United States and China began imposing tariffs on approximately \$34 billion of each other's exports. Subsequently, the United States imposed tariffs on an additional \$216 billion in Chinese goods, and China imposed tariffs on an additional \$76 billion worth of U.S. goods. On December 1, 2018, the United States and China agreed to a 90-day timetable to negotiate a resolution to the trade dispute. On February 24, 2019, the President of the United States announced that, considering progress in trade talks with China, the United States will delay the additional tariffs that were scheduled to begin on March 1, 2019. We cannot predict what actions may ultimately be taken with respect to tariffs or trade relations between the United States and other countries, what products may be subject to such actions, or what actions may be taken by the other countries in retaliation. We continue to monitor the potential for any disruption and adverse revenue and/or cost impacts that may result from these actions or future geopolitical economic developments.

Increasing trade protectionism in the markets that our customers serve has caused and may continue to cause an increase in (1) the cost of goods exported from Asia Pacific, (2) the length of time required to deliver goods from the region and (3) the risks associated with exporting goods from the region. Such increases may also affect the quantity of goods to be shipped, shipping time schedules, voyage costs and other associated costs.

Any increased trade barriers or restrictions on global trade, especially trade with China, would harm our customers' business, results of operations and financial condition and could thereby affect their ability to make timely charter hire payments to us and to renew and increase the number of their time charters with us. This could harm our business, results of operations and financial condition.

Adverse economic conditions, especially in the Asia Pacific region, the European Union or the United States, could harm our business, results of operations and financial condition.

A significant number of port calls made by our vessels involves the loading or discharging of containerships in ports in the Asia Pacific region, economic turmoil in that region may exacerbate the effect of any economic slowdown on us. China has been one of the world's fastest growing economies in terms of gross domestic product ("GDP"), which has increased the demand for shipping. As described in the risk factor above, the President of the United States has sought to implement more protectionist trade measures to protect and enhance the U.S. domestic economy. Additionally, the European Union (the "EU"), and certain of its member states are facing significant economic and political challenges, including a risk of increased protectionist policies. Our business, results of operations and financial condition will likely be harmed by any significant global economic downturn or increase in protectionist trade policies, both of which would likely lead to a reduction in global trade and demand for containerships. Any deterioration in the global economy may cause a decrease in worldwide demand for certain goods and shipping, and economic instability could harm our business, results of operations and financial condition.

Our growth in part, depends upon continued growth in demand for containerships.

Our growth will generally depend on continued growth and renewal in world and regional demand for containership chartering. The ocean-going shipping container industry is both cyclical and volatile in terms of charter hire rates and profitability. Containership charter rates have fluctuated significantly in the past, and are expected to continue to

fluctuate in the future. Fluctuations in containership charter rates result from changes in the supply and demand for vessel capacity, which are driven by global fleet capacity and utilization and changes in the supply and demand for the major products internationally transported by containerships. The factors affecting the supply and demand for containerships, and the nature, timing and degree of changes in industry conditions are unpredictable.

Factors that influence demand for containership capacity include, among others:

- supply and demand for products suitable for shipping in containers;
- changes in global production of products transported by containerships;
- seaborne and other transportation patterns, including the distances over which container cargoes are transported and changes in such patterns and distances;
- the globalization of manufacturing;
- global and regional economic and political conditions;
- developments in international trade;
- environmental and other regulatory developments; and
- currency exchange rates.

Factors that influence the supply of containership capacity include, among others:

- the number of newbuilding orders and deliveries;
- the extent of newbuilding vessel deferrals;
- the scrapping rate of containerships;
- newbuilding prices and containership owner access to capital to finance the construction of newbuildings;
- charter rates and the price of steel and other raw materials;
- changes in environmental and other regulations that may limit the useful life of containerships;
- the number of containerships that are slow-steaming or extra slow-steaming to conserve fuel;
- the number of containerships that are idle; and
- port and canal infrastructure and congestion.

Our ability to re-charter our containerships upon the expiration or termination of their current time charters and the charter rates under any renewal or replacement charters will depend upon, among other things, the then current state of the containership market. If charter rates are low when our existing time charters expire, we may not be able to re-charter our vessels at profitable rates or at all, which would harm our results of operations. The same issues will exist if we acquire additional vessels and seek to charter them under short-term or long-term time charter arrangements as part of our growth strategy.

Over time, containership values and charter rates may fluctuate substantially, which could adversely affect our results of operations, our ability to access or raise capital or our ability to pay interest or principal on our Notes or dividends on our shares.

Containership values can fluctuate substantially over time due to a number of different factors, including, but not limited to:

- prevailing economic conditions in the market in which the containership trades;
- a substantial or extended decline in world trade;
- increases or decreases in containership capacity; and
- the cost of retrofitting or modifying existing ships, as a result of technological advances in vessel design or equipment, changes in applicable environmental or other regulations or standards, or otherwise.

If a charter terminates, we may be unable to re-deploy the vessel at attractive rates, or at all and, rather than continue to incur costs to maintain and finance the vessel, may seek to dispose of it. Our inability to dispose of the containership at a reasonable price, or at all, could result in a loss on its sale and harm our business, results of operations and financial condition. As of March 1, 2019, 31 vessels are subject to short-term charter market rates. For our vessels that are or will be off-charter, there is no assurance that replacement charters will be secured and if secured, at what rates or for what duration.

A reduction in our net assets could result in a breach of certain financial covenants applicable to our credit and lease facilities, our Notes and our preferred shares, which could limit our ability to borrow additional funds under our credit facilities or require us to repay outstanding amounts. Further, declining containership values could affect our ability to raise cash by limiting our ability to refinance vessels or use unencumbered vessels as collateral for new loans or result in mandatory prepayments under certain of our credit facilities or our Notes. This could harm our business, results of operations, financial condition, ability to raise capital or ability to pay obligations under our Notes or dividends on our equity securities.

If a more active short-term or spot containership market develops, we may have more difficulty entering into long-term, fixed-rate time charters and our existing customers may begin to pressure us to reduce our charter rates.

One of our principal strategies is to enter into long-term, fixed-rate time charters. As more vessels become available for the short-term or spot market, we may have difficulty entering into additional long-term, fixed-rate time charters for our vessels due to the increased supply of vessels. As a result, our cash flow may be subject to instability in the long-term.

A more active short-term or spot containership market may require us to enter into charters based on changing market prices, as opposed to contracts based on a long term fixed rate, which could result in a decrease in our cash flow in periods when the market price for containerships is depressed or insufficient funds are available to cover our financing costs for related vessels. In recent years, the rates in the short term or spot market have been lower than the rates we have obtained under our long-term, fixed rate charters due to oversupply. In addition, the development of an active short-term or spot containership market could affect rates under our existing time charters as our current customers may begin to pressure us to reduce our rates.

As a result of these changes, we may be more active in the short-term or spot market, which could involve purchasing existing ships on short term charters or without charters. This may result in additional variability in our cash flow and earnings, which could materially harm our business, results of operations and financial condition.

Future disruptions in global capital markets and economic conditions or changes in lending practices may harm our ability to obtain financing on acceptable terms, which could hinder or prevent us from meeting our capital needs.

We rely on the global capital markets, including the credit markets, to satisfy a significant portion our capital requirements. Significant instability or disruptions of the capital markets or deterioration of our financial position due to internal or external factors could restrict or eliminate our access to, and/or significantly increase the cost of, various financing sources, including bank credit facilities and issuance of corporate bonds. This could occur because our lenders could become unwilling or unable to meet their funding obligations or we may not be able to obtain funds at the interest rate agreed to in our credit facilities due to market disruption events or increased funding costs. Such instability or disruptions in the capital markets may also cause lenders to be unwilling to provide us with new financing to the extent needed to fund our ongoing operations and growth. In recent years, the number of lenders for shipping companies has decreased and ship-funding lenders have generally lowered their loan-to-value ratios, shortened loan terms and accelerated repayment schedules. These factors may hinder our ability to access financing.

Instability or disruptions of the capital markets and deterioration of our financial position, alone or in combination, could also result in a reduction in our credit rating, which could prohibit or restrict us from accessing external sources of short and long-term debt financing and/or significantly increase the associated costs.

If financing or refinancing is not available when needed, or is available only on unfavorable terms, we may be unable to meet our obligations as they come due or we may be unable to implement our growth strategy, complete acquisitions or otherwise take advantage of business opportunities or respond to competitive pressures, any of which could negatively impact our business, results of operations and financial condition.

Increased technological innovation in competing vessels could reduce our charter hire rates and the value of our vessels.

The charter hire rates and the value and operational life of a vessel are determined by a number of factors, including the vessel's efficiency, operational flexibility and physical life. Efficiency includes speed, fuel economy and the ability to be loaded and unloaded quickly. Flexibility includes the ability to enter harbors, utilize related docking facilities and pass through canals and straits. Physical life is related to the original design and construction,

maintenance and the impact of the stress of operations. If new containerships are built that are more efficient or flexible or have longer physical lives than our vessels, competition from these more technologically advanced containerships could adversely affect the amount of charter hire payments we receive for our vessels once their initial charters end and the resale value of our vessels. As a result, our business, results of operations and financial condition could be harmed.

Risks inherent in the operation of ocean-going vessels could harm our reputation, business, results of operation and financial condition.

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

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

Piracy is an inherent risk in the operation of ocean-going vessels and has historically affected vessels trading in certain regions of the world, including, among other areas, the South China Sea and the Gulf of Aden off the coast of Somalia and, in recent years, certain locations off of the West Coast of Africa. We may not be adequately insured to cover losses from these incidents, which could harm our business, results of operations and financial condition. In addition, crew costs, including for employing onboard security guards, could increase in such circumstances. Any of these events, or the loss of use of a vessel due to piracy, may harm our customers, impairing their ability to make payments to us under our charters, which would harm our business, results of operations and financial condition.

Such occurrences could result in death or injury to persons, loss of property or environmental damage, delays in the delivery of cargo, loss of revenue from or termination of charter contracts, governmental fines, penalties or restrictions on conducting business, higher insurance rates, and damage to our reputation and customer relationships generally. The involvement of our vessels in an environmental disaster could harm our reputation as a safe and reliable vessel owner and operator. Any of these circumstances or events could harm our business, results of operations and financial condition.

We are subject to regulation and liability under environmental laws that could require significant expenditures and affect our operations.

Our business and the operation of our containerships are materially affected by environmental regulation in the form of international conventions, national, state and local laws and regulations in force in the jurisdictions in which our containerships operate, as well as in the countries of their registration, including those governing the management and disposal of hazardous substances and wastes, the cleanup of oil spills and other contamination, air emissions, water discharges, ballast water management and vessel recycling. Because such conventions, laws and regulations are often revised, we cannot predict the ultimate cost or effect of complying with such requirements or the effect thereof on the resale price or useful life of our containerships. Additional conventions, laws and regulations may be adopted that could limit our ability to do business or increase the cost of our doing business, which may harm our business, results of operations and financial condition.

Environmental requirements can also affect the resale value or useful lives of our vessels, require a reduction in cargo capacity, ship modifications or operational changes or restrictions, lead to decreased availability of insurance coverage for environmental matters or result in substantial penalties, fines or other sanctions, including the denial of access to certain jurisdictional waters or ports or detention in certain ports. Under local, national and foreign laws, as well as international treaties and conventions, we could incur material liabilities, including cleanup obligations and natural

resource damages, if there is a release of petroleum or other hazardous materials from our vessels or otherwise in connection with our operations. We could also become subject to personal injury or property damage claims relating to the release of hazardous materials associated with our operations.

In addition, in complying with existing environmental laws and regulations and those that may be adopted, we may incur significant costs in meeting new maintenance and inspection requirements and new restrictions on air emissions from our containerships, in managing ballast water, in developing contingency arrangements for potential spills and in obtaining insurance coverage. Government regulation of vessels, particularly in the areas of safety, security and environmental requirements, can be expected to become stricter in the future and require us to incur significant capital expenditures on our vessels to keep them in compliance, or even to scrap or sell certain vessels altogether. Substantial violations of applicable requirements or a catastrophic release of bunker fuel from one or more of our containerships could harm our business, results of operations and financial condition. For additional information about the environmental regulations to which we are subject, please read “Item 4 information on the Company—B. Business Overview—Environmental and Other Regulations”.

Compliance with safety and other vessel requirements imposed by flag states may be costly and could harm our business, results of operations and financial condition.

The hull and machinery of every commercial vessel must be classed by a classification society authorized by its country of registry. The classification society certifies that a vessel is safe and seaworthy in accordance with the applicable rules and regulations of the country of registry of the vessel and the IMO, International Convention for the Safety of Life at Sea (“SOLAS”). In addition, a vessel generally must undergo annual, intermediate and special surveys to maintain classification society certification. If any vessel does not maintain its class or fails any annual, intermediate or special survey, the vessel will be unable to trade between ports and will be unemployable and we could be in violation of certain covenants in our credit facilities and our lease agreements. This could harm our business, results of operations and financial condition.

Our ability to grow may be reduced by the introduction of new accounting rules for leasing.

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2016-02, “Leases (Topic 842)” which has the effect of bringing most off-balance sheet leases onto a lessee’s balance sheet as a right-of-use asset and a lease liability for all leases, including operating leases, with a term greater than 12 months. This change could affect our customers and potential customers and may cause them to breach certain financial covenants, under their own financing arrangements, which may make them less likely to enter into time charters for our containerships and could reduce our growth opportunities. This new standard will become effective for us in fiscal years beginning after December 15, 2018. Please read “Item 5. Operating and Financial Review and Prospects—D. Critical Accounting Policies and Estimates.”

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

International containership traffic is subject to security and customs inspection and related procedures in countries of origin, destination and trans-shipment points. These inspections can result in cargo seizure, delays in the loading, offloading, trans-shipment or delivery of containers and the levying of customs duties, fines or other penalties against exporters or importers and, in some cases, customers.

U.S. and Canadian authorities have increased container inspection rates. Government investment in non-intrusive container scanning technology has grown and there is interest in electronic monitoring technology that would enable remote, centralized monitoring of containers during shipment to identify tampering with or opening of the containers. Also, additional vessel security requirements have been imposed, including the installation of security alert and automatic identification systems on board vessels. Following a number of recent terrorist attacks in cities across the globe, there has been a heightened level of security and new security procedures could be introduced.

It is unclear what changes, if any, to the existing inspection procedures will ultimately be proposed or implemented, or how any such changes will affect the industry. Such changes may impose additional financial and legal obligation on



carriers and may render the shipment of certain types of goods by container uneconomical or impractical. Additional costs that may arise from current or future inspection procedures may not be fully recoverable from customers through higher rates or security surcharges. Any of these effects could harm our business, results of operation and financial condition.

We face challenges with respect to the uncertainty around “Brexit”.

In June 2016, the United Kingdom (the “U.K.”), held a referendum in which British citizens approved an exit from the European Union (the “E.U.”), which is commonly referred to as “Brexit”. The withdrawal negotiations began in 2017, and remain ongoing. The date of the U.K.’s departure from the E.U. is currently scheduled to occur on April 12, 2019, if the U.K. Parliament rejects the withdrawal agreement, and on May 22, 2019, if the U.K. Parliament approves the withdrawal agreement. The U.K.’s stated intention is to leave the E.U.’s Single Market and Customs Union. Leaving the Single Market means that free movement of goods, services, people and capital between the U.K. and the E.U. will come to an end. In its place will likely be a trade agreement between the U.K. and E.U., which will provide for more restricted reciprocal access. Leaving the Customs Union means that the U.K. will have its own independent trade policy, but a trade border between the U.K. and the E.U. may arise for the first time in forty or so years, and with that comes the possibility of tariffs and the certainty of customs clearance requirements. The U.K. is preparing for Brexit by passing new legislation to: replace and to an extent replicate all E.U. law; to install new customs rules and procedures; to establish an independent trade policy; and to establish a new immigration policy.

Volatility in foreign currencies and interest rates is expected to continue as the United Kingdom executes its exit from the E.U. If the U.K.’s membership in the E.U. terminates without an agreement, a potential scenario known as a “hard Brexit,” there could be increased costs to shippers from re-imposition of tariffs on trade between the U.K. and E.U. and shipping delays because of the need for customs inspections and procedures and shortages of certain goods. In that event, disruptions in trade due to the imposition of tariffs and volatility in foreign currencies and interest rates and potential material changes to the regulatory regime applicable to our business or global trading parties could result in a material impact to our consolidated revenue, earnings and cash flow.

Terrorist attacks and international hostilities could harm our business, results of operations and financial condition.

Terrorist attacks and the continuing response to these attacks, as well as the threat of future terrorist attacks, continue to cause uncertainty in the world financial markets. Conflicts in Afghanistan, Syria, the Middle East and other regions and periodic tensions between North and South Korea (where many shipbuilders are located) may lead to additional acts of terrorism, regional conflict and other armed conflict around the world, which may contribute to further economic instability in the global financial markets or in regions where our customers do business or, in the case of countries in which our shipbuilders are located, affect our access to new vessels. These uncertainties or events could harm our business, results of operations and financial condition, including our ability to obtain additional financing on terms acceptable to us, or at all. In addition, terrorist attacks targeted at sea vessels in the future may negatively affect our operations and financial condition and directly affect our containerships or customers.

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

All of our vessels are registered and flagged in Hong Kong. The Hong Kong government could requisition for title or seize our containerships. Requisition for title occurs when a government takes control of a ship and becomes the owner. Also, a government could requisition our containerships for hire. Requisition for hire occurs when a government takes control of a ship and effectively becomes the charterer at dictated charter rates. Generally, requisitions occur during a period of war or emergency. Government requisition of one or more of our containerships could harm our business, results of operations and financial condition.

## Risk Related to Our Company

We derive our revenue from a limited number of customers, and the loss of any of our long-term charters, further increases in the number of vessels on short-term charters or any material decrease in payments under our customer contracts could materially harm our business, results of operations and financial condition.

As at December 31, 2018, we had 11 customers and the following table shows the number of vessels in our operating fleet that were chartered to such customers and the percentage of our total revenue attributable to the charters with such customers for the year ended December 31, 2018:

Customer	Number of Vessels in our Operating Fleet Chartered to Such Customer	Percentage of Total Revenue for the Year Ended December 31, 2018	
COSCO	34	37.6	%
Yang Ming Marine	16	21.5	%
ONE <sup>(1)</sup>	22	14.8	%
Other	40	26.1	%
	112	100.0	%

(1) On April 1, 2018, MOL, K-Line and Nippon Yusen Kabushiki Kaisha integrated their container shipping businesses under a new joint venture company, ONE.

Under some circumstances, we could lose a time charter or payments under the charter if:

- the customer fails to make charter payments because of its financial inability (including bankruptcy), disagreements with us, defaults on a payment or otherwise;
- at the time of delivery, the vessel subject to the time charter differs in its specifications from those agreed upon under the shipbuilding contract; or
- the customer exercises certain limited rights to terminate the charter, including (1) if the ship fails to meet certain guaranteed speed and fuel consumption requirements and we are unable to rectify the situation or otherwise reach a mutually acceptable settlement and (2) under some charters if the vessel is unavailable for operation for certain reasons for a specified period of time, or if delivery of a newbuilding vessel is delayed for a prolonged period of time.

The majority of our vessels are chartered under long-term charters, and customer payments are the source of nearly all of our operating cash flow. As the long-term charters terminate, an increasing number of our vessels have been fixed on short-term charters at prevailing spot market rates, which are substantially lower than the rates on our existing long-term charters. In addition, as liner companies (including our existing customers) consolidate through merger, joint ventures or alliances, our risk relative to the concentration of our customers may increase and they may also seek to renegotiate the rates payable for the remaining terms of their charters. The loss of any of these long-term charters, further increases in the number of vessels on short-term charters or any material decrease in payments under our customer contracts could materially harm our business, results of operations and financial condition.

We may not be able to timely pay, or be able to refinance, amounts owed under our credit facilities, our Notes and/or capital and operating lease arrangements.

We have financed a substantial portion of our fleet and acquisitions with indebtedness incurred under our existing credit facilities, our Notes, as well as capital and operating lease arrangements. We have significant normal course

payment obligations under our credit facilities, our Notes and capital and vessel operating lease arrangements, both prior to and at maturity, of approximately \$931.5 million in 2019 and an additional \$4.5 billion through to maturity, which extends to 2035. In addition, under our credit facilities and capital and operating lease arrangements, a payment may be required in certain circumstances as a result of events such as the sale or loss of a vessel, a termination or expiration of a charter (where we do not enter into a replacement charter acceptable to the lenders within a required period of time) or termination of a shipbuilding contract. The amount that must be paid may be calculated based on the loan to market value ratio or some other ratio that takes into account the market value of the relevant vessel (with the repayment amount increasing if vessel values decrease), or may be the entire amount of the financing in regard to a credit facility or a pre-determined termination sum in the case of a capital or operating lease.

Our ability to make payments on our debt and lease arrangements will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive and other factors that are beyond our control. Our business may not be able to generate sufficient cash flow from operations and future borrowings may not be available to us in an amount sufficient to enable us to pay our debt and lease arrangements, or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness on or before maturity. The market values of our vessels, which fluctuate with market conditions, will affect our ability to obtain financing or refinancing, as our vessels serve as collateral for secured loans. Lower vessel values at the time of any financing or refinancing may reduce the amounts of funds we may borrow.

However, we may not be able to complete such refinancing on commercially reasonable terms or at all. If we are not able to refinance outstanding amounts at interest rates and other terms acceptable to us, or at all, we will have to dedicate a significant portion of our cash flow from operations to repay such amounts, which could reduce our ability to satisfy payment obligations related to our credit facilities, our Notes and capital and operating lease arrangements and our equity securities or may require us to delay certain business activities or capital expenditures or investments or cease paying dividends. If we are not able to satisfy these obligations (whether or not refinanced) under our debt and lease arrangements with cash flow from operations, we may have to seek to restructure our debt and lease arrangements, undertake alternative financing plans (such as additional debt or equity capital) or sell assets, which may not be available on terms attractive to us or at all.

If we are unable to meet our debt or lease obligations, or if we otherwise default under our debt and lease arrangements, the holders of our debt or our lessors could declare all outstanding indebtedness to be immediately due and payable. Holders of our secured debt would also have the right to proceed against the collateral granted to them that secures the indebtedness, as follows: (i) in the case of our credit facilities or capital or operating lease arrangements, the vessels securing such indebtedness; and (ii) in the case of the 2025 Notes and 2026 Notes (collectively, the "Fairfax Notes"), the equity of Greater China Intermodal LLC and its subsidiaries ("GCI"), which entity is an intermediate holding company that owns the equity of a number of our indirect vessel-owning subsidiaries. Additionally, most of our debt instruments contain cross-default provisions, which generally cause a default or event of default under each instrument upon a qualifying default or event of default under any other debt instrument.

We may not be able to repurchase the Fairfax Notes upon the occurrence of a Change of Control (as defined in the indenture governing those securities) or in connection with the exercise by the holders of such securities of their right to call for early redemption

Upon the occurrence of a Change of Control (as defined in the indenture under which the Fairfax Notes were issued), we will be required to offer to purchase all of the Fairfax Notes then outstanding at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest. If a Change of Control were to occur, we may not have sufficient funds to pay the purchase price for the outstanding Fairfax Notes tendered, and expect that we would require third-party financing; however, we may not be able to obtain such financing on favorable terms, if at all. In addition, the occurrence of a Change of Control may result in an event of default under, or require us to purchase, our other existing or future senior indebtedness. Moreover, the exercise by the holders of their right to require us to purchase the Fairfax Notes could cause a default under our existing or future senior indebtedness, even if the occurrence of a Change of Control itself does not, due to the financial effect of such purchase on us and our subsidiaries. Our failure to purchase tendered Fairfax Notes at a time when the purchase is required by the indenture would constitute an event of default under the indenture, which, in turn, may constitute an event of default under future debt.

In addition, each holder of the Fairfax Notes will have the right once a year, at its option, to require us to purchase all of the Fairfax Notes held by such holder at a purchase price of 100% of the principal amount thereof plus accrued and unpaid interest. On September 26, 2018, Fairfax waived its right to call for early redemption of the 2025 Notes on the February 2019 anniversary date; and on February 20, 2019, Fairfax waived its right to call for early redemption of the 2025 Notes on the February 2020 anniversary date and of the 2026 Notes on the January 2020 anniversary date. We may not have sufficient funds to pay the purchase price for any part of the Fairfax Notes tendered in connection with

an exercise of this option, and may require third-party financing; however, we may not be able to obtain such financing on favorable terms, if at all. Moreover, the exercise by the holders of their right to require us to purchase the Fairfax Notes could cause a default under our existing or future senior indebtedness, even if the exercise of that right itself does not, due to the financial effect of such purchase on us and our subsidiaries. Our failure to purchase tendered the Fairfax Notes at a time when the purchase is required by the indenture would

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constitute an event of default under the indenture, which, in turn, may constitute an event of default under future debt.

Our substantial debt levels and vessel lease obligations may limit our flexibility in obtaining additional financing and in pursuing other business opportunities.

As of December 31, 2018, we had \$3.6 billion in aggregate principal amount of debt outstanding under our credit facilities and Notes, and capital lease obligations of approximately \$647.7 million. Upon adoption of Accounting Standards Update (“ASU”) 2016-12, Leases, it is expected that approximately \$1.1 billion of lease liabilities related to the operating leases will be recorded.

In January 2019, we issued \$250 million of our 2026 Notes in a private placement with Fairfax.

We have been actively pursuing other sources of financing, including debt financing.

Our level of debt and vessel lease obligations could have important consequences to us, including the following:

- our ability to obtain additional financing, if necessary, for working capital, capital expenditures, acquisitions or other purposes, may be impaired or such financing may not be available on favorable terms, or at all;
- we may need to use a substantial portion of our cash from operations to make principal and interest payments on our debt or make our lease payments, reducing the funds that would otherwise be available for operation and future business opportunities;
- our debt level could make us more vulnerable to competitive pressures, a downturn in our business or the economy generally than our competitors with less debt; and
- our debt level may limit our flexibility in responding to changing business and economic conditions.

Our ability to service our debt and vessel lease obligations will depend upon, among other things, our financial and operating performance, which will be affected by prevailing economic, financial, business and regulatory conditions, as well as other factors, some of which are beyond our control. If our results of operations are not sufficient to service our current or future indebtedness and vessel lease obligations, we will be forced to take actions such as reducing or delaying our business activities, acquisitions, investments or capital expenditures, selling assets, restructuring or refinancing our debt, or seeking additional equity capital or bankruptcy protection. We may not be able to effect any of these remedies on satisfactory terms, or at all.

We may be required to make substantial capital expenditures to complete the acquisition of businesses or assets, which may result in increased financial leverage, dilution of our equity holders’ interests or decreased ability to redeem our preferred shares.

We have increased, and intend to further grow, the size of our business over time through acquisitions. We are regularly evaluating opportunities within the containership sector, as well as in the broader maritime and industrial transportation sectors and other sectors, and the acquisition of future businesses or assets will require significant additional capital expenditures.

To fund existing and future capital expenditures, we intend to use cash from operations, incur borrowings, raise capital through the sale of additional securities, enter into other sale-leaseback or financing arrangements, or use a combination of these methods. Use of cash from operations may reduce cash available to pay obligations under our Notes, dividends to our shareholders, including holders of our preferred shares, or to redeem our preferred shares. Incurring additional debt may significantly increase our interest expense and financial leverage, and under certain of our debt facilities there are maximum loan to value ratios at time of advance that may restrict our ability to borrow. Issuing additional equity securities may result in significant shareholder dilution, which, subject to the relative priority of our equity securities, could negatively affect our ability to pay dividends. Our ability to obtain or access bank financing or to access the capital markets for future debt or equity financings may be limited by our financial condition at the time of any such financing and covenants in our credit facilities, as well as by adverse market

conditions. To the extent that we enter into newbuilding or other vessel acquisition contracts prior to entering into charters for such vessels, our ability to obtain new financing for such vessels may be limited and we may be required to fund all or a portion of the cost of such acquisitions with our existing capital resources. Our failure to



obtain funds for our capital expenditures at attractive rates, if at all, could harm our business, results of operations and financial condition.

Exposure to currency exchange rate or interest rate fluctuations may result in fluctuations in our results of operations and financial condition.

All of our charter revenues are earned in U.S. dollars. Although a significant portion of our operating and general and administrative costs are incurred in U.S. dollars, we have some exposure to currencies other than U.S. dollars, including Canadian dollars, Indian Rupees, Euros and other foreign currencies. Although we monitor exchange rate fluctuations on a continuous basis, and seek to reduce our exposure in certain circumstances by denominating charter-hire revenue, ship building contracts, purchase contracts and debt obligations in U.S. dollars when practical to do so, we do not currently fully hedge movements in currency exchange rates. As a result, currency fluctuations may have a negative effect on our results of operations and financial condition.

As of December 31, 2018, we had an aggregate of approximately \$3.6 billion outstanding under our credit facilities and our Notes, and capital lease obligations of approximately \$647.7 million. The majority of our credit facilities, capital leases and operating leases are variable rate facilities and leases, under which our payment obligations will increase as interest rates increase. While we have entered into interest rate swaps to manage some of our interest rate risk, interest rate fluctuations and their impact on the fair value of our interest rate swaps may have a negative effect on the results of our operations and financial condition. Please read “Item 11. Quantitative and Qualitative Disclosures About Market Risk—Interest Rate Risk.”

Our ability to obtain additional financing for future acquisitions of vessels or for general corporate purposes may depend upon the performance of our then existing charters and the creditworthiness of our customers.

The actual or perceived credit quality of our customers, and any defaults by them, may materially affect our ability to obtain funds we may require to purchase vessels in the future or for general corporate purposes, or may significantly increase our costs of obtaining such funds. Our inability to obtain additional financing on terms satisfactory to us, if at all, could harm our business, results of operations and financial condition.

Restrictive covenants applicable to our financing and lease arrangements and our preferred shares impose financial and other restrictions on us, which may limit, among other things, our ability to borrow funds under such financing and lease arrangements and our ability to pay dividends on our shares or redeem our preferred shares.

To borrow funds under our existing debt facilities and capital and operating lease arrangements, we must, among other things, meet specified financial covenants. For example, we are prohibited under certain of our existing credit facilities and capital and operating lease arrangements from incurring total borrowings in an amount greater than 65% of our total assets (as defined in the applicable agreement), and we must also ensure that certain interest coverage, and interest and principal coverage ratios are met. Total borrowings and total assets are terms defined in our credit agreements and capital and operating lease agreements and differ from those used in preparing our consolidated financial statements, which are prepared in accordance with U.S. GAAP. To the extent we are unable to satisfy the requirements in our credit agreements and capital and operating lease agreements, we may be unable to borrow additional funds under our credit facilities and lease agreements. If we are not in compliance with specified financial ratios or other requirements in our credit facilities, Notes or lease arrangements, we may be in breach, which could require us to repay outstanding borrowings. We may also be required to prepay amounts borrowed under our credit facilities, Notes and lease agreements if we experience a change of control. These events may result in financial penalties to us under our leases.

In addition, our financing and lease arrangements limit our ability to, among other things:

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pay dividends if an event of default has occurred and is continuing under one of our credit facilities and capital and operating lease arrangements or if the payment of the dividend would result in an event of default;  
incur additional indebtedness under the credit facilities or otherwise, including through the issuance of guarantees;  
create liens on our assets;

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• sell our vessels without replacing such vessels or prepaying a portion of our loan or lease arrangements; or  
• merge or consolidate with, or transfer all or substantially all our assets to, another person.

Our ability to pay a cash dividend on our common shares that is greater than \$0.50 per share annually, when aggregated with all other cash dividends paid per share of our common stock in the preceding 360 days, may be limited under a restricted payments covenant included in the indenture governing the Fairfax Notes.

Accordingly, we may need to seek consent from our lenders, lessors or holders of our Notes in order to engage in some corporate actions. The interests of our lenders, lessors and Note holders may be different from ours, and we may be unable to obtain our lenders', lessors' or Note holders' consent when and if needed. In addition, we are subject to covenants applicable to our preferred shares. If we do not comply with the restrictions and covenants applicable to our credit facilities, capital and operating lease arrangements, our Notes or in our preferred shares, our business, results of operations and financial condition and ability to pay dividends on or redeem our preferred shares will be negatively impacted.

Charter party-related defaults under certain of our secured credit facilities, capital lease facilities and our operating leases could permit the counterparties to those arrangements to accelerate our obligations and terminate such facilities or leases, which could subject us to termination penalties.

Most of our vessel financing credit facilities and capital lease facilities, as well as our operating leases, are secured by, among other things, payments from the charter parties for the applicable vessels and contain default provisions relating to non-payment. The prolonged failure of the charterer to pay in full under the charter party agreement or the termination or repudiation of the charter party without our entering into a replacement charter contract within a specified period of time constitutes an event of default under certain of our financing agreements. If such a default were to occur, our outstanding obligations under the applicable financing agreements may become immediately due and payable, and the lenders' commitments under the financing agreements to provide additional financing, if any, may terminate. This could also lead to cross-defaults under other financing agreements and result in obligations becoming due and commitments being terminated under such agreements. A default under any financing agreement could also result in foreclosure on certain applicable vessels and other assets securing related loans or financings.

The international nature of our operations may make the outcome of any bankruptcy proceedings difficult to predict.

We are incorporated under the laws of the Marshall Islands, our principal executive offices are located outside of the United States, a majority of our directors and officers reside outside of the United States, and we conduct operations in countries around the world. In addition, all of our assets and a substantial portion of the assets of our directors, officers and experts are located outside of the United States. Consequently, in the event of any bankruptcy, insolvency, liquidation, dissolution, reorganization or similar proceeding involving us or any of our subsidiaries, bankruptcy laws other than those of the United States could apply. If we become a debtor under U.S. bankruptcy law, bankruptcy courts in the United States may seek to assert jurisdiction over all of our assets, wherever located, including property situated in other countries. There can be no assurance, however, that we would become a debtor in the United States, or that a U.S. bankruptcy court would be entitled to, or accept, jurisdiction over such a bankruptcy case, or that courts in other countries that have jurisdiction over us and our operations would recognize a U.S. bankruptcy court's jurisdiction if any other bankruptcy court would determine it had jurisdiction.

In the past we have recognized, and in the future we may be required to recognize, significant impairment charges.

We are required to review our containership assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable, which occurs when the assets' carrying value is greater than the undiscounted future cash flows the asset is expected to generate over the asset's remaining useful life. Examples of such events or changes in circumstances related to our long-lived assets include:

• A significant decrease in the market price of the asset;

• A significant adverse change in the extent or manner in which the asset is being used or in its physical condition;

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- A significant adverse change in legal factors or in the business climate that could affect the asset's value, including an adverse action or assessment by a regulator;
- An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of the asset;
- A current period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the asset's use; or
  - A current expectation that, more likely than not the asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

If the estimated undiscounted future cash flows of an asset, excluding interest charges, expected to be generated by the use of the asset over its useful life exceeds the asset's carrying value, no impairment is recognized even though the fair value of the asset may be lower than its carrying value. If the estimated undiscounted future cash flows are less than its carrying amount, an impairment charge is recorded for the amount by which the net book value of the asset exceeds its fair value.

In our experience, certain assumptions relating to our estimates of future cash flows are more predictable by their nature, including, estimated revenue under existing contract terms and remaining vessel life. Certain assumptions relating to our estimates of future cash flows require more judgment and are inherently less predictable, such as future charter rates beyond the firm period of existing contracts, the amount of time a vessel is off-charter, ongoing operating costs and vessel residual values; this volatility is, in part, due to factors such as the volatility in vessel charter rates and vessel values. We believe that the assumptions used to estimate future cash flows of our vessels are reasonable at the time they are made. We can provide no assurances, however, as to whether our estimates of future cash flows, particularly future vessel charter revenues or vessel values, will be accurate.

The determination of the fair value of vessels depends on various market factors, including charter and discount rates, ship operating costs and vessel trading values, and our reasonable assumptions at that time. During the year ended December 31, 2016, we recorded non-cash vessel impairments of \$285.2 million for 16 vessels held for use, consisting of four 4250 TEU, two 3500 TEU and ten 2500 TEU vessels. We performed an impairment test of our vessels at December 31, 2017 and determined that the undiscounted future cash flows of each vessel was expected to be greater than its carrying value and therefore took no impairment charge. At December 31, 2018, we noted that no events or conditions exist that would indicate that the carrying amount of the assets may not be recoverable. Therefore, we concluded that no impairment charge was required. The amount, if any, and timing of any impairment charges we may recognize in the future (which may be as early as 2019) will depend upon then current and expected future charter rates, vessel utilization, operating and dry-docking expenditures, vessel residual values, inflation and the remaining expected useful lives of our vessels, which may differ from period to period. Any future impairment charges may be material and would harm our earnings and net asset values. Please read "Item 5. Operating and Financial Review and Prospects—D. Critical Accounting Policies and Estimates—Impairment of Long-lived Assets."

Damage to our reputation or industry relationships could harm our business.

Our operational success and our ability to grow depends significantly upon our satisfactory performance of technical services (including vessel maintenance, crewing, purchasing, shipyard supervision, insurance, assistance with regulatory compliance and financial services). Our business will be harmed if we fail to perform these services satisfactorily. Our ability to compete for and to enter into new charters and expand our relationships with our customers depends upon our reputation and relationships in the shipping industry. If we suffer material damage to our reputation or relationships, it may harm our ability to, among other things:

- renew existing charters upon their expiration;
- obtain new charters;
- successfully interact with shipyards;
- dispose of vessels on commercially acceptable terms;
- obtain financing on commercially acceptable terms;

• maintain satisfactory relationships with our customers and suppliers; or  
• grow our business.

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If our ability to do any of the things described above is impaired, it could harm our business, results of operations and financial condition.

Our growth and our ability to re-charter our vessels depends on our ability to expand relationships with existing customers and develop relationships with new customers, for which we will face substantial competition.

We intend to acquire additional containerships as market conditions allow in conjunction with entering primarily into additional fixed-rate time charters for such ships, and to re-charter our existing vessels following the expiration of their current long-term time charters to the extent we retain those vessels in our fleet. The process of obtaining new time charters is highly competitive and generally involves an intensive screening process and competitive bids, and often extends for several months in regard to newbuilding containerships. Containership charters are awarded based upon a variety of factors relating to the vessel operator, including, among others:

- shipping industry relationships and reputation for customer service and safety;
- container shipping experience and quality of ship operations, including cost effectiveness;
- quality and experience of seafaring crew;
- the ability to finance containerships at competitive rates and the shipowner's financial stability generally;
- relationships with shipyards and the ability to get suitable berths;
- construction management experience, including the ability to obtain on-time delivery of new ships according to customer specifications;
- willingness to accept operational risks pursuant to the charter, such as allowing termination of the charter for force majeure events; and
- competitiveness of the bid in terms of overall price.

Competition for providing new containerships for chartering purposes comes from a number of experienced shipping companies, including direct competition from other independent charter owners and indirect competition from state-sponsored and other major entities with their own or leased fleets. Some of our peers have significantly greater financial resources than we do and may be able to offer better charter rates. Some of our peers have entered into joint ventures to charter their containerships, and may be able to better satisfy customer demands. An increasing number of marine transportation companies have entered the containership sector, including many with strong brand recognition and extensive resources and experience in the marine transportation industry. This increased competition may cause greater price competition for time charters. As a result of these factors, we may be unable to expand our relationships with existing customers or develop relationships with new customers on a profitable basis, if at all, which would harm our business, results of operations and financial condition. These risks will be heightened to the extent that we enter into newbuilding or other vessel acquisition contracts prior to entering into charters for such vessels.

We may be unable to make or realize expected benefits from acquisitions or investments, and implementing our growth strategy through acquisitions of existing businesses or vessels or investments in other containership businesses may harm our business, results of operation, financial condition and ability to pay dividends on our shares or redeem our preferred shares.

Our growth strategy includes selectively acquiring new containerships, existing containerships, containership-related assets and containership businesses as market conditions allow. We may also invest in other containership businesses. Factors that may limit the number of acquisition or investment opportunities in the containership industry include the ability to access capital to fund such transactions, the overall economic environment and the status of global trade and the ability to secure long-term, fixed-rate charters.

Any acquisition of, or investment in, a vessel or business may not be profitable to us at or after the time we acquire or make such acquisition or investment and may not generate cash flow sufficient to justify our investment. In addition, our acquisition growth strategy exposes us to risks that may harm our business, financial condition and results of operations, including risks that we may:

- fail to realize anticipated benefits, such as new customer relationships, cost savings or cash flow enhancements;
- be unable to hire, train or retain qualified shore and seafaring personnel to manage and operate our growing business and fleet;
- decrease our liquidity by using a significant portion of our available cash or borrowing capacity to finance acquisitions or investments;
  - increase our leverage or dilute existing shareholders to the extent we fund any acquisitions through the assumption or incurrence of indebtedness or the issuance of equity securities;
- incur or assume unanticipated liabilities, losses or costs associated with the business or vessels acquired;
- have difficulties achieving internal controls effectiveness and integrating an acquired business into our internal controls framework;
- incur other significant charges, such as impairment of goodwill or other intangible assets, asset devaluation or restructuring charges; or
- not be able to service our debt obligations and other payment obligations related to our securities.

Due to our lack of diversification, adverse developments in our containership transportation business could harm our business, results of operations and financial condition.

Our articles of incorporation currently limit our business to the chartering or re-chartering of containerships to others and other related activities, unless otherwise approved by our board of directors.

Nearly all of our cash flow is generated from our charters that operate in the containership transportation business. Due to our lack of diversification, an adverse development in the containership industry may more significantly harm our business, results of operations and financial condition than if we maintained more diverse assets or lines of business.

We may be unable to attract and retain qualified, skilled crew on our behalf necessary to operate our business or may pay rising crew and other vessel operating costs.

Acquiring and renewing long-term time charters with leading liner companies depends on a number of factors, including our ability to man our containerships with suitably experienced, high-quality masters, officers and crews. Our success will depend in large part on our ability to attract, hire, train and retain highly skilled and qualified personnel. In recent years, the limited supply of and the increased demand for well-qualified crew, due to the increase in the size of the global shipping fleet, has created upward pressure on crewing costs, which we bear under our time charters. Changing conditions in the home country of our seafarers, such as increases in the local general living standards or changes in taxation, may make serving at sea less appealing and thus further reduce the supply of crew and/or increase the cost of hiring competent crew. Unless we are able to increase our hire rates to compensate for increases in crew costs and other vessel operating costs such as insurance, repairs and maintenance, and lubricants, our business, results of operations, financial condition and our profitability may be adversely affected. In addition, any inability we experience in the future to attract, hire, train and retain a sufficient number of qualified employees could impair our ability to manage, maintain and grow our business. If we cannot attract and retain sufficient numbers of quality onboard seafaring personnel, our fleet utilization will decrease, which could also have a material adverse effect on our business, results of operations and financial condition, as well as our cash flows, including cash available for dividends to our stockholders.



Disruptions and security threats to our technology systems could negatively impact our business.

In the ordinary course of business, we rely on the security of information and operational technology systems, including those of our business partners and other third parties, to manage or support a variety of business activities including operating and navigating our fleet; tracking container contents and delivery; maintaining vessel infrastructure; communicating with personnel, management, customers and business partners; collecting, processing, transmitting and storing electronic information, including personal, employee, business, financial and operational data; facilitating business and financial transactions; and providing services to our customers. A cyber-attack on us, or our business partners, could significantly disrupt these and other commercial activities and business functions resulting in a loss of revenue and customer relationships. For operational technology in particular, a cyber-attack could result in physical damage to assets and infrastructure, injury or loss of life and environmental harm.

Our global technology network faces many threats from criminal hackers and competitors who may use phishing emails, unauthorized network intrusions, electronic communications or portable electronic devices to distribute computer viruses and ransomware, enable fraudulent transactions, or otherwise alter the confidentiality, integrity and availability of our information and information systems. Despite our continuing efforts to secure our technology network infrastructure, protect our critical data and systems, and ensure operational resiliency, cyber-attacks may occur that could have a material impact on our financial performance, reputation and continuous operations. Further, as the methods of cyber-attacks continue to evolve, we may be required to expend additional resources to enhance and supplement our existing protective measures. A successful cyber-attack could also result in significant costs associated with the investigation and remediation of our technology systems, as well as increased regulatory and legal liability.

A significant number of our vessels are chartered to Chinese customers and certain of our shipbuilders are based in China. The legal system in China is not fully developed and has inherent uncertainties that could limit the legal protections available to us, and the geopolitical risks associated with chartering vessels to Chinese customers and constructing vessels in China could harm our business, results of operations and financial condition.

We conducted a substantial amount of business in China or with Chinese counterparties. As of March 1, 2019, a total of 34 of the 112 vessels in our current fleet were chartered to Chinese customers and our revenues in 2018 from Chinese customers represented 37.6% of our total revenue in 2018. Many of our vessels regularly call to ports in China. Additionally, we have entered into financing arrangements with certain Chinese financial institutions.

The Chinese legal system is based on written statutes and their legal interpretation by the standing Committee of the National People's Congress. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, the Chinese government has been developing a comprehensive system of laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited volume of published cases and their non-binding nature, interpretation and enforcement of these laws and regulations involve uncertainties.

Our vessels that are chartered to Chinese customers are subject to various risks as a result of uncertainties in Chinese law, including (1) the risk of loss of revenues, property or equipment as a result of expropriation, nationalization, changes in laws, exchange controls, war, insurrection, civil unrest, strikes or other political risks and (2) being subject to foreign laws and legal systems and the exclusive jurisdiction of Chinese courts and tribunals.

Although our charter parties and many of our financing arrangements are governed by English law, if we are required to commence legal proceedings against a customer, a charter guarantor or a lender based in China with respect to the provisions of a time charter, a time charter guarantee or a credit agreement, we may have difficulties in enforcing any judgment rendered by an English court (or other non-Chinese court) in China. Similarly, our shipbuilders based in China provide warranties against certain defects for the vessels that they will construct for us and we have refund guarantees from a Chinese financial institution for installment payments that we will make to the shipbuilders. Although the shipbuilding contracts and refund guarantees are governed by English law, if we are required to

commence legal proceedings against these shipbuilders or against the refund guarantor, we may have difficulties enforcing in China any judgment obtained in such proceeding.

Such charters, shipbuilding agreements and financing agreements, and any additional agreements that we enter into with Chinese counterparties, may be subject to new regulations in China that may require us to incur new or additional compliance or other administrative costs and pay new taxes or other fees to the Chinese government. In addition, China has enacted a recent tax for non-resident international transportation enterprises engaged in the provision of services of passengers or cargo, among other items, in and out of China using their own, chartered or leased vessels, including any stevedore, warehousing and other services connected with the transportation. The recent law and relevant regulations broaden the range of international transportation companies which may find themselves liable for Chinese enterprise income tax on profits generated from international transportation services passing through Chinese ports. This tax or similar regulations by China may reduce our operating results and may also result in an increase in the cost of goods exported from China and the risks associated with exporting goods from China, as well as a decrease in the quantity of goods to be shipped from or through China, which would have an adverse impact on our charterers' business, operating results and financial condition and could thereby affect their ability to make timely charter hire payments to us and to renew and increase the number of their time charters with us.

Changes in laws and regulations, including with regards to tax matters, and their implementation by local authorities could affect our vessels chartered to Chinese customers as well as our vessels calling to Chinese ports, our vessels being built at Chinese shipyards and the financial institutions with whom we have entered into financing agreements, and could have a material adverse effect on our business, results of operations and financial condition, as well as our cash flows, including cash available for dividends to our shareholders.

We depend on our key personnel and changes in our management team may adversely affect our operations.

Over the last two years, we have experienced turnover or changes in our senior management. In January 2018, Bing Chen was appointed as our Chief Executive Officer ("CEO"), replacing Gerry Wang who had resigned in November 2017; in May 2018, Ryan Courson was appointed as our Chief Financial Officer ("CFO"), replacing David Spivak, who had resigned that same month; in July 2018, Tina Lai was appointed as our Chief Human Resources Officer; in August 2018, Mark Chu resigned as our General Counsel and Chief Operating Officer; in October 2018, Torsten Holst Pedersen was appointed as Executive Vice-President, Ship Management and Ted Chang was appointed as General Counsel; and in February 2019 Ted Chang stepped down as our General Counsel. While we expect to engage in an orderly transition process as we integrate newly appointed personnel, we face a variety of risks and uncertainties relating to this transition, including diversion of management attention from business concerns, failure to retain other key personnel and loss of institutional knowledge. These risks and uncertainties could result in operational and administrative inefficiencies and added costs, which could adversely impact our business and results of operations.

Our future success depends to a significant extent upon our ability to identify, hire, develop, motivate and retain key personnel, including our senior management and skilled employees. Competition for highly-qualified professionals is intense. If key employees depart, it could prevent or delay the implementation and completion of our strategic objectives, divert management's attention to seek certain qualified replacements or adversely affect our ability to manage our business effectively and, as a result, our business, results of operations and financial condition may be adversely affected.

Over the long-term, we will be required to make substantial capital expenditures to preserve the operating capacity of our fleet.

We must make substantial capital expenditures over the long-term to preserve the operating capacity of our fleet including, among other things, to meet future environmental regulatory standards. If we do not retain funds in our business in amounts necessary to preserve the operating capacity of our fleet, over the long-term, our fleet and related charter revenues may diminish, and we will not be able to continue to refinance our indebtedness. As our fleet ages, we will likely need to retain additional funds, on an annual basis, to provide reasonable assurance of maintaining the operating capacity of our fleet over the long-term. To the extent we use or retain available funds to make capital expenditures to preserve the operating capacity of our fleet, there will be less funds available to pay interest and

principal on our Notes, pay dividends on our equity securities or redeem our preferred shares.

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We may seek acquisition or investment opportunities in business adjacent to the ownership and operation of containerships, which may or may not be outside of our management's area of expertise.

As part of our capital allocation strategy, we will consider acquisition or investment opportunities in businesses adjacent to the ownership and operation of containerships (which businesses may or may not be within our management's areas of expertise) if an acquisition or investment opportunity is presented to us and we determine that it enhances the long-term value of our company and offers attractive risk-adjusted returns.

For example, in October 2018, we entered into a binding term sheet to invest up to \$200.0 million in Swiber Holdings Limited ("Swiber"), a Singaporean offshore engineering, procurement and construction business that owns five maritime vessels. Subject to the terms and conditions to be set forth in the definitive transaction agreement, upon closing, Seaspan anticipates acquiring an 80% post-restructured equity interest in Swiber for \$10.0 million and, if certain milestones are met, an additional \$190.0 million would be invested in Swiber's LNG-to-power project in Vietnam, in exchange for economic interests in the project. Discussions with Swiber, its judicial managers and secured creditors around the terms of our investment have been ongoing. We anticipate entering into a definitive transaction agreement in the near future.

Although our management will endeavor to evaluate the risks inherent in any particular acquisition or investment opportunity we cannot assure you that we will adequately ascertain or assess all of the significant risk factors. We also cannot assure you that an investment in our securities will not ultimately prove to be less favorable to investors than a direct investment, if an opportunity were available, in an acquisition or investment opportunity.

Under the charters for most of our vessels, if a vessel is off-hire for an extended period then the customer has a right to terminate the charter agreement for that vessel.

Under most of our time charter agreements, if a vessel is not available for service, or off-hire, for an extended period, the customer has a right to terminate the charter agreement for that vessel. If a time charter is terminated, we may be unable to re-deploy the related vessel on terms as favorable to us, if at all. We may not receive any revenue from that vessel, but may be required to continue to pay financing costs for the vessel and expenses necessary to maintain the vessel in proper operating condition.

An increase in the price of bunkers may adversely affect profits.

While we generally do not bear the cost of bunkers for vessels operating on time charters, fuel is a significant factor in negotiating charter rates. As a result, an increase in the price of bunkers beyond our expectations may adversely affect our profitability at the time of charter negotiation. The price and supply of bunkers are unpredictable and fluctuates based on events outside our control, including geopolitical developments, supply of and demand for oil and gas, actions by the Organization of Petroleum Exporting Countries and other oil and gas producers, war and unrest in oil producing countries and regions, regional production patterns and environmental concerns and regulations. Fuel may become much more expensive in the future, including as a result of the imposition of sulfur oxide emissions limits in 2020 under new regulations adopted by the IMO, which may reduce the profitability and competitiveness of our business versus other forms of transportation, such as truck or rail.

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

In general, the cost of maintaining a vessel in good operating condition increases with the age of the vessel. Our current fleet of 112 containerships as of March 1, 2019, had an average age (weighted by TEU capacity) of six years. As our fleet ages, we will incur increased costs. Older vessels may require longer and more expensive dry-dockings, resulting in more off-hire days and reduced revenue. Older vessels are typically less fuel efficient and more costly to maintain than more recently constructed vessels due to improvements in engine technology. In addition, older vessels are often less desirable to charterers. Governmental regulations and safety or other equipment standards related to the

age of a vessel may also require expenditures for alterations or the addition of new equipment to our vessels and may restrict the type of activities in which our containerships may engage.

We cannot assure you that, as our vessels age, market conditions will justify such expenditures or will enable us to profitably operate our older vessels.

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Our insurance may be insufficient to cover losses that may occur to our property or result from the inherent operational risks of the shipping industry.

We maintain insurance for our fleet against risks commonly insured against by vessel owners and operators. Our insurance includes hull and machinery insurance, war risks insurance and protection and indemnity insurance (which includes environmental damage and pollution insurance). We may not be adequately insured against all risks and our insurers may not pay a particular claim. Even if our insurance coverage is adequate to cover any vessel loss, we may not be able to obtain a replacement vessel on a timely basis. Our credit facilities and lease arrangements restrict our use of any proceeds we may receive from claims under our insurance policies. In addition, in the future we may not be able to obtain adequate insurance coverage at reasonable rates for our fleet. We may also be subject to supplementary or additional calls, or premiums, in amounts based not only on our own claim records but also the claim records of all other members of the protection and indemnity associations, as an industry group, through which we receive indemnity insurance coverage for statutory, contractual and tort liability, due to the sharing and reinsurance arrangements stated in the insurance rules. Our insurance policies also contain deductibles, limitations and exclusions which, although we believe they are standard in the shipping industry, may directly or indirectly increase our costs.

In addition, we do not carry loss-of-hire insurance, which covers the loss of revenue during extended vessel off-hire periods, such as those that occur during an unscheduled dry-docking due to damage to the vessel from accidents. Accordingly, any loss of a vessel or extended vessel off-hire, due to an accident or otherwise, could harm our business, results of operations and financial condition.

Our vessels' mortgagees or other maritime claimants could arrest our vessels, which could interrupt our charterers' or our cash flow.

If we default under our credit facilities that are secured by mortgages on our vessels, the lenders that hold those mortgages could arrest some or all of the vessels encumbered by those mortgages and cause them to be sold. We would not receive any proceeds of such sales unless all amounts outstanding under such indebtedness had been repaid in full. In addition, crew members, suppliers of goods and services to a vessel, shippers of cargo and other parties may be entitled to a maritime lien against the applicable vessel for unsatisfied debts, claims or damages. In many jurisdictions, a maritime lienholder may enforce its lien by arresting a vessel through foreclosure proceedings. In addition, in some jurisdictions, such as South Africa, under the "sister ship" theory of liability, a claimant may arrest both the vessel that is subject to the claimant's maritime lien and any "associated" vessel, which is any vessel owned or controlled by the same owner. Claimants could try to assert "sister ship" liability against one vessel in our fleet for claims relating to another of our ships. The arrest or attachment of one or more of our vessels could interrupt our charterers' or our business and cash flow and require the charterers or us or our insurance to pay significant amounts to have the arrest lifted, which could harm our business, results of operations and financial condition.

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

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

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

We may operate in a number of countries throughout the world, including countries known to have a reputation for corruption. We are committed to doing business in accordance with applicable anti-corruption laws and have adopted a code of business conduct and ethics which is consistent and in full compliance with the U.S. Foreign Corrupt

Practices Act of 1977 (the “FCPA”). We are subject, however, to the risk that we, our affiliated entities or our or their respective officers, directors, employees and agents may take actions determined to be in violation of such anti-corruption laws, including the FCPA. Any such violation could result in substantial fines, sanctions, civil and/or criminal penalties and curtailment of operations in certain jurisdictions, and might adversely affect our business, results of operations or financial condition. In addition, actual or alleged violations could

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damage our reputation and ability to do business. Furthermore, detecting, investigating, and resolving actual or alleged violations is expensive and can consume significant time and attention of our senior management.

We, or any of our subsidiaries, may become subject to income tax in jurisdictions in which we are organized or operate, including the United States, Canada, Hong Kong and the People's Republic of China which would reduce our earnings and potentially cause certain shareholders to be subject to tax in such jurisdictions.

We intend that our affairs and the business of each of our subsidiaries will be conducted and operated in a manner that minimizes income taxes imposed upon us and our subsidiaries. However, there is a risk that we will be subject to income tax in one or more jurisdictions, including the United States, Canada, Hong Kong and the People's Republic of China (the "PRC"), if under the laws of any such jurisdiction, we or such subsidiary is considered to be carrying on a trade or business there or earn income that is considered to be sourced there and we do not or such subsidiary does not qualify for an exemption or reduced taxation under local taxation rules or applicable tax treaties. Please read "Item 4. Information on the Company—B. Business Overview—Taxation of the Company." In addition, while we do not believe that we are, nor do we expect to be, resident in Canada, in the event that we were treated as a resident of Canada, shareholders who are non-residents of Canada may be or become subject to tax in Canada. Please read "Item 4. Information on the Company—B. Business Overview—Taxation of the Company—Canadian Taxation" and "Item 10. Additional Information—E. Taxation."

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

A non-U.S. corporation will be treated as a "passive foreign investment company" ("PFIC"), for such purposes in any taxable year for which either (1) at least 75% of its gross income consists of "passive income" or (2) at least 50% of the average value of the corporation's assets is attributable to assets that produce, or are held for the production of, "passive income." For purposes of these tests, "passive income" includes dividends, interest, gains from the sale or exchange of investment property, and rents and royalties (other than rents and royalties that are received from unrelated parties in connection with the active conduct of a trade or business) but does not include income derived from the performance of services.

There are legal uncertainties involved in determining whether the income derived from our time chartering activities constitutes rental income or income derived from the performance of services, including the decision in *Tidewater Inc. v. United States*, 565 F.3d 299 (5th Cir. 2009), which held that income derived from certain time chartering activities should be treated as rental income rather than services income for purposes of a foreign sales corporation provision of the Internal Revenue Code of 1986, as amended (the "Code"). However, the Internal Revenue Service (the "IRS"), stated in an Action on Decision (AOD 2010-01) that it disagrees with, and will not acquiesce to, the way that the rental versus services framework was applied to the facts in the *Tidewater* decision, and in its discussion stated that the time charters at issue in *Tidewater* would be treated as producing services income for PFIC purposes. The IRS's statement with respect to *Tidewater* cannot be relied upon or otherwise cited as precedent by taxpayers. Consequently, in the absence of any binding legal authority specifically relating to the statutory provisions governing PFICs, there can be no assurance that the IRS or a court would not follow the *Tidewater* decision in interpreting the PFIC provisions of the Code. Nevertheless, based on the current composition of our assets and operations (and those of our subsidiaries), we intend to take the position that we are not now and have never been a PFIC. No assurance can be given, however, that this position would be sustained by a court if contested by the IRS, or that we would not constitute a PFIC for any future taxable year if there were to be changes in our assets, income or operations.

If the IRS were to determine that we are or have been a PFIC for any taxable year during which a U.S. Holder (as defined below under "Item 10. Additional Information—E. Taxation—Material U.S. Federal Income Tax Considerations") held shares, such U.S. Holder would face adverse U.S. federal income tax consequences. For a more comprehensive discussion regarding our status as a PFIC and the tax consequences to U.S. Holders if we are treated as a PFIC, please read "Item 10. Additional Information—E. Taxation—Material U.S. Federal Income Tax Considerations—U.S. Federal



## Risk Related to Our Securities

Following its recent investment in us, Fairfax Financial Holdings Ltd. and its affiliates (“Fairfax”) will have significant influence over our policies and business.

During 2018 and in January 2019, Fairfax completed a series of investments in our company. For more information about these investments, see “Item 5. Operating and Financial Review and Prospects—A. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments in 2018 – 2019 Fairfax Investment.”

If the 25,000,000 warrants that were issued to Fairfax in July 2018 were exercised in full, as of March 1, 2019, Fairfax’s shareholdings in our Company including common shares owned by V. Prem Watsa (the chairman and chief executive officer of Fairfax Financial Holdings Limited) that he acquired in the open market, would have represented approximately 42.7% of our outstanding common shares on such date after taking into account the issuance of the shares to Fairfax upon exercise of those warrants.

The indenture relating to the 2025 Notes provided Fairfax with the right to designate (and Fairfax has so designated) (1) two members of our board of directors if at least \$125.0 million aggregate principal amount of the 2025 Notes remains outstanding or (2) one member of the board of directors if at least \$50.0 million but less than \$125.0 million aggregate principal amount of the 2025 Notes remains outstanding. Lawrence Chin and Stephen Wallace serve as Fairfax’s designees to our board of directors. The combination of Fairfax’s board representation and positions as a significant debt and equity holder gives Fairfax significant influence over our policies and business, and Fairfax’s objectives may conflict with those of other security holders and stakeholders of us.

We may not have sufficient cash from our operations to enable us to pay dividends on our shares or redeem our preferred shares following the payment of expenses.

We pay quarterly dividends on our shares from funds legally available for such purpose when, as and if declared by and in the discretion of our board of directors. We may not have sufficient cash available each quarter to pay dividends. In addition, we may have insufficient cash available to redeem our preferred shares. The amount of dividends we can pay or the amount we can use to redeem the preferred shares depends upon the amount of cash we generate from and use in our operations, which may fluctuate significantly based on, among other things:

- our ability to charter ships that are currently off-charter, on short-term charter or coming off long-term charter;
- the rates we obtain from our charters or re-charters and the ability of our customers to perform their obligations under their charters;
- the level of our operating costs;
- the number of off-charter or unscheduled off-hire days for our fleet and the timing of, and number of days required for, dry-docking of our containerships;
- prevailing global and regional economic and political conditions;
- the effect of governmental regulations and maritime self-regulatory organization standards on the conduct of our business;
- changes in the basis of taxation of our activities in various jurisdictions;
- our ability to service and refinance our current and future indebtedness;
- our ability to raise additional debt and equity to satisfy our capital needs;
- dividend and redemption payments applicable to other senior or parity equity securities; and
- our ability to draw on our existing credit facilities and the ability of our lenders and lessors to perform their obligations under their agreements with us.

We have recently paid quarterly dividends of \$0.125 per common share; for additional information, please read “Item 5. Operating and Financial Review and Prospects—C. Liquidity and Capital Resources—Ongoing Capital Expenditures and Dividends”. Any increase in such dividend (1) will result in an upward adjustment of the number of our common shares issuable upon exercise of the warrants we issued to Fairfax in July 2018 and (2) may be prohibited by the covenants relating to the Fairfax Notes issued to Fairfax, subject to a restricted payments basket included in the indenture for the notes. For additional information about the Fairfax investment, please read “Item 5. Operating and Financial Review and Prospects—A. General: Management’s Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments—Fairfax Investment.”

The amount of cash we have available to pay dividends on our shares or to redeem our preferred shares will not depend solely on our profitability, as our board of directors may determine to retain cash rather than to use it to pay dividends.

The actual amount of cash we will have available to pay dividends on our shares or to redeem our preferred shares depends on many factors, including, among others:

- changes in our operating cash flow, capital expenditure requirements, debt and lease repayment requirements, working capital requirements and other cash needs;
- restrictions under our existing or future credit and lease facilities or any debt securities, including existing restrictions under our credit, capital lease and operating lease facilities and our Notes, may impact our ability to declare or pay dividends if an event of default has occurred and is continuing or if the payment of the dividend would result in an event of default or if the dividend would violate a restricted payments covenant for the notes issued to Fairfax;
- the amount of any reserves established by our board of directors; and
- restrictions under Marshall Islands law, which generally prohibits the payment of dividends other than from surplus (i.e. retained earnings and the excess of consideration received for the sale of shares above the par value of the shares) or while a company is insolvent or would be rendered insolvent by the payment of such a dividend.

The amount of cash we generate from our operations may differ materially from our net income or loss for the period, which is affected by non-cash items, and our board of directors in its discretion may elect not to declare any dividends. As a result of these and the other factors mentioned above, we may pay dividends during periods when we record losses and may not pay dividends during periods when we record net income.

Our board of directors periodically assesses our need to retain funds rather than pay them out as dividends. Our board of directors may decide to further reduce, or possibly eliminate, our dividend in order to retain funds necessary to preserve our capital base.

Substantial future sales of our preferred or common shares in the public market could cause the price of such shares to fall.

The market price of our preferred and common shares could decline due to sales of a large number of shares in the market, including sales of shares by our large shareholders, or the perception that these sales could occur. These sales could also make it more difficult or impossible for us to sell equity securities at a time and price that we deem appropriate to raise funds. Since the time of our initial public offering, we have granted registration rights to the holders of certain of our securities, including common shares or securities convertible into common shares and preferred shares. Please refer to our discussion of these registration rights agreements at “Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions—Registration Rights Agreements”. These shareholders, which include Fairfax and affiliates of the Washington family, have the right, subject to certain conditions, to require us to file registration statements covering the sale of such common shares or preferred shares. Following their sale under an applicable registration statement, any such common shares will become freely tradable. By exercising their registration rights and selling a large number of common shares or preferred shares, these shareholders could cause the price of our common shares or preferred shares to decline.



We are a “foreign private issuer” under the NYSE rules, and as such we are entitled to exemption from certain NYSE corporate governance standards, and you may not have the same protections afforded to stockholders of companies that are subject to all of the NYSE corporate governance requirements.

We are a “foreign private issuer” under the securities laws of the United States and the rules of the NYSE. Under the securities laws of the United States, “foreign private issuers” are subject to different disclosure requirements than U.S. domiciled registrants, as well as different financial reporting requirements. Under the NYSE rules, a “foreign private issuer” is subject to less stringent corporate governance requirements. Subject to certain exceptions, the rules of the NYSE permit a “foreign private issuer” to follow its home country practice in lieu of the listing requirements of the NYSE. As permitted by the exemption, as well as by our bylaws and the laws of the Marshall Islands, we currently have a board of directors with a majority of independent directors, an audit committee comprised solely of three independent directors and a combined corporate governance, nominating and compensation committee comprised of independent directors. It is possible that, in the future, you may not have the same protections afforded to stockholders of companies that are subject to all of the NYSE corporate governance requirements.

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

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

These provisions include:

- authorizing our board of directors to issue “blank check” preferred shares without shareholder approval;
- prohibiting cumulative voting in the election of directors;
- authorizing the removal of directors only for cause and only upon the affirmative vote of the holders of at least a majority of the outstanding shares entitled to vote for those directors;
- prohibiting shareholder action by written consent unless the written consent is signed by all shareholders entitled to vote on the action;
- limiting the persons who may call special meetings of shareholders;
- establishing advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted on by shareholders at shareholder meetings; and
- restricting business combinations with interested shareholders.

These anti-takeover provisions could substantially impede a potential change in control and, as a result, may adversely affect the market price of our securities.

Uncertainty relating to the LIBOR calculation process and potential phasing out of LIBOR after 2021 may adversely affect the value of our credit facilities, lease facilities and preferred shares.

On July 27, 2017, the United Kingdom Financial Conduct Authority (“FCA”), which regulates LIBOR, announced that it intends to stop persuading or compelling banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021 (“FCA Announcement”). The FCA Announcement indicates that the continuation of LIBOR on the current basis is not guaranteed after 2021.

The majority of our credit and lease facilities bear interest costs at a floating rate based on LIBOR. Uncertainties surrounding changes to the basis of which LIBOR is calculated or the phase-out of LIBOR which may cause a sudden and prolonged increase or decrease in LIBOR could adversely affect our operating results and financial condition, as well as our cash flows, including cash available for dividends to our shareholders. While we use interest swaps to

reduce our exposure to interest rate risk and to hedge a portion of our outstanding indebtedness, there is no assurance that our derivative contracts will provide adequate protection against adverse changes in interest rates or that our bank counter parties will be able to perform their obligations.

If a three-month LIBOR rate is not available, the terms of our various credit and lease facilities, and to the extent applicable, our series of preferred shares will require alternative determination procedures which may result in an interest and/or a dividend rate differing from expectations and could materially affect the value of the such instruments.

We are incorporated in the Republic of the Marshall Islands, which does not have a well-developed body of corporate law.

Our corporate affairs are governed by our articles of incorporation and bylaws and by the Marshall Islands Business Corporations Act (“BCA”). The provisions of the BCA resemble provisions of the corporation laws of some states in the United States. However, there have been few judicial cases in the Republic of the Marshall Islands interpreting the BCA. The rights and fiduciary responsibilities of directors under the laws of the Republic of the Marshall Islands are not as clearly established as the rights and fiduciary responsibilities of directors under statutes or judicial precedent in existence in certain United States jurisdictions. Shareholder rights may differ as well. While the BCA does specifically incorporate non-statutory law, or judicial case law, of the State of Delaware and other states with substantially similar legislative provisions, our public shareholders may have more difficulty in protecting their interests in the face of actions by management, directors or controlling shareholders than would shareholders of a corporation incorporated in a U.S. jurisdiction.

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

We are organized under the laws of the Marshall Islands, and all of our assets are located outside of the United States. Our principal executive offices are located in Hong Kong and a majority of our directors and officers are residents outside of the United States. As a result, it may be difficult or impossible for you to bring an action against us or against our directors or our officers in the United States if you believe that your rights have been infringed under securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Marshall Islands and of other jurisdictions may prevent or restrict you from enforcing a judgment against our assets or our directors and officers.

Our ability to pay dividends on our shares and redeem our preferred shares is limited by the requirements of Marshall Islands law.

Marshall Islands law provides that we may pay dividends on our shares and redeem our preferred shares only to the extent that assets are legally available for such purposes. Legally available assets generally are limited to our surplus, which essentially represents our retained earnings and the excess of consideration received by us for the sale of shares above the par value of such shares. In addition, under Marshall Islands law we may not pay dividends on our shares or redeem our preferred shares if we are insolvent or would be rendered insolvent by the payment of such a dividend or the making of such redemption.

#### Item 4. Information on the Company

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

Seaspan Corporation was incorporated in the Republic of the Marshall Islands in May 2005 to acquire all of the containership business of Seaspan Container Lines Limited. In August 2005, we completed our initial public offering. From an initial operating fleet of 10 vessels, we have grown to an operating fleet of 112 vessels as of March 1, 2019.

We maintain our principal executive offices at Unit 2, 2nd Floor, Bupa Centre, 141 Connaught Road West, Hong Kong, China. Our telephone number is (852) 2540-1686.





B. Business Overview

General

We are a leading independent charter owner and manager of containerships, which we charter primarily pursuant to long-term, fixed-rate time charters with major container liner companies. As of March 1, 2019, we operated a fleet of 112 containerships that have an average age of approximately six years, on a TEU weighted basis.

We primarily deploy our vessels on long-term, fixed-rate time charters to take advantage of the stable cash flow and high utilization rates that are typically associated with long-term time charters. As of March 1, 2019, the charters on the 112 vessels in our operating fleet had an average remaining term of approximately four years, on a TEU weighted basis, excluding the effect of charterers' options to extend certain time charters.

Customers for our operating fleet as of March 1, 2019 were as follows:

Customers for Current Fleet

Arkas  
CMA CGM  
COSCO  
Hapag-Lloyd  
HMM  
K-Line  
KMTC  
Maersk  
MOL  
MSC  
ONE  
Yang Ming Marine

Please read “—Our Fleet” for more information about our vessels and time charter contracts. Most of our customers' containership business revenues are derived from the shipment of goods from the Asia Pacific region, primarily China, to various overseas export markets in the United States and in Europe.

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Our Fleet

Our Current Fleet

The following table summarizes key facts regarding our 112 operating vessels as of March 1, 2019:

Vessel Name	Vessel Class (TEU)	Charter Year	Charter Start Date	Charterer	Length of Charter	Daily Charter Rate (in thousands of USD)
YM Wish	14000	2015	04/07/2015	Yang Ming Marine	10 years + one 2-year option	\$46.8
YM Wellhead	14000	2015	04/22/2015	Yang Ming Marine	10 years + one 2-year option	46.8
YM Winner <sup>(1)</sup>	14000	2015	06/10/2015	Yang Ming Marine	10 years + one 2-year option	46.8
YM Witness	14000	2015	07/03/2015	Yang Ming Marine	10 years + one 2-year option	46.8
YM Wellness <sup>(1)</sup>	14000	2015	08/21/2015	Yang Ming Marine	10 years + one 2-year option	46.8
YM Warmth <sup>(1)</sup>	14000	2015	10/16/2015	Yang Ming Marine	10 years + one 2-year option	46.8
YM Window <sup>(1)</sup>	14000	2016	05/08/2016	Yang Ming Marine	10 years + one 2-year option	46.5
YM Width <sup>(1)</sup>	14000	2016	05/29/2016	Yang Ming Marine	10 years + one 2-year option	46.5
YM Wind <sup>(1)</sup>	14000	2017	06/02/2017	Yang Ming Marine	10 years + one 2-year option	46.5
YM World	14000	2015	04/13/2015	Yang Ming Marine	10 years + one 2-year option	46.8
YM Wondrous	14000	2015	05/26/2015	Yang Ming Marine	10 years + one 2-year option	46.8
YM Wholesome	14000	2015	07/23/2015	Yang Ming Marine	10 years + one 2-year option	46.8
YM Worth	14000	2015	09/17/2015	Yang Ming Marine	10 years + one 2-year option	46.8
YM Welcome	14000	2016	08/16/2016	Yang Ming Marine	10 years + one 2-year option	46.5
YM Wreath	14000	2017	06/30/2017	Yang Ming Marine	10 years + one 2-year option	46.5
MSC Shuba B <sup>(1)</sup>	11000	2017	08/23/2017	MSC	17 years	24.3
MSC Shreya B <sup>(1)</sup>	11000	2017	09/20/2017	MSC	17 years	24.3
MSC Nitya B <sup>(1)</sup>	11000	2017	09/28/2017	MSC	17 years	24.3
MSC Madhu B <sup>(1)</sup>	11000	2017	12/11/2017	MSC	17 years	24.3
MSC Yashi B <sup>(1)</sup>	11000	2018	01/04/2018	MSC	17 years	24.3
COSCO Glory	13100	2011	06/10/2011	COSCO	12 years	55.0
COSCO Pride <sup>(1)</sup>	13100	2011	06/29/2011	COSCO	12 years	55.0
COSCO Development	13100	2011	08/10/2011	COSCO	12 years	55.0

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COSCO Harmony	13100	2011	08/19/2011	COSCO	12 years	55.0
COSCO Excellence	13100	2012	03/08/2012	COSCO	12 years	55.0
COSCO Faith <sup>(1)</sup>	13100	2012	03/14/2012	COSCO	12 years	55.0
COSCO Hope	13100	2012	04/19/2012	COSCO	12 years	55.0
COSCO Fortune	13100	2012	04/29/2012	COSCO	12 years	55.0
Seaspan Ganges	10000	2014	03/28/2017	Hapag-Lloyd	Minimum 22 months and up to two years <sup>(2)</sup>	Market rate <sup>(3)</sup>
Seaspan Yangtze	10000	2014	04/11/2017	Hapag-Lloyd	Minimum 22 months and up to two years <sup>(2)</sup>	Market rate <sup>(3)</sup>
Seaspan Zambezi	10000	2014	03/26/2017	Hapag-Lloyd	Minimum 22 months and up to two years <sup>(2)</sup>	Market rate <sup>(3)</sup>
MOL Bravo <sup>(1)</sup>	10000	2014	07/18/2014	MOL <sup>(15)</sup>	8 years + one 2-year option	37.5 <sup>(4)</sup>
MOL Brightness <sup>(1)</sup>	10000	2014	10/31/2014	MOL <sup>(15)</sup>	8 years + one 2-year option	37.5 <sup>(4)</sup>
MOL Breeze <sup>(1)</sup>	10000	2014	11/14/2014	MOL <sup>(15)</sup>	8 years + one 2-year option	37.5 <sup>(4)</sup>
MOL Beacon <sup>(1)</sup>	10000	2015	04/10/2015	MOL <sup>(15)</sup>	8 years + one 2-year option	37.5 <sup>(4)</sup>
MOL Benefactor <sup>(1)</sup>	10000	2016	03/28/2016	MOL <sup>(15)</sup>	8 years + one 2-year option	37.5 <sup>(4)</sup>
MOL Beyond <sup>(1)</sup>	10000	2016	04/29/2016	MOL <sup>(15)</sup>	8 years + one 2-year option	37.5 <sup>(4)</sup>
Maersk Guayaquil	10000	2015	09/21/2015	Maersk	5 years + two 1-year options	37.2 <sup>(5)</sup>
Maersk Genoa <sup>(1)</sup>	10000	2016	09/12/2016	Maersk	5 years + two 1-year options	37.2 <sup>(5)</sup>
Seaspan Thames	10000	2014	04/03/2017	Hapag-Lloyd	Minimum 22 months and up to two years <sup>(2)</sup>	Market rate <sup>(3)</sup>
Seaspan Amazon	10000	2014	04/12/2017	Hapag-Lloyd	Minimum 22 months and up to two years <sup>(2)</sup>	Market rate <sup>(3)</sup>
Seaspan Hudson	10000	2015	03/31/2018	Yang Ming Marine	2 years + one 1-year option	Market rate <sup>(3)</sup>
CMA CGM Tuticorin	10000	2015	06/28/2018	CMA CGM	3 years + option for up to 3 years	29.0
MOL Brilliance	10000	2014	10/17/2014	MOL <sup>(15)</sup>	8 years + one 2-year option	37.5
MOL Belief	10000	2015	07/03/2015	MOL <sup>(15)</sup>	8 years + one 2-year option	37.5
MOL Beauty	10000	2015	05/01/2015	MOL <sup>(15)</sup>	8 years + one 2-year option	37.5
MOL Bellwether	10000	2015	07/23/2015	MOL <sup>(15)</sup>	8 years + one 2-year option	37.5
Maersk Guatemala	10000	2015	09/03/2015	Maersk	5 years + two 1-year options	37.2
Maersk Gibraltar	10000	2016	11/26/2016	Maersk	5 years + two 1-year options	37.2
CMA CGM Mundra	10000	2018	05/12/2018	CMA CGM	3 years + option for up to 3 years	29.0 <sup>(6)</sup>
CMA CGM Cochin	10000	2018	05/14/2018	CMA CGM	3 years + option for up to 3 years	29.0 <sup>(6)</sup>
CMA CGM Mumbai	10000	2018	05/21/2018	CMA CGM	3 years + option for up to 3 years	29.0 <sup>(6)</sup>
CMA CGM Chennai	10000	2018	05/28/2018	CMA CGM	3 years + option for up to 3 years	29.0 <sup>(6)</sup>
CSCL Zeebrugge	9600	2007	01/15/2019	COSCO	Minimum two months and up to four months	Market rate <sup>(3)</sup>
CSCL Long Beach	9600	2007	07/06/2007	COSCO	12 years	34.5 <sup>(7)</sup>
Seaspan Oceania	8500	2004	10/04/2018	MSC	Minimum 10 months and up to 11 months	Market rate <sup>(3)</sup>
CSCL Africa	8500	2005	02/25/2018	COSCO	Minimum 12 months and up to 14 months	Market rate <sup>(3)</sup>

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COSCO Japan	8500	2010	03/09/2010	COSCO	12 years + three 1-year options	42.9	(8)
COSCO Korea	8500	2010	04/05/2010	COSCO	12 years + three 1-year options	42.9	(8)
COSCO Philippines	8500	2010	04/24/2010	COSCO	12 years + three 1-year options	42.9	(8)
COSCO Malaysia	8500	2010	05/19/2010	COSCO	12 years + three 1-year options	42.9	(8)
COSCO Indonesia	8500	2010	07/05/2010	COSCO	12 years + three 1-year options	42.9	(8)
COSCO Thailand	8500	2010	10/20/2010	COSCO	12 years + three 1-year options	42.9	(8)
COSCO Prince Rupert	8500	2011	03/21/2011	COSCO	12 years + three 1-year options	42.9	(8)
COSCO Vietnam	8500	2011	04/21/2011	COSCO	12 years + three 1-year options	42.9	(8)
MOL Emerald	5100	2009	04/30/2009	MOL <sup>(15)</sup>	12 years	28.9	
MOL Eminence	5100	2009	08/31/2009	MOL <sup>(15)</sup>	12 years	28.9	
MOL Emissary	5100	2009	11/20/2009	MOL <sup>(15)</sup>	12 years	28.9	
MOL Empire	5100	2010	01/08/2010	MOL <sup>(15)</sup>	12 years	28.9	
Brottonne Bridge <sup>(1)</sup>	4500	2010	10/25/2010	K-Line <sup>(15)</sup>	12 years + two 3-year options	34.5	(9)
Brevik Bridge <sup>(1)</sup>	4500	2011	01/25/2011	K-Line <sup>(15)</sup>	12 years + two 3-year options	34.5	(9)
Bilbao Bridge <sup>(1)</sup>	4500	2011	01/28/2011	K-Line <sup>(15)</sup>	12 years + two 3-year options	34.5	(9)
Berlin Bridge	4500	2011	05/09/2011	K-Line <sup>(15)</sup>	12 years + two 3-year options	34.5	(9)
Budapest Bridge	4500	2011	08/01/2011	K-Line <sup>(15)</sup>	12 years + two 3-year options	34.5	(9)
Seaspan Chiwan	4250	2001	09/19/2018	CMA CGM	Minimum 33 months and up to 36 months	Market rate	(3)
Seaspan Hamburg	4250	2001	10/01/2018	Hapag-Lloyd	Minimum 26 months and up to 28 months	Market rate	(3)
Seaspan Ningbo	4250	2002	01/13/2019	HMM	Minimum four months and up to 10 months	Market rate	(3)
Seaspan Dalian	4250	2002	01/01/2019	COSCO	Three months	Market rate	(3)
Seaspan Felixstowe	4250	2002	11/03/2018	COSCO	11 months + 11-month option	Market rate	(3)
Seaspan Vancouver <sup>(10)</sup>	4250	2005	—	—	—	—	
CSCL Sydney <sup>(11)</sup>	4250	2005	—	—	—	—	
Seaspan New York	4250	2005	02/28/2019	MSC	Minimum 11 months up to 13 months	Market rate	(3)
Seaspan Melbourne	4250	2005	02/21/2019	KMTC	Minimum four months and up to seven months	Market rate	(3)
CSCL Brisbane	4250	2005	12/06/2018	COSCO	11 months + 11-month option	Market rate	(3)
Seaspan New Delhi <sup>(12)</sup>	4250	2005	—	—	—	—	
Seaspan Dubai	4250	2006	01/02/2019	ONE <sup>(15)</sup>	Minimum 60 days and up to 200 days	Market rate	(3)
Seaspan Jakarta	4250	2006	09/30/2018	COSCO	Minimum two months and up to five months	Market rate	(3)
Seaspan Saigon	4250	2006	11/15/2018	Hapag-Lloyd	Minimum 9 months and up to 11 months	Market rate	(3)
Seaspan Lahore	4250	2006	10/17/2018	Arkas	Minimum 7 months and up to 10 months	Market rate	(3)
Rio Grande Express	4250	2006	11/15/2018	Hapag-Lloyd	Minimum 9 months and up to 11 months	Market rate	(3)
Seaspan Santos	4250	2006	05/25/2018	CMA CGM	Minimum 10 months and up to 13 months	Market rate	(3)
Seaspan Rio de Janeiro	4250	2007	03/17/2018	Maersk	Minimum 23 months and up to 29 months	Market rate	(3)
Seaspan Manila	4250	2007	12/20/2018	KMTC	Minimum three months and up to six months	Market rate	(3)
Seaspan Loncomilla	4250	2009	07/04/2018	CMA CGM	One year	Market rate	(3)
Seaspan Lumaco	4250	2009	11/14/2018	CMA CGM	Minimum 85 days and up to 170 days	Market rate	(3)
Seaspan Lingue	4250	2010	11/05/2018	CMA CGM	Minimum nine months and up to 12 months	Market rate	(3)

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Seaspan Lebu	4250	2010	07/12/2018	CMA CGM	Three years	Market rate <sup>(3)</sup>
Seaspan Fraser <sup>(1)</sup>	4250	2009	12/15/2018	COSCO	Minimum three months and up to five months	Market rate <sup>(3)</sup>
COSCO Fuzhou	3500	2007	12/29/2018	COSCO	Minimum three months and up to six months	Market rate <sup>(3)</sup>
COSCO Yingkou	3500	2007	07/05/2007	COSCO	12 years	19.0
CSCL Panama	2500	2008	05/14/2008	COSCO	12 years	16.9 <sup>(13)</sup>
CSCL São Paulo	2500	2008	08/11/2008	COSCO	12 years	16.9 <sup>(13)</sup>
CSCL Montevideo	2500	2008	09/06/2008	COSCO	12 years	16.9 <sup>(13)</sup>
CSCL Lima	2500	2008	10/15/2008	COSCO	12 years	16.9 <sup>(13)</sup>
CSCL Santiago	2500	2008	11/08/2008	COSCO	12 years	16.9 <sup>(13)</sup>
CSCL San Jose	2500	2008	12/01/2008	COSCO	12 years	16.9 <sup>(13)</sup>
CSCL Callao	2500	2009	04/10/2009	COSCO	12 years	16.9 <sup>(13)</sup>
CSCL Manzanillo	2500	2009	09/21/2009	COSCO	12 years	16.9 <sup>(13)</sup>
Guayaquil Bridge	2500	2010	03/08/2010	K-Line <sup>(15)</sup>	10 years	17.9
Calicanto Bridge	2500	2010	05/30/2010	K-Line <sup>(15)</sup>	10 years	17.9
Seaspan Hannover	2500	2006	02/05/2018	Maersk	4 years + option for up to 2 years	8.8 <sup>(14)</sup>
Seaspan Loga	2500	2006	02/22/2018	Maersk	4 years + option for up to 2 years	8.8 <sup>(14)</sup>

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- (1) This vessel is leased pursuant to a lease agreement, which we used to finance the acquisition of the vessel.
- (2) Hapag-Lloyd signed a direct continuation of the charter commencing March 2019 for a period of 12 months and up to 15 months, with an option for a minimum 24-month up to a maximum 27-month period commencing from the 15<sup>th</sup> month.
- (3) Given that the term of the charter is less than three years (excluding any charterers' option to extend the term), this vessel is being chartered at current market rates.
- (4) MOL has an initial charter of eight years with a charter rate of \$37,500 per day for the initial term and \$43,000 per day during the two-year option.
- (5) Maersk has an initial charter of five years with a charter rate of \$37,150 per day for the initial term, \$39,250 per day for the first one-year option and \$41,250 per day for the second one-year option.
- (6) CMA CGM has an initial charter of three years with a charter rater of \$29,000 per day for the initial term. The charter rate increases for the option period and the rate depends on the duration of the option period.
- (7) COSCO has a charter of 12 years with a charter rate of \$34,000 per day for the first six years, increasing to \$34,500 per day for the second six years.
- (8) COSCO has an initial charter of 12 years with a charter rate of \$42,900 per day for the initial term and \$43,400 per day for the three one-year options.
- (9) K-Line has an initial charter of 12 years with a charter rate of \$34,250 per day for the first six years, increasing to \$34,500 per day for the second six years, \$37,500 per day for the first three-year option period and \$42,500 per day for the second three-year option period.
- (10) On March 6, 2019, this vessel commenced its short-term charter with CMA CGM for 12 months at market rate.
- (11) On March 6, 2019, this vessel commenced its short-term charter with COSCO for 5 months at market rate.
- (12) On March 3, 2019, this vessel commenced its short-term charter with COSCO for 6 months at market rate.
- (13) COSCO has a charter of 12 years with a charter rate of \$16,750 per day for the first six years, increasing to \$16,900 per day for the second six years.
- (14) Maersk has an initial charter of four years with a charter rate of \$8,800 per day for the first three years and increasing to \$9,500 per day for the fourth year and \$10,650 per day for the two-year option period.
- (15) On April 1, 2018, MOL, K-Line and Nippon Yusen Kabushiki Kaisha integrated their container shipping businesses under a new joint venture company, ONE.

The following table indicates the estimated number of owned, leased and managed vessels in our fleet:

	Year Ended
	December 31, 2018
Owned and leased vessels, beginning of year	89
Deliveries	7
Acquired <sup>(1)</sup>	16
Total Fleet	112
Total Capacity (TEU)	905,900

- (1) Our acquisition of GCI on March 13, 2018 included 16 operating vessels and two vessels under construction, which were delivered in May 2018.





## Our Charters

We charter our vessels primarily under long-term, fixed-rate time charters. The following table presents the number of vessels chartered by each of our customers as of March 1, 2019.

	Number of Vessels in Our Current Operating
Charterer	Fleet
Arkas	1
CMA CGM	12
COSCO	35
Hapag-Lloyd	8
HMM	1
KMTC	2
Maersk	7
MSC	1
ONE <sup>(1)</sup>	22
Yang Ming Marine	16
Total time charters	105
MSC (bareboat charters)	5
No charter	2
Total fleet	112

- <sup>(1)</sup> On April 1, 2018, MOL, K-Line and Nippon Yusen Kabushiki Kaisha integrated their container shipping businesses under a new joint venture company, ONE.

## Time Charters and Bareboat Charters

A time charter is a contract for the use of a vessel for a fixed period of time at a specified daily rate. See “Glossary.”

Our five 11000 TEU vessels are chartered by MSC under bareboat charters. See “Glossary.” Under our bareboat charters, MSC has agreed to purchase each vessel for a pre-determined fixed price at the end of their respective bareboat charter terms.

The initial term for a time or bareboat charter commences on the vessel’s delivery to the charterer. Under all of our time charters, the charterer may also extend the term for periods in which the vessel is off-hire. The current charter periods and any applicable extension options are included above under “—Our Fleet.”

## Hire Rate

Under all of our long-term time charters, hire rate is payable, in advance, in U.S. dollars, as specified in the charter. The hire rate is a fixed daily amount that may increase, or decrease, in some cases, at varying intervals during the term of the charter and any extension to the term. Payments generally are made in advance on a monthly or semi-monthly basis. The charter hire rate may be reduced in certain instances as a result of added cost to the charterer due to vessel performance deficiencies in speed or fuel consumption. We have had no instances of such hire rate reductions.

Operations and Expenses

We operate our vessels and are responsible for vessel operating expenses. See “Glossary.” The charterer generally pays the voyage expenses. See “Glossary.” Our ship operating expenses have been decreasing due primarily to cost management initiatives.

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## Off-hire

When a vessel is “off-hire,” or not available for service, the charterer generally is not required to pay the hire rate, and we are responsible for all costs, including the fuel cost, unless the charterer is responsible for the circumstances giving rise to the vessel’s lack of availability. A vessel generally will be deemed to be off-hire when there is an event preventing the full working of the vessel due to, among other things:

- operational deficiencies not due to actions of the charterers or their agents;
- dry-docking for repairs, maintenance or inspection;
- equipment or machinery breakdowns, abnormal speed and construction conditions;
- delays due to accidents for which the vessel owner, operator or manager is responsible, and related repairs;
- crewing strikes, labor boycotts caused by the vessel owner, operator or manager, certain vessel detentions or similar problems; or
- a failure to maintain the vessel in compliance with its specifications and contractual standards or to provide the required crew.

Under most of our time charters, if a vessel is off-hire for a specified number of consecutive days or for a specified aggregate number of days during a 12-month period, the charterer has the right to cancel the time charter with respect to that vessel. Under some charters, if a vessel is off-hire for specified reasons for a prolonged period, we are obligated to charter a substitute vessel and to pay any difference in hire cost of the charter for the duration of the substitution. The periods of off-hire that trigger such termination rights exclude, in addition to any other specific exclusions in the charter, off-hire for routine dry-dockings or non-compliance with regulatory obligations. Our charter contracts generally provide for hire adjustments for vessel performance deficiencies such as those in speed or fuel consumption, with prolonged performance deficiencies giving the charterer a termination right under some charters.

## Ship Management and Maintenance

Under each of our time charters, we are responsible for the operation and management of each vessel, including maintaining the vessel, periodic dry-docking, cleaning and painting and performing work required by regulations.

We focus on risk reduction, operational reliability and safety. We believe we achieve high standards of technical ship management by, among other methods:

- developing a minimum competency standard for seagoing staff;
- standardizing equipment used throughout the fleet, thus promoting efficiency and economies of scale;
- implementing a voluntary vessel condition and maintenance monitoring program;
- recruiting officers and ratings through an affiliate based in India that has a record of employee loyalty;
- implementing an incentive system to reward staff for the safe operation of vessels; and
- initiating and developing a cadet training program.

Our staff has skills in all aspects of ship management and experience in overseeing new vessel construction, vessel conversions and general marine engineering, and has previously worked in various companies in the international ship management industry, including Teekay Corporation, Safmarine Container Lines and Columbia Ship Management. A number of senior officers also have sea-going experience, having served aboard vessels at a senior rank. In all training programs, we place an emphasis on safety and regularly train our crew members and other employees to meet our high standards. Shore-based personnel and crew members are trained to be prepared to respond to emergencies related to life, property or the environment.

## Sale and Purchase of Vessels

Under some of our time charters, the customer has the right to prior notice of or consent to any proposed sale of the applicable vessel, which consent cannot be unreasonably withheld. A limited number of charters provide the charterer with a right of first refusal for the proposed vessel sale, which would require us to offer the vessel to the charterer prior to selling it to another entity. Sub-charters do not affect our ability to sell our time chartered vessels. Our 17-year bareboat charters for five of our vessels require the charterer to purchase each vessel upon termination of the bareboat charter at a pre-determined amount.

## Hull and Machinery, Loss of Hire and War Risks Insurance

We maintain marine hull and machinery, and war risks insurances, which covers the risk of actual or constructive total loss and partial loss, for all of our vessels. Each of our vessels is covered up to at least fair market value with certain deductibles, per vessel, per claim. We achieve this overall loss coverage by maintaining, as included, nominal increased value coverage for each of our vessels, under which coverage, in the event of total loss of a vessel, we will be entitled to recover amounts not recoverable under the hull and machinery policy due to under-insurance. We have not obtained, and do not intend to obtain, loss-of-hire insurance covering the loss of revenue during extended off-hire periods. We believe that this type of coverage is not economical and is of limited value to us. However, we evaluate the need for such coverage on an ongoing basis, taking into account insurance market conditions and the employment of our vessels. The charterer generally pays extra war risk insurance and commissions when the vessel is ordered by the charterer to enter a notified war exclusion trading area.

## Protection and Indemnity Insurance

Protection and indemnity insurance is provided by mutual protection and indemnity associations (“P&I associations”), which insure our third-party and crew liabilities in connection with our shipping activities. Coverage includes third-party liability, crew liability and other related expenses resulting from the abandonment, injury or death of crew, and other third parties, the loss or damage to cargo, claims arising from collisions with other vessels, damage to other third-party property, pollution arising from oil or other substances and salvage, towing and other related costs, including wreck removal. Protection and indemnity insurance is a form of mutual indemnity insurance, extended by P&I associations. Subject to the limit for pollution discussed below, our coverage is nearly unlimited, but subject to the rules of the particular protection and indemnity insurer.

Our protection and indemnity insurance coverage for pollution is up to \$1.0 billion per vessel per incident. The 13 P&I associations that comprise the International Group insure approximately 90% of the world’s commercial blue-water tonnage and have entered into a pooling agreement to reinsure each association’s liabilities. As a member of a mutual P&I association, which is a member or affiliate of the International Group, we are subject to calls payable to the associations based on the International Group’s claim records as well as the claim records of all other members of the individual associations.

## Competition

We operate in markets that are highly competitive and based primarily on supply and demand of containerships. We compete for charters based upon price, customer relationships, operating and technical expertise, professional reputation and size, age and condition of the vessel.

Competition for providing new containerships for chartering purposes comes from a number of experienced shipping companies, including direct competition from other independent charter owners and indirect competition from state-sponsored and other major entities with their own fleets. Some of our peers may have greater financial resources than we do and can operate larger fleets and may be able to offer better charter rates. An increasing number of marine transportation companies have entered the containership sector, including many with positive reputations and

extensive resources and experience. This increased competition may cause greater price competition for time charters.

#### Seasonality

Our vessels primarily operate under long-term charters and are generally not subject to the effect of seasonal variations in demand, except where such charters have expired and we are seeking to re-charter a vessel on a short-term basis at then current market rates.

### Inspection by Classification Societies

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

Each vessel is inspected by a surveyor of the classification society in three surveys of varying frequency and thoroughness: every year for annual surveys, every two to three years for intermediate surveys, and every five years for special surveys. If any defects are found, the classification surveyor will issue a “condition of class” or a “requirement” for appropriate repairs that have to be made by the shipowner within the time limit prescribed. Vessels may be required, as part of the annual and intermediate survey process, to be dry-docked for inspection of the underwater portions of the vessel and for necessary repair stemming from the inspection. Special surveys always require dry-docking. The classification society also undertakes on request other surveys and inspections that are required by regulations and requirements of the flag state. These surveys are subject to agreements made in each individual case or to the regulations of the country concerned.

### Environmental and Other Regulations

Government regulation significantly affects our business and the operation of our vessels. We are subject to international conventions and codes, and national, state, provincial and local laws and regulations in the jurisdictions in which our vessels operate or are registered, including, among others, those governing the generation, management and disposal of hazardous substances and wastes, the cleanup of oil spills and other contamination, air emissions and water discharges.

A variety of government, quasi-government and private entities require us to obtain permits, licenses or certificates for the operation of our vessels. Failure to maintain necessary permits or approvals could require us to incur substantial costs or temporarily suspend the operation of one or more of our vessels in one or more ports.

Increasing environmental concerns have created a demand for vessels that conform to the strictest environmental standards. We are required to maintain operating standards for all of our vessels that emphasize operational safety, quality maintenance, continuous training of our officers and crews and compliance with United States, Canadian and international regulations and with flag state administrations.

The following is an overview of certain material governmental regulations that affect our business and the operation of our vessels. It is not a comprehensive summary of all government regulations to which we are subject.

### International Maritime Organization

The IMO is the United Nations’ agency for maritime safety. The IMO has negotiated international conventions that impose liability for pollution in international waters and a signatory’s territorial waters. For example, the IMO’s International Convention for the Prevention of Pollution from Ships (“MARPOL”), imposes environmental standards on the shipping industry relating to, among other things, pollution prevention and procedures, technical standards, oil spills management, transportation of marine pollutants and air emissions. Annex VI of MARPOL, which regulates air pollution from vessels, sets limits on sulfur oxide, nitrogen oxide and particulate matter emissions from vessel exhausts and prohibits deliberate emissions of ozone depleting substances, such as chlorofluorocarbons. We believe all of our vessels currently are Annex VI compliant, as applicable. Annex VI also includes a global cap on the sulfur content of fuel oil with a lower cap on the sulfur content applicable inside Emission Control Areas (“ECAs”). Existing ECAs include the Baltic Sea, the North Sea, including the English Channel, the North American area and the U.S.

Caribbean Sea area. Additional geographical areas may be designated as ECAs in the future.

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Annex VI calls for incremental reductions in sulfur in fuel between 2012 and 2020 (or 2015 in the case of ECAs), and the use of advanced technology engines designed to reduce emissions of nitrogen oxide, with a “Tier II” emission limit applicable to engines installed on or after January 1, 2011 and a more stringent “Tier III” emission limit applicable to engines installed on or after 2016 operating in the North American and U.S. Caribbean Sea and for engines installed on or after 2021 for vessels operating in the Baltic and North Sea. For future nitrogen oxide ECA designations, Tier III standards will apply to engines installed on ships constructed on or after the date of ECA designation, or a later date as determined by the country applying for the ECA designation.

The global Sulphur cap will come into force on January 1, 2020, following the amendments to Annex VI of MARPOL. This cap requires marine vessels to consume fuels with a maximum Sulphur content of 0.5% as opposed to the current limit of 3.5%, which is a significant reduction. Compliance with Annex VI for the emission of sulphur oxides can be achieved by means of the primary control of using low sulphur content fuel or through a secondary control by removing the sulphur oxide pollutant using an exhaust gas cleaning systems. Our existing time charters call for our customers to supply fuel that complies with Annex VI, however, we have been engaged with our customers to provide them with an option to retrofit exhaust gas scrubbers onboard vessels in active service. To date, two of our leading charterers (Hapag-Lloyd and Yang Ming Marine) have each agreed to retrofit scrubbers onboard five of their respective chartered vessels. The installations will be at the expense and time of charterers. The engineering design, retrofit arrangements, procurement and logistics will be coordinated by our technical management team.

To avoid contamination of fuel grades, the remainder of the vessels in our fleet will be required to clean their fuel tanks prior to replenishing the new compliant fuel. For continued safe operation of the vessels, modifications to vessel machinery and equipment are also being planned, as recommended by makers.

The IMO has also adopted technical and operational measures aimed at reducing greenhouse gas emissions from vessels. These include the “Energy Efficiency Design Index,” which is mandatory for newbuilding vessels, and the “Ship Energy Efficiency Management Plan,” which is mandatory for all vessels. The IMO now requires ships of 5,000 gross tonnage or more to record and report their fuel consumption to their flag state at the end of each calendar year. The IMO plans to use this data to adopt an initial greenhouse gas emissions reduction strategy in 2018.

The IMO’s International Convention on Civil Liability for Bunker Oil Pollution Damage (the “Bunker Convention”), imposes, subject to limited exceptions, strict liability on vessel owners for pollution damage in jurisdictional waters of ratifying states, which does not include the United States, caused by discharges of “bunker oil.” The Bunker Convention also requires owners of registered vessels over a certain size to maintain insurance for pollution damage in an amount generally equal to the limits of liability under the applicable national or international limitation regime. We believe our vessels comply with the Bunker Convention.

The IMO’s International Convention for the Control and Management of Ships’ Ballast Water and Sediments (the “BWM Convention”) requires the installation of ballast water treatment systems on certain newbuilding vessels for which the keel is laid after September 8, 2017 and for existing vessels at the renewal of their International Oil Pollution Prevention Certificate after September 8, 2019. The BWM Convention also requires ships to carry an approved ballast water management plan, record books and statement of compliance. We will be required to incur significant costs to install these ballast water treatment systems on some of our vessels before the applicable due dates.

The IMO also regulates vessel safety. The International Safety Management Code (the “ISM Code”), provides an international standard for the safe management and operation of ships and for pollution prevention. The ISM Code requires our vessels to develop and maintain an extensive “Safety Management System” that includes the adoption of a safety and environmental protection policy and implementation procedures. A Safety Management Certificate is issued under the provisions of SOLAS to each vessel with a Safety Management System verified to be in compliance with the ISM Code. Failure to comply with the ISM Code may subject a party to increased liability, may decrease available insurance coverage for the affected vessels, and may result in a denial of access to, or detention in, certain ports. All of the vessels in our fleet are ISM Code-certified



Increasingly, various regions are adopting additional, unilateral requirements on the operation of vessels in their territorial waters. These regulations, such as those described below, apply to our vessels when they operate in the relevant regions' waters and can add to operational and maintenance costs, as well as increase the potential liability that applies to violations of the applicable requirements.

## United States

### The United States Oil Pollution Act of 1990 and CERCLA

The United States Oil Pollution Act of 1990 (“OPA”), establishes an extensive regulatory and liability regime for the protection and cleanup of the environment from oil spills. The Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”), governs spills or releases of hazardous substances other than petroleum or petroleum products. Under OPA and CERCLA, vessel owners, operators and bareboat charterers are jointly and, subject to limited exceptions, strictly liable for all containment and clean-up costs and other damages arising from discharges or threatened discharges of oil or hazardous substances, as applicable, from their vessels. OPA and CERCLA define these damages broadly to include certain direct and indirect damages and losses, including the assessment of damages, remediation, damages to natural resources such as fish and wildlife habitat, and agency oversight costs.

Under certain conditions, liabilities under OPA and CERCLA may be limited due to base or gross ton caps, which are periodically updated. Liability caps do not apply under OPA and CERCLA if the incident is caused by gross negligence, willful misconduct or a violation of certain regulations.

We maintain pollution liability coverage insurance in the amount of \$1 billion per incident for each of our vessels. If the damages from a catastrophic spill were to exceed our insurance coverage it could harm our business, financial condition and results of operation. Vessel owners and operators must establish and maintain with the U.S. Coast Guard evidence of financial responsibility sufficient to meet their potential aggregate liabilities under OPA and CERCLA. Evidence of financial responsibility may be demonstrated by showing proof of insurance, surety bonds, self-insurance or guarantees. We have obtained the necessary U.S. Coast Guard financial assurance certificates for each of our vessels currently in service and trading to the United States. Owners or operators of certain vessels operating in U.S. waters also must prepare and submit to the U.S. Coast Guard a response plan for each vessel, which plan, among other things, must address a “worst case” scenario environmental discharge and describe crew training and drills to address any discharge. Each of our vessels has the necessary response plans in place.

OPA and CERCLA do not prohibit individual states from imposing their own liability regimes with regard to oil pollution or hazardous substance incidents occurring within their boundaries, and some states have enacted legislation providing for unlimited liability for spills. In some cases, states that have enacted such legislation have not yet issued implementing regulations defining vessel owners’ responsibilities under these laws. We intend to comply with all applicable state regulations in the ports where our vessels call.

### Clean Water Act and Ballast Water Regulation

The Clean Water Act (“CWA”), establishes the basic structure for regulating discharges of pollutants into the waters of the United States and regulating quality standards for surface waters. Civil and criminal penalties are expressly authorized by the CWA for discharges of pollutants without a permit and the failure to satisfy permit requirements. The Act also authorizes citizens to bring claims against alleged violators under its citizen suit provisions. The CWA also authorizes the Environmental Protection Agency (“EPA”) to impose on responsible parties costs associated with the removal, and remediation of hazardous substances, as well other damages. In this way, the CWA complements the remedies available under OPA and CERCLA. The CWA does not prohibit individual states from imposing more stringent conditions, which many states have done.

Rules relating to ballast water, and specifically, ballast water discharge, have been adopted by the EPA and the United States Coast Guard. In general, these rules require the pre-treatment of ballast water prior to discharge. Additional requirements relating to ballast water management apply to vessels visiting different port facilities. Failure to comply with these rules could restrict our ability to operate within U.S. waters and result in fines, penalties or other sanctions.



As of December 2018, the EPA is regulating ballast water discharges and other discharges incidental to the normal operation of certain vessels pursuant to the Vessel Incidental Discharge Act (“VIDA”), which replaces the 2013 Vessel General Permit (“VGP”) program. VIDA requires the EPA to develop performance standards for discharges within two years of enactment, and requires the U.S. Coast Guard to develop complementary regulations within two years of EPA’s promulgation of standards. Under VIDA, existing regulations regarding ballast water treatment remain in effect until the EPA and U.S. Coast Guard regulations are finalized. Non-military, non-recreational vessels greater than 79 feet in length must continue to comply with the requirements of the VGP, including submission of the Notice of Intent (“NOI”) or retention of the PARI form and submission of annual reports. We submit the NOIs for our vessels where required. Compliance with these and other regulations could require the installation of ballast water treatment equipment or the implementation of the other port facility disposal procedures at potentially significant costs.

In addition, the Act to Prevent Pollution from Ships (“APPS”), implements various provisions of MARPOL and applies to larger foreign-flag ships when operating in U.S. waters. The regulatory mechanisms established in APPS to implement MARPOL are separate and distinct from the CWA and other federal environmental laws. Civil and criminal penalties may be assessed under APPS for non-compliance.

#### Additional Ballast Water Regulations

The United States National Invasive Species Act (“NISA”), and the U.S. Coast Guard’s regulations enacted under NISA, impose mandatory ballast water management practices for all vessels equipped with ballast water tanks entering U.S. waters, including a limit on the concentration of living organisms in ballast water discharged in such waters. Newbuilding vessels constructed after December 1, 2013 are required to have a U.S. Coast Guard-approved ballast water treatment system installed, and existing vessels are required to have a ballast water treatment system installed on the first scheduled dry-dock after January 1, 2016. As of March 1, 2019, there are six U.S. Coast Guard approved ballast water treatment systems, and additional systems are currently under review or testing. Because approvals were initially slow to be given, individual vessel implementation schedules have been extended in cases where vessel owners have demonstrated that compliance is not technologically feasible. Many of our vessels dry-docking in 2017 and 2018 received extensions until their next dry-dock.

The U.S. Coast Guard regulations also require vessels to maintain a vessel-specific ballast water management plan that addresses training and safety procedures, fouling maintenance and sediment removal procedures. Individual U.S. states have also enacted laws to address invasive species through ballast water and hull cleaning management and permitting requirements. For the vessels that will be subject to the requirements, under CWA or otherwise, the estimated cost to fit a U.S. Coast Guard-approved ballast water treatment system ranges from approximately \$0.4 million to \$0.5 million for a Panamax size vessel and below, and from approximately \$0.7 million to \$0.8 million for a post-Panamax size.

#### Clean Air Act

The Clean Air Act (the “CAA”), and its implementing regulations impose requirements on our vessels regarding vapor control and establish recovery requirements for cleaning fuel tanks and conducting other operations in regulated port areas. In addition, the EPA has adopted standards pursuant to the CAA concerning air emissions that apply to certain engines installed on U.S. vessels and to marine diesel fuels produced and distributed in the United States. These standards are consistent with Annex VI of MARPOL and mandate significant reductions for vessel emissions of particulate matter, sulfur oxides and nitrogen oxides.

The CAA also requires states to draft State Implementation Plans (“SIPs”), designed to attain national health-based air quality standards in primarily major metropolitan and industrial areas. Several SIPs regulate emissions from degassing operations by requiring the installation of vapor control equipment on vessels. For example, California has enacted regulations that apply to ocean-going vessels’ engines when operating within 24 miles of the California coast and require operators to use low sulfur fuels. California has also approved regulations to reduce emissions from diesel

auxiliary engines on certain ocean-going vessels while in California ports, including container ship fleets that make 25 or more annual visits to California ports. These, and potential future federal and state requirements may increase our capital expenditures and operating costs while in applicable ports. As with other U.S. environmental laws, failure to comply with the Clean Air Act may subject us to enforcement action, including payment of civil or criminal penalties and citizen suits.

## Canada

Canada has established a complex regulatory enforcement system under the jurisdiction of various ministries and departments for preventing and responding to a marine pollution incident. The principal statutes of this system prescribe measures to prevent pollution, mandate remediation of marine pollution, and create civil, administrative and quasi-criminal liabilities for those responsible for a marine pollution incident.

### Canada Shipping Act, 2001

The Canada Shipping Act, 2001 (“CSA 2001”), is Canada’s primary legislation governing marine transport, pollution and safety. CSA 2001 applies to all vessels operating in Canadian waters and in the Exclusive Economic Zone of Canada. CSA 2001 requires shipowners to have in place an arrangement with an approved pollution response organization. Vessels must carry a declaration, which identifies the vessel’s insurer and confirms that an arrangement with a response organization is in place. CSA 2001 also makes it a strict liability offense to discharge from a vessel a pollutant, including, among other things, oil. Vessels must have a shipboard oil pollution plan and implement the same in respect of an oil pollution incident. CSA 2001 provides the authorities with broad discretionary powers to enforce its requirements, and violations of CSA 2001 requirements can result in significant administrative and quasi-criminal penalties. CSA 2001 authorizes the detention of a vessel where there are reasonable grounds for believing that the vessel caused marine pollution or that an offense has been committed. Canada’s Department of Transport has also enacted regulations on ballast water management under CSA 2001. These regulations require the use of management practices, including mid-ocean ballast water exchange. Each of our vessels is currently CSA 2001 compliant.

### Canadian Environmental Protection Act, 1999

The Canadian Environmental Protection Act (the “CEPA”), regulates water pollution, including disposal at sea and the management of hazardous waste. CEPA prohibits the disposal or incineration of substances at sea except with a permit issued under CEPA, the importation or exportation of a substance for disposal at sea without a permit, and the loading on a ship of a substance for disposal at sea without a permit. Contravention of CEPA can result in administrative and quasi-criminal penalties, which may be increased if damage to the environment results and the person acted intentionally or recklessly. A vessel also may be seized or detained for contravention of CEPA’s prohibitions. Costs and expenses of measures taken to remedy a condition or mitigate damage resulting from an offense are also recoverable. CEPA establishes liability to the Canadian government authorities that incur costs related to restoration of the environment, or to the prevention or remedying of environmental damage, or an environmental emergency. Limited defenses are provided but generally do not cover violations arising from ordinary vessel operations.

### Marine Liability Act

The Marine Liability Act (“MLA”), is the principal legislation dealing with liability of shipowners and operators in relation to passengers, cargo, pollution and property damage. The MLA implements various international maritime conventions and creates strict liability for a vessel owner for damages from oil pollution from a ship, as well as for the costs and expenses incurred for clean-up and preventive measures. Both governments and private parties can pursue vessel owners for damages sustained or incurred as a result of such an incident. Although the act does provide some limited defenses, they are generally not available for spills or pollution incidents arising out of the routine operation of a vessel. The act limits the overall liability of a vessel owner to amounts that are determined by the tonnage of the containership. The MLA also provides for the creation of a maritime lien over foreign vessels for unpaid invoices to ship suppliers operating in Canada.

## Wildlife Protection

The Migratory Birds Convention Act (“MBCA”), implements Canada’s obligations under a bilateral treaty between the United States and Great Britain (on behalf of Canada) designed to protect migrating birds that cross North American land and water areas. The MBCA prohibits the deposit of any substance that is harmful to migratory birds in any waters or area frequented by migratory birds. A foreign vessel involved in a violation may be detained within Canada’s Exclusive Economic Zone with the consent of the attorney general. The Fisheries Act prohibits serious harm to fish (which means causing the death of fish or the permanent alteration or destruction of fish habitat or the deposit of a deleterious substance in waters frequented by fish. The owner of a deleterious substance, the person having control of the substance and the person causing the spill must report the spill and must take all reasonable measures to prevent or remedy adverse effects resulting from a spill. The Species at Risk Act protects endangered aquatic species and migratory birds and their designated critical habitat. Violations of these Acts can be committed by a person or a vessel and may result in significant administrative and quasi-criminal penalties.

## British Columbia’s Environmental Management Act

British Columbia’s Environmental Management Act (“EMA”), governs spills or releases of waste into the environment within the province in a manner or quantity that causes pollution. EMA imposes absolute, retroactive, joint and separate liability for remediation of a contaminated site. Provincial government authorities have powers to order remediation of contamination and any person, including, among others, the government, who incurs costs remediating contamination caused by others has a civil cause of action for cost recovery against the polluters. Significant administrative and quasi-criminal penalties can also be imposed under EMA if a person causes damage to the aquatic, ambient or terrestrial environment.

## China

Prior to our vessels entering any ports in the PRC, we are required to enter into pollution clean-up agreements with pollution response companies approved by the PRC. Through a local agency arrangement, we have contracted with approved companies. These pollution clean-up agreements are not required if the vessel is only passing through PRC waters.

The PRC has its own ECAs for 0.5% sulphur fuel and has identified three areas, Pearl River Delta, Yangtze River Delta and Bohai Rim Area. From 2016 to 2019, the PRC is phasing in requirements in these areas that vessels change over to 0.5% sulphur fuel, beginning in a few key ports in 2016 and expanding over time until this requirement applies to all waters within these three areas during 2019.

The Chinese Ministry of Transport announced expansion of the geographical scope of China’s sulphur ECAs which now covers all sea areas and ports within China’s territorial sea, effective January 1, 2019. All vessels calling ports in China are now required to consume fuels with sulphur content less than or equal to 0.5%. Authorities in Hong Kong and Taiwan have also imposed similar cap on sulphur content of fuels consumed by vessels calling ports in their respective territories. The sulphur cap in China’s inland ECAs (Key ports) is set to further tighten, beginning January 1, 2020.

Mirroring the IMO and EU’s efforts to monitor and measure carbon footprint from shipping, China introduced its own regulation to monitor energy consumption from ships operating in Chinese ports. Beginning January 1, 2019, all vessels entering or leaving ports in China report to authorities in prescribed format. All our vessels trading in Chinese ports are currently complying with the local regulatory requirements.

## European Union Requirements

In waters of the EU, our vessels are subject to regulation by EU-level legislation, including directives implemented by the various member states through laws and regulations of these requirements. These laws and regulations prescribe measures, among others, to prevent pollution, protect the environment and support maritime safety. For instance, the EU has adopted directives that require member states to refuse access to their ports to certain sub-standard vessels, according to various factors, such as the vessel's condition, flag, and number of previous detentions (Directive 2009/16/EC on Port State Control as amended and supplemented from time to time). Member states must, among other things, inspect minimum percentages of vessels using their ports annually (based on an inspection "share" of the relevant member state of the total number of inspections to be carried out within the



EU and the Paris Memorandum of Understanding on Port State Control region), inspect all vessels which are due for a mandatory inspection (based, among other things, on their type, age, risk profile and the time of their last inspection) and carry out more frequent inspections of vessels with a high risk profile. If deficiencies are found that are clearly hazardous to safety, health or the environment, the state is required to detain the vessel or stop loading or unloading until the deficiencies are addressed. Member states are also required to implement their own separate systems of proportionate penalties for breaches of these standards.

Our vessels are also subject to inspection by appropriate classification societies. Classification societies typically establish and maintain standards for the construction and classification of vessels, supervise that construction in accordance with such standards, and carry out regular surveys of ships in service to ensure compliance with such standards. The EU has adopted legislation (Regulation (EC) No 391/2009 and Directive 2009/15/EC, as amended and supplemented from time to time) that provides member states with greater authority and control over classification societies, including the ability to seek to suspend or revoke the authority of classification societies that are negligent in their duties. The EU requires member states to monitor these organizations' compliance with EU inspection requirements and to suspend any organization whose safety and pollution prevention performance becomes unsatisfactory.

The EU's directive on the sulfur content of fuels (Directive (EU) 2016/802, which consolidates Directive 1999/32/EC and its various amendments) restricts the maximum sulfur content of marine fuels used in vessels operating in EU member states' territorial seas, exclusive economic zones and pollution control zones. The directive provides for more stringent rules on maximum sulfur content of marine fuels applicable in specific Sulfur Emission Control Areas ("SECAs"), such as the Baltic Sea and the North Sea, including the English Channel. Further sea areas may be designated as SECAs in the future by the IMO in accordance with Annex VI of MARPOL. Under this directive, we may be required to make expenditures to comply with the sulfur fuel content limits in the marine fuel our vessels use in order to avoid delays or other obstructions to their operations, as well as any enforcement measures which may be imposed by the relevant member states for non-compliance with the provisions of the directive. We also may need to make other expenditures (such as expenditures related to washing or filtering exhaust gases) to comply with relevant sulfur oxide emissions levels. The directive has been amended to bring the above requirements in line with Annex VI of MARPOL. It also makes certain of these requirements more stringent. These and other related requirements may require additional capital expenditures and increase our operating costs.

Through Directive 2005/35/EC (as amended by Directive 2009/123/EC and as further amended and supplemented from time to time), the EU requires member states to cooperate to detect pollution discharges and impose criminal sanctions for certain pollution discharges committed intentionally, recklessly or by serious negligence and to initiate proceedings against ships at their next port of call following the discharge. Penalties may include fines and civil and criminal penalties. Directive 2000/59/EC (as amended and supplemented from time to time) requires all ships (except for warships, naval auxiliary or other state-owned or state-operated ships on non-commercial service), irrespective of flag, calling at, or operating within, ports of member states to deliver all ship-generated waste and cargo residues to port reception facilities. Under the directive, a fee is payable by the ships for the use of the port reception facilities, including the treatment and disposal of the waste. The ships may be subject to an inspection for verification of their compliance with the requirements of the directive and penalties may be imposed for their breach.

The EU also authorizes member states to adopt the IMO's Bunker Convention, discussed above, that imposes strict liability on shipowners for pollution damage caused by spills of oil carried as fuel in vessels' bunkers and requires vessels of a certain size to maintain financial security to cover any liability for such damage. Most EU member states have ratified the Bunker Convention.

The EU has adopted a regulation (EU Ship Recycling Regulation (1257/2013)) which sets forth rules relating to vessel recycling and management of hazardous materials on vessels. The regulation contains requirements for the recycling of vessels at approved recycling facilities that must meet certain requirements, so as to minimize the adverse effects of recycling on human health and the environment. The regulation also contains rules for the control and proper management of hazardous materials on vessels and prohibits or restricts the installation or use of certain hazardous materials on vessels. The regulation seeks to facilitate the ratification of the IMO's Hong Kong International Convention for the Safe and Environmentally Sound Recycling of Ships, 2009. The regulation applies to vessels flying the flag of a member state and certain of its provisions apply to vessels flying the flag of a third country calling at a port or anchorage of a member state. For example, when calling at a port or anchorage of a member state, a vessel flying the flag of a third country will be required, among other things, to have on board an inventory of hazardous materials which complies with the requirements of the new regulation and the vessel must be able to submit to the relevant authorities of that member state a copy of a statement of compliance issued by the relevant authorities of the country of the vessel's flag verifying the inventory. The regulation entered into force on December 30, 2013, although certain of its provisions are to apply at different stages, with certain of them applicable from December 31, 2020. Pursuant to this regulation, the EU Commission adopted the first version of a European List of approved ship recycling facilities meeting the requirements of the regulation, as well as four further implementing decisions dealing with certification and other administrative requirements set out in the regulation.

The EU is considering other proposals to further regulate vessel operations. The EU has adopted an Integrated Maritime Policy for the purposes of achieving a more coherent approach to maritime issues through coordination between different maritime sectors and integration of maritime policies. The Integrated Maritime Policy has sought to promote the sustainable development of the European maritime economy and to protect the marine environment through cross-sector and cross-border cooperation of maritime participants. The EU Commission's proposals included, among other items, the development of environmentally sound end-of-life ship dismantling requirements (as described above in respect of the EU Ship Recycling Regulation (1257/2013)), promotion of the use of shore-side electricity by ships at berth in EU ports to reduce air emissions, and consideration of options for EU legislation to reduce greenhouse gas emissions from maritime transport. The European Maritime Safety Agency has been established to provide technical support to the EU Commission and member states in respect of EU legislation pertaining to maritime safety, pollution and security. The EU, any individual country or other competent authority may adopt additional legislation or regulations applicable to us and our operations.

#### Other Greenhouse Gas Legislation

In February 2005, the Kyoto Protocol to the United Nations Framework Convention on Climate Change (the "Kyoto Protocol"), became effective. Pursuant to the Kyoto Protocol, adopting countries are required to implement national programs to reduce emissions of greenhouse gases. More than 27 nations, including the United States, have entered into the Copenhagen Accord, which is non-binding but is intended to pave the way for a comprehensive, international treaty on climate change. The Paris Agreement, which was adopted in 2015 by a large number of countries and entered into force in November 2016, deals with greenhouse gas emission reduction measures and targets from 2020 to limit the global average temperature increase to well below 2° Celsius above pre-industrial levels. International shipping was not included in this agreement, but it is expected that its adoption may lead to regulatory changes in relation to curbing greenhouse gas emissions from shipping.

The IMO, EU, Canada, the United States and other individual countries, states and provinces are evaluating various measures to reduce greenhouse gas emissions from international shipping, which may include some combination of market-based instruments, a carbon tax or other mandatory reduction measures. The EU adopted Regulation (EU) 2015/757 concerning the monitoring, reporting and verification of carbon dioxide emissions from vessels (the "MRV Regulation"), which entered into force in July 2015 (as amended by Regulation (EU) 2016/2071). The MRV Regulation applies to all vessels over 5,000 gross tonnage (except for a few types, including, but not limited to, warships and fish-catching or fish-processing vessels), irrespective of flag, in respect of carbon dioxide emissions released during voyages within the EU as well as EU incoming and outgoing voyages. The first reporting period

commenced on January 1, 2018. The monitoring, reporting and verification system adopted by the MRV Regulation may be the precursor to a market-based mechanism to be adopted in the future. The EU is currently considering a proposal for the inclusion of shipping in the EU Emissions Trading System as from 2021 in the absence of a comparable system operating under the IMO.

Any passage of climate control legislation or other regulatory initiatives by the IMO, EU, Canada, the United States or other individual jurisdictions where we operate, that restrict emissions of greenhouse gases from vessels, could require us to make significant capital expenditures and may materially increase our operating costs.

#### Other Regions

We may be subject to environmental and other regulations that have been or may become adopted in other regions of the world that may impose obligations on our vessels and may increase our costs to own and operate them.

Compliance with these requirements may require significant expenditures on our part and may materially increase our operating costs.

#### Vessel Security Regulations

Since September 2001, there have been a variety of initiatives intended to enhance vessel security. In November 2002, the Maritime Transportation Security Act of 2002 (the "MTSA"), came into effect. To implement certain portions of the MTSA, the United States Coast Guard has issued regulations requiring the implementation of certain security requirements aboard vessels operating in U.S. waters. Similarly, amendments to SOLAS created a new chapter of the convention dealing specifically with maritime security, which came into effect in July 2004. The new chapter imposes various detailed security obligations on vessels and port authorities, most of which are contained in the International Ship and Port Facilities Security Code ("ISPS Code"). Among the various requirements are:

- on-board installation of automatic information systems, to enhance vessel-to-vessel and vessel-to-shore communications;
- on-board installation of ship security alert systems;
- the development of vessel security plans; and
- compliance with flag state security certification requirements.

The United States Coast Guard regulations, intended to align with international maritime security standards, exempt non-U.S. vessels from MTSA vessel security measures if such vessels have on board a valid International Ship Security Certificate, that attests to the vessel's compliance with SOLAS security requirements and the ISPS Code. Our existing vessels have implemented the various security measures addressed by the MTSA, SOLAS and the ISPS Code. Any failure to maintain such certifications may subject us to increased liability and may result in denial of access to, or detention in, certain ports. Furthermore, compliance with the ISPS Code requires us to incur certain costs. Although such costs have not been material to date, if new or more stringent regulations relating to the ISPS Code are adopted by the IMO and the flag states, these requirements could require significant additional capital expenditures or otherwise increase the costs of our operations.

#### Taxation of the Company

##### United States Taxation

The following is a discussion of the expected material U.S. federal income tax considerations applicable to us. This discussion is based upon the provisions of the Code, applicable U.S. Treasury Regulations promulgated thereunder, legislative history, judicial authority and administrative interpretations, as of the date of this Annual Report, all of which are subject to change, possibly with retroactive effect or are subject to different interpretations. Changes in these authorities may cause the U.S. federal income tax considerations to vary substantially from those described below.

The following discussion is for general information purposes only and does not purport to be a comprehensive description of all of the U.S. federal income tax considerations applicable to us. No ruling has been requested from the IRS regarding any matter affecting us. The statements made herein may not be sustained by a court if contested by the IRS.



## Taxation of Operating Income

We expect that substantially all of our gross income will be attributable to the transportation of cargo. For this purpose, gross income attributable to transportation (“Transportation Income”), includes income from the use (or hiring or leasing for use) of a vessel to transport cargo and the performance of services directly related to the use of any vessel to transport cargo and, thus, includes time charter and bareboat charter income.

Fifty percent (50%) of Transportation Income attributable to transportation that either begins or ends, but that does not both begin and end, in the United States (“U.S. Source International Transportation Income”), is considered to be derived from sources within the United States. Transportation Income attributable to transportation that both begins and ends in the United States (“U.S. Source Domestic Transportation Income”), is considered to be 100% derived from sources within the United States. Transportation Income attributable to transportation exclusively between non-U.S. destinations is considered to be 100% derived from sources outside the United States. Transportation Income derived from sources outside the United States generally is not subject to U.S. federal income tax.

We believe that we have not earned any U.S. Source Domestic Transportation Income, and we expect that we will not earn any such income in future years. However, certain of our activities give rise to U.S. Source International Transportation Income, and future expansion of our operations could result in an increase in the amount of our U.S. Source International Transportation Income. Unless the exemption from tax under Section 883 of the Code (the “Section 883 Exemption”), applies, our U.S. Source International Transportation Income generally will be subject to U.S. federal income taxation under either the net basis and branch profits tax or the 4% gross basis tax, each of which is discussed below.

### The Section 883 Exemption

In general, the Section 883 Exemption provides that if a non-U.S. corporation satisfies the requirements of Section 883 of the Code and the Treasury Regulations thereunder (the “Section 883 Regulations”), it will not be subject to the net basis and branch profits taxes or the 4% gross basis tax described below on its U.S. Source International Transportation Income. The Section 883 Exemption does not apply to U.S. Source Domestic Transportation Income.

A non-U.S. corporation will qualify for the Section 883 Exemption if, among other things, it (1) is organized in a jurisdiction outside the United States that grants an exemption from tax to U.S. corporations on international Transportation Income (an “Equivalent Exemption”), (2) satisfies one of three ownership tests (“Ownership Tests”), described in the Section 883 Regulations and (3) meets certain substantiation, reporting and other requirements.

We are organized under the laws of the Republic of the Marshall Islands. The U.S. Treasury Department has recognized the Republic of the Marshall Islands as a jurisdiction that grants an Equivalent Exemption. We also believe that we will be able to satisfy all substantiation, reporting and other requirements necessary to qualify for the Section 883 Exemption. Consequently, our U.S. Source International Transportation Income should be exempt from U.S. federal income taxation provided we satisfy the Ownership Tests and provided we file a U.S. federal income tax return to claim the Section 883 Exemption. We believe that we currently should satisfy the Ownership Tests because our Class A common shares represent more than 50% of the vote and value of all classes of stock and are primarily and regularly traded on an established securities market in the United States (and are not treated as closely held) within the meaning of the Section 883 Regulations. We can give no assurance, however, that changes in the trading, ownership or value of our Class A common shares will permit us to continue to qualify for the Section 883 Exemption.

### The Net Basis and Branch Profits Tax

If the Section 883 Exemption does not apply, our U.S. Source International Transportation Income may be treated as effectively connected with the conduct of a trade or business in the United States “Effectively Connected Income”, if we

have a fixed place of business in the United States and substantially all of our U.S. Source International Transportation Income is attributable to regularly scheduled transportation or, in the case of bareboat charter income, is attributable to a fixed place of business in the United States.

Generally, we believe that we do not have a fixed place of business in the United States. As a result, we believe that substantially none of our U.S. Source International Transportation Income would be treated as Effectively Connected Income. While we do not expect to acquire a fixed place of business in the United States, there is no assurance that we will not have, or will not be treated as having, a fixed place of business in the United States in the future, which may, depending on the nature of our future operations, result in our U.S. Source International Transportation Income being treated as Effectively Connected Income.

Any income we earn that is treated as Effectively Connected Income would be subject to U.S. federal corporate income tax (the highest statutory rate currently is 21%) and a 30% branch profits tax imposed under Section 884 of the Code. In addition, a 30% branch interest tax could be imposed on certain interest paid, or deemed paid, by us.

If we were to sell a vessel that has produced Effectively Connected Income, we generally would be subject to the net basis and branch profits taxes with respect to the gain recognized up to the amount of certain prior deductions for depreciation that reduced Effectively Connected Income. Otherwise, we would not be subject to U.S. federal income tax with respect to gain realized on the sale of a vessel, provided the sale is not considered to occur in the United States under U.S. federal income tax principles.

#### The 4% Gross Basis Tax

If the Section 883 Exemption does not apply and we are not subject to the net basis and branch profits taxes described above, we generally will be subject to a 4% U.S. federal income tax on our gross U.S. Source International Transportation Income without the benefit of deductions. We estimate that the U.S. federal income tax on such U.S. Source International Transportation Income would be approximately \$2 million if the Section 883 Exemption and the net basis and branch profits taxes do not apply, based on the amount of our gross U.S. Source International Transportation Income we have earned in prior years. However, many of our time charter contracts contain provisions in which the charterers would be obligated to bear this cost. The amount of such tax for which we would be liable for in any year will depend upon the amount of income we earn from voyages into or out of the United States in such year, however, which is not within our complete control.

#### Canadian Taxation

Under the Income Tax Act (Canada) (the “Canada Tax Act”), a corporation that is resident in Canada is subject to tax in Canada on its worldwide income.

Our place of residence, under Canadian law, would generally be determined on the basis of where our central management and control are, in fact, exercised. It is not our current intention that our central management and control be exercised in Canada but, even if it were, there is a specific statutory exemption under the Canada Tax Act that provides that a corporation incorporated, or otherwise formed, under the laws of a country other than Canada will not be resident in Canada in a taxation year if its principal business in that year is “international shipping” (as defined below), all or substantially all of its gross revenue for that year consists of gross revenue from “international shipping,” and it was not granted articles of continuance in Canada before the end of that year. International shipping is defined generally as the operation of ships that are owned or leased by an operator and that are used primarily in transporting passengers or goods in international traffic, including the chartering of ships, provided that, one or more persons related to the operator (if the operator and each such person is a corporation), or persons or partnerships affiliated with the operator (in any other case), has complete possession, control and command of the ship. The leasing of a ship by a lessor to a lessee that has complete possession, control and command of the ship is excluded from the international shipping definition, unless the lessor or a corporation, trust or partnership affiliated with the lessor has an eligible interest in the lessee.

The definition of international shipping was introduced following industry consultation, with the intent of providing shipping companies with flexibility in the manner in which they structure their intra-group chartering contracts. Based



on our operations and our understanding of the foregoing intention of the definition of international shipping, we do not believe that we are, nor do we expect to be, resident in Canada for purposes of the Canada Tax Act, and we intend that our affairs will be conducted and operated in a manner such that we do not become a resident of Canada for any purpose under the Canada Tax Act. However, if we were or become resident in Canada, we would be or become subject under the Canada Tax Act to Canadian income tax on our worldwide income and our non-Canadian resident shareholders would be or become subject to Canadian withholding tax on dividends paid in respect of our shares.

Generally, a corporation that is not resident in Canada will be taxable in Canada on income it earns from carrying on a business in Canada and on gains from the disposition of property used in a business carried on in Canada. However, there are specific statutory exemptions under the Canada Tax Act that provide that income earned in Canada by a non-resident corporation from international shipping, and gains realized from the disposition of ships used principally in international traffic, are not included in the non-resident corporation's income for Canadian tax purposes where the corporation's country of residence grants substantially similar relief to a Canadian resident. A Canadian resident corporation that carries on an international shipping business, as described in the previous sentence, in a Relevant Jurisdiction is exempt from income tax under the current laws of that Relevant Jurisdiction; and for these purposes, a "Relevant Jurisdiction" is defined as each jurisdiction in which we are, or are deemed for purposes of the Canada Tax Act, to be resident.

Subject to the below assumption, we expect that we will qualify for these statutory exemptions under the Canada Tax Act. Based on our operations, we do not believe that we are, nor do we expect to be, carrying on a business in Canada for purposes of the Canada Tax Act other than a business that would provide us with these statutory exemptions from Canadian income tax. These statutory exemptions are contingent upon reciprocal treatment being provided under the laws of each Relevant Jurisdiction. If in the future as a non-resident of Canada, we are carrying on a business in Canada that is not exempt from Canadian income tax, or these statutory exemptions are not accessible due to changes in laws or otherwise, we would be subject to Canadian income tax on our non-exempt income earned in Canada which could reduce our earnings available for distribution to shareholders.

Certain of our subsidiaries are residents of Canada for purposes of the Canada Tax Act. These subsidiaries are subject to Canadian tax on their worldwide income, and we will be subject to Canadian withholding tax on dividends we will receive from those subsidiaries. Based on the nature and extent of the operations of these subsidiaries, we do not expect the amount of Canadian income and withholding tax to be significant in relation to our earnings.

#### Hong Kong Taxation

The following is a discussion of the expected material Hong Kong profits tax considerations applicable to us. This discussion is based upon the provisions of the Inland Revenue Ordinance (Cap. 112) (the "IRO") as of the date of this Annual Report, all of which are subject to change, possibly with retroactive effect, and subject to different interpretations by the Inland Revenue Department of Hong Kong (the "IRD"). Changes to the IRO or other relevant authorities may cause the Hong Kong profits tax considerations to vary substantially from those described below.

The following discussion is for general information purposes only and does not purport to be a comprehensive description of all of the Hong Kong profits tax considerations applicable to us. We believe our central management and control is in Hong Kong.

#### Profits tax

In general, the IRO provides that profits tax shall be charged for each year of assessment on every person (which includes corporations) carrying on a trade, profession or business in Hong Kong in respect of such person's assessable profits arising in or derived from Hong Kong for that year from such trade, profession or business (excluding profits arising from the sale of capital assets) as ascertained in accordance with the IRO. In ascertaining the chargeable profits, applicable deductions are allowed for all costs and expenses to the extent they are incurred by that person during the relevant basis period in the production of chargeable profits.

There are specific provisions in the IRO in relation to the ascertainment of the assessable profits of a ship-owner carrying on business in Hong Kong.

A person is deemed to be carrying on business as an owner of ships in Hong Kong if the business is normally controlled or managed in Hong Kong or the person is a corporation incorporated in Hong Kong, or any ship owned by

that person calls at any location within the waters of Hong Kong (except where the IRD is convinced that the call is of a casual nature). In this context, “business as an owner of ships” means a business of chartering or operating ships.

If a corporation is deemed to be carrying on business as an owner of ships in Hong Kong, certain sums received by the corporation will be considered as relevant sums when ascertaining the assessable profits in accordance with the IRO. The relevant sums include, but are not limited to, all the sums derived from any charter hire in respect of the operation of a ship navigating solely or mainly within the waters of Hong Kong and half of the sums derived from any charter hire in respect of the operation of a ship navigating between any location within the waters of Hong Kong and any location within river trade waters.

The IRO also provides that certain sums will be considered as exempted sums, which are exempted from the determination of the relevant sums. In particular, if a ship is registered in Hong Kong, its income from the relevant carriage abroad proceeding to sea from any location within the waters of Hong Kong or any other location within those waters will be exempted.

If we are deemed to be carrying on business as owners of ships in Hong Kong, and if our ships are navigating solely or mainly within the waters of Hong Kong and/or navigating between any location within the waters of Hong Kong and any location within river trade waters, the relevant sums falling within the definition of the IRO are subject to the profits tax, with the exception of the exempted sums. The same will apply to our vessel-holding subsidiaries that are registered as non-Hong Kong companies in Hong Kong (the “vessel-holding subsidiaries”) under the Hong Kong’s Companies Ordinance (Cap. 622) (the “Companies Ordinance”). Based on our operation and our understanding of the relevant provisions of the IRO, we do not believe that our charter hire income is, nor do we expect our charter hire income to be, subject to the profits tax under the IRO, because the ships owned by us and the ships owned by our vessel-holding subsidiaries are not navigating solely or mainly within the waters of Hong Kong and/or are not navigating between any location within the waters of Hong Kong and any location within river trade waters. While currently the ships owned by us and the ships owned by our vessel-holding subsidiaries are not navigating solely or mainly within the waters of Hong Kong and/or are not navigating between any location within the waters of Hong Kong and any location within river trade waters, there is no assurance that these ships will not be operating within the said waters in the future, depending on the nature of our future operations.

In the event that the ships owned by us and the ships owned by our vessel-holding subsidiaries do navigate solely or mainly within the waters of Hong Kong and/or navigate between any location within the waters of Hong Kong and any location within river trade waters and our charter hire income does not fall within the definition of exempted sums under the IRO, we are likely to be subject to the profits tax in respect of such income. In such circumstances, for the purpose of ascertaining the profits tax payable, the assessable profits will be calculated as the sum bearing the same ratio to the aggregate of the relevant sums earned by or accrued to the relevant company during the basis period for that year of assessment as that relevant company’s total shipping profits for the basis period bear to the aggregate of the total shipping income earned by or accrued to that relevant company during that basis period for that year of assessment. However, instead of the calculating the assessable profits based on the above, the IRD may assess the profits on a fair percentage of the aggregate of the relevant sums of the relevant basis period.

In respect of other service-providing subsidiaries (which are registered as non-Hong Kong companies under the Companies Ordinance), if the services are performed in Hong Kong, the service fee income will be considered as being arising in or derived from Hong Kong and the corresponding profits will be subject to the profits tax. The profits tax payable will be calculated using the then prevailing profits tax rate.

#### The People’s Republic of China Taxation

The following is a discussion of the expected material China tax considerations applicable to us. This discussion is based upon the provisions of the laws and regulations described below as in effect as of the date of this Annual Report, all of which are subject to change, possibly with retroactive effect, and subject to different interpretations by the relevant Chinese tax authorities. Changes to these laws and regulations may cause the Chinese tax considerations to vary substantially from those described below.

The following discussion is for general information purposes only and does not purport to be a comprehensive description of all of the Chinese tax considerations applicable to us

Corporation Income Tax (“CIT”)

The relevant China tax regulation in respect of the China taxation of our voyage charter and time charter revenue is “Provisional Measures on the Collection of Tax on Non-Resident Taxpayers Engaged in International Transportation Business” (Bulletin of the State Administration of Taxation 2014, No. 37) (“Provisional Measures”).

China imposes CIT on non-resident shipping companies that operate international transportation business with China. Effective from August 1, 2014, non-resident shipping companies are subject to CIT at the rate of 25% on their China-sourced taxable income derived from the provision of international transportation services. Such services are defined to include transportation of passengers, goods, mail or other items into and out of China via owned or leased ships, airplanes and shipping spaces, as well as the provision of services such as loading and unloading, warehousing and related services. Non-resident shipping companies are required to register with Chinese tax authorities and maintain sound accounting records relating to the calculation of taxes.

China-sourced income derived by us and our vessel-owning subsidiaries from voyage charter and time charter of vessels may be treated as international transportation service income and therefore would be subject to the imposition of CIT under the Provisional Measures, unless exempted from China taxation based on the China/HK Tax Treaty (as defined below).

#### Value-added Tax (“VAT”)

Under the current Chinese VAT regulation, non-resident enterprises that derive income from provision of international transportation services to Chinese customers are subject to VAT, unless exempted under the applicable tax treaty. The applicable VAT rate is 10% for transportation services and 6% for storage and loading/unloading services. VAT is generally withheld by the Chinese customers but non-resident shipping companies may also perform their own VAT filings if they have already registered with the competent tax authorities.

We were granted VAT exemption in 2015 (as discussed below). As such, no China VAT has been paid by us or withheld by Chinese customers since 2015.

#### Tax exemption

Article 8(1) of the Arrangement between Mainland and Hong Kong for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (“China/HK Tax Treaty”) and its Fourth Protocol provides exemptions from CIT and VAT for qualifying taxpayers. Specifically, according to the China/HK Tax Treaty, China exempts from tax (including CIT and VAT) income and profits derived by a Hong Kong tax resident conducting international transportation business in China. The tax exemption treatment based on the China/HK Tax Treaty is not automatically applied on international transportation service income of a Hong Kong tax resident, but is subject to registration with the competent tax authorities.

We obtained the CIT and VAT exemption treatments pursuant to Article 8(1) of the China/HK Tax Treaty for the years 2015 through 2017 from the competent Shanghai tax authority. For the years 2018 through 2020, we are in the process of completing in the ordinary course the registration to obtain the tax exemption treatment with the competent tax authorities.

#### C. Organizational Structure

Please read Exhibit 8.1 to this Annual Report for a list of our significant subsidiaries as of March 1, 2019.

#### D. Property, Plant and Equipment

For information on our fleet and new vessel contracts, please read “Item 4. Information on the Company—B. Business Overview—Our Fleet.” Other than our vessels, we do not have any material property.

Item 4A. Unresolved Staff Comments

None.

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## Item 5. Operating and Financial Review and Prospects

## A. General

## Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our consolidated financial statements and notes included elsewhere in this Annual Report.

## Overview

We are Seaspan Corporation, a Marshall Islands corporation that was incorporated on May 3, 2005. We are a leading independent owner and manager of containerships, which we charter primarily pursuant to long-term, fixed-rate time charters with major container liner companies. We primarily deploy our vessels on long-term, fixed-rate time charters to take advantage of the stable cash flow and high utilization rates that are typically associated with long-term time charters. As of March 1, 2019 we operated a fleet of 112 vessels that have an average age of approximately six years, on a TEU weighted basis.

Customers for our operating fleet as of March 1, 2019 were Arkas, CMA CGM, COSCO, Hapag-Lloyd, HMM, K-Line, KMTC, Maersk, MSC, MOL, ONE and Yang Ming Marine. Please read "Item 4. Information on the Company—B. Business Overview—Our Fleet" for more information.

## Recent Developments in 2018 and 2019

## Vessel Acquisitions and Deliveries

In 2018, we accepted delivery of five new building vessels, purchased two second-hand vessels and acquired 16 operating vessels and two new building vessels with the acquisition of GCI.

The additions to our operating fleet for the year ended December 31, 2018 are summarized below:

Vessel Class				Delivery
Vessel	(TEU)	Length of Charter	Charterer	Date
MSC Yashi B	11000	17 years	MSC	January 2018
Seaspan Loga	2500	4 years + option for up to 2 years	Maersk	February 2018
Seaspan Hannover	2500	4 years + option for up to 2 years	Maersk	February 2018
Seaspan Thames	10000	Minimum 22 months and up to two years <sup>(1)</sup>	Hapag-Lloyd	March 2018 <sup>(2)</sup>
Seaspan Amazon	10000	Minimum 22 months and up to two years <sup>(1)</sup>	Hapag-Lloyd	March 2018 <sup>(2)</sup>
Seaspan Hudson	10000	2 years + one 1-year option <sup>(1)</sup>	Yang Ming Marine	March 2018 <sup>(2)</sup>
CMA CGM Tuticorin	10000	3 years + option for up to 3 years <sup>(1)</sup>	CMA CGM	March 2018 <sup>(2)</sup>
MOL Brilliance	10000	8 years + one 2-year option <sup>(1)</sup>	MOL	March 2018 <sup>(2)</sup>
MOL Belief	10000	8 years + one 2-year option <sup>(1)</sup>	MOL	March 2018 <sup>(2)</sup>
MOL Beauty	10000	8 years + one 2-year option <sup>(1)</sup>	MOL	March 2018 <sup>(2)</sup>
MOL Bellwether	10000	8 years + one 2-year option <sup>(1)</sup>	MOL	March 2018 <sup>(2)</sup>
Maersk Guatemala	10000	5 years + two 1-year options <sup>(1)</sup>	Maersk	March 2018 <sup>(2)</sup>
Maersk Gibraltar	10000	5 years + two 1-year options <sup>(1)</sup>	Maersk	March 2018 <sup>(2)</sup>
YM World	14000	10 years + one 2-year option <sup>(1)</sup>	Yang Ming Marine	March 2018 <sup>(2)</sup>
YM Wondrous	14000	10 years + one 2-year option <sup>(1)</sup>	Yang Ming Marine	March 2018 <sup>(2)</sup>
YM Wholesome	14000	10 years + one 2-year option <sup>(1)</sup>	Yang Ming Marine	March 2018 <sup>(2)</sup>



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YM Worth	14000	10 years + one 2-year option <sup>(1)</sup>	Yang Ming Marine	March 2018 <sup>(2)</sup>
YM Welcome	14000	10 years + one 2-year option <sup>(1)</sup>	Yang Ming Marine	March 2018 <sup>(2)</sup>
YM Wreath	14000	10 years + one 2-year option <sup>(1)</sup>	Yang Ming Marine	March 2018 <sup>(2)</sup>
CMA CGM Mundra	10000	3 years + option for up to 3 years	CMA CGM	May 2018
CMA CGM Mumbai	10000	3 years + option for up to 3 years	CMA CGM	May 2018
CMA CGM Cochin	10000	3 years + option for up to 3 years	CMA CGM	May 2018 <sup>(1)</sup>
CMA CGM Chennai	10000	3 years + option for up to 3 years	CMA CGM	May 2018 <sup>(1)</sup>

<sup>(1)</sup> The charter was in place at the date that we acquired GCI on March 13, 2018.

- (2) Our acquisition of GCI on March 13, 2018 included 16 operating vessels and two vessels under construction, which were delivered in May 2018.

#### Fairfax Investment

On February 14, 2018, we issued to Fairfax, in a private placement, \$250.0 million aggregate principal amount of our 2025 Notes and 38,461,539 warrants (the “2018 Warrants”), each exercisable for one Class A common share at an exercise price of \$6.50 per share (subject to customary anti-dilutive adjustments) (the “First Fairfax Investment”).

On March 13, 2018, we and Fairfax entered into a subscription agreement pursuant to which we agreed to sell, and Fairfax agreed to purchase, \$250.0 million in aggregate principal amount of our 2026 Notes and warrants (the “2019 Warrants”) to purchase 38,461,539 Class A common shares at an exercise price of \$6.50 per share, subject to customary anti-dilutive adjustments, for an aggregate purchase price of \$250.0 million in January 2019 (the “Second Fairfax Investment”).

On May 31, 2018, we entered into an agreement with Fairfax for us to receive \$500.0 million equity investment through the early exercise of the 2018 Warrants (the “May 2018 Agreement”). The May 2018 Agreement closed on July 16, 2018. Pursuant to the May 2018 Agreement, on July 16, 2018, Fairfax immediately exercised all of the 2018 Warrants to acquire 38,461,539 Class A common shares at an exercise price of \$6.50 per share in cash, for an aggregate exercise price of \$250.0 million. In addition, Fairfax agreed pursuant to the May 2018 Agreement to exercise the 2019 Warrants upon issuance in January 2019. The Second Fairfax Investment closed on January 15, 2019, and the 2019 Warrants were immediately exercised to acquire 38,461,539 Class A common shares at an exercise price of \$6.50 per share in cash, pursuant to the May 2018 Agreement.

Pursuant to the May 2018 Agreement, in consideration for Fairfax early exercising the 2018 and 2019 Warrants in advance of their seven-year terms, on July 16, 2018 we issued to Fairfax warrants to purchase 25,000,000 Class A common shares at an exercise price of \$8.05 per share. These warrants are exercisable for a period of seven years following the date of issuance and are subject to customary anti-dilutive adjustments. Fairfax may pay the aggregate exercise price by cash, by cashless exercise or by any combination of the foregoing, at the option of Fairfax. In addition, in accordance with the May 2018 Agreement, the terms of the 2025 Notes and 2026 Notes were amended to allow Fairfax to call for early redemption of some or all of the 2025 and 2026 Notes on each respective anniversary date of issuance, by providing written notice between 150 and 120 days prior to the applicable anniversary date. On September 26, 2018, Fairfax waived its right to call for early redemption of the 2025 Notes on the February 2019 anniversary date. On February 20, 2019, Fairfax waived its right to call for early redemption of the 2025 Notes on the February 2020 anniversary date and of the 2026 Notes on the January 2020 anniversary date.

On January 15, 2019, we closed its previously announced transaction with Fairfax Financial Holdings Limited, whereby we received proceeds of \$500 million in exchange for \$250 million aggregate principal amount of the 2026 Notes, and 38.5 million Class A Common Shares, which were issued in exchange for Fairfax’s immediate exercise of the 2019 Warrants. The aggregate purchase price of the 2026 Notes and the 2019 Warrants was \$250 million and the proceeds from exercise of the 2019 Warrants was an additional \$250 million.

Upon the issuance of the 2025 and 2026 Notes and exercise of the 2018 and 2019 Warrants, Fairfax’s total investment in us increased to \$1.0 billion, consisting of \$500.0 million of Class A common shares and \$500.0 million in senior notes.

#### Summary of Fairfax Investments<sup>(1)</sup>

Investment	Date Issued/Exercised	Gross Proceeds to Seaspan
2025 Notes <sup>(2)</sup>	February 14, 2018	\$250 million
2018 Warrants <sup>(2)</sup>	July 16, 2018	\$250 million
2026 Notes <sup>(3)</sup>	January 15, 2019	\$250 million
2019 Warrants <sup>(3)</sup>	January 15, 2019	\$250 million

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<sup>(1)</sup>Excludes seven year warrants, which are outstanding as of the date of this Annual Report, to purchase 25,000,000 of our Class A common shares.

<sup>(2)</sup>Issued in connection with First Fairfax Investment.

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<sup>(3)</sup>Issued in connection with Second Fairfax Investment.

#### Acquisition of GCI

On March 13, 2018, we acquired the remaining 89.2% non-controlling interest that we did not previously own in GCI from affiliates of The Carlyle Group and the minority owners of GCI. GCI's fleet of 18 vessels, including two newbuilding vessels, was comprised of 10000 TEU and 14000 TEU eco-class vessels.

The aggregate purchase price of \$498.1 million includes the following:

Cash	\$331,904
1,986,449 of the Company's Series D preferred shares	47,158
2,514,996 of the Company's Class A common shares	13,908
Settlement of intercompany balances	41,279
Carrying value of previously held equity interest	61,891
Transaction fees	1,910
Aggregate purchase price	\$498,050

#### Debt Financing

In March 2018, we closed and drew on a secured credit facility for \$100.0 million at an interest rate of LIBOR plus a margin is secured by 11 previously unencumbered vessels, with proceeds used for general corporate purposes.

In August 2018, we closed on a revolving credit facility for up to \$150.0 million, subject to certain limitations, where any amounts borrowed under this facility must be repaid in full on August 31, 2020 (the "Two Year Revolving Credit Facility"). The Two Year Revolving Credit Facility bears interest at LIBOR plus a margin and the proceeds are to be used for general corporate purposes. As of the date of this filing, the Two Year Revolving Credit Facility remains undrawn.

#### Vessel Financing

In April 2018, we entered into a secured term loan facility for up to \$120.0 million to finance the purchase of CMA CGM Chennai and CMA CGM Cochin. We drew the full \$120.0 million facility in May 2018, when the vessels were delivered.

#### Redemption of Series F Preferred Shares

In July 2018, we redeemed all of our outstanding 10.5% Series F preferred shares for \$140.0 million plus \$3.4 million of accrued dividends.

#### Debt Repayment

During 2018, we made prepayments on certain secured term loan facilities in an aggregate amount of \$166.6 million, unencumbering a total of 12 vessels.

On January 16, 2019, we repaid \$147.0 million for the remaining principal balance on a revolving credit facility. As a result of the repayment, eight vessels will be unencumbered, subject to the completion of the associated collateral

release documentation. As of March 1, 2019, we had 32 unencumbered vessels (with collateral in the process of being released with respect to eight of these).

#### Restructuring of Charter Arrangements

During the normal course of business, we restructured our charter arrangements with one of our top 5 customers. As a result of such restructurings, we expect to receive a settlement payment approximating the remaining payments due on the existing time charters.

#### Equity Financing

In September 2018, we issued in an underwritten public offering 6,000,000 of our Series I fixed-to-floating rate preferred shares at a price of \$25.00 per share for net proceeds of \$145.3 million. Dividends will be payable on

the Series I preferred shares at a fixed rate of 8.00% per annum up to, but excluding October 30, 2023 and, if not redeemed at any time thereafter, at a floating rate from and including October 30, 2023 based on three-month LIBOR plus a margin of 5.008%.

#### Investment in Swiber

In October, 2018, we entered into a binding term sheet (the “Swiber Term Sheet”) to invest up to \$200.0 million in Swiber. Pursuant to the Swiber Term Sheet, and subject to the terms and conditions to be set forth in definitive transaction agreements, upon closing, we anticipate acquiring an 80% post-restructured equity interest in Swiber for \$20.0 million and, if certain milestones are met, an additional \$180.0 million would be invested in Swiber’s LNG-to-power project in Vietnam, in exchange for economic interests in the project. Discussions with Swiber, its judicial managers and secured creditors around the terms of our investment have been ongoing. We anticipate entering into a definitive transaction agreement in the near future.

#### Senior Unsecured Notes

In December 2018, we repurchased approximately \$17.5 million aggregate principal amount of our 2019 Notes. Subsequently, in 2019, we further repurchased an aggregate principal amount of approximately \$9.0 million of our 2019 Notes.

#### Recent Additions to Senior Management

In January 2018, Bing Chen was appointed as our CEO. In May 2018, David Spivak resigned as CFO and Ryan Courson was appointed to this position. In July 2018, we announced the appointment of Tina Lai as Chief Human Resources Officer. In August 2018, Mark Chu resigned as General Counsel and Chief Operating Officer. In October 2018, we announced the appointment of Torsten Holst Pedersen as Executive Vice-President, Ship Management and Ted Chang as General Counsel. Mr. Chang stepped down in February 2019 for personal reasons.

#### Dividends

On January 4, 2019, our board of directors declared the following quarterly cash dividends on our common and preferred shares for a total distribution of \$39.8 million:

Security	Ticker	Dividend per Share	Period	Record Date	Payment Date
Class A common shares	SSW	\$0.125	October 1, 2018 to December 31, 2018	January 14, 2019	January 30, 2019
Series D preferred shares	SSW PR D	\$0.496875	October 30, 2018 to January 29, 2019	January 29, 2019	January 30, 2019
Series E preferred shares	SSW PR E	\$0.515625	October 30, 2018 to January 29, 2019	January 29, 2019	January 30, 2019
Series G preferred shares	SSW PR G	\$0.5125	October 30, 2018 to January 29, 2019	January 29, 2019	January 30, 2019
Series H preferred shares	SSW PR H	\$0.492188	October 30, 2018 to January 29, 2019	January 29, 2019	January 30, 2019
Series I preferred shares	SSW PR I	\$0.50	October 30, 2018 to January 29, 2019	January 29, 2019	January 30, 2019

Registration of Washington Family Class A Common Shares

On January 14, 2019, we entered into a registration rights agreement (the “Washington Registration Rights Agreement”) with various affiliates of the Washington family (the “Washington Shareholders”). Pursuant to the Washington Registration Rights Agreement, we agreed to file a registration statement covering the resale of the Washington Shareholders’ Class A Common Shares, and a registration statement on Form F-3 was filed with the U.S. Securities and Exchange Commission (the “SEC”) on January 18, 2019. For additional information regarding the Washington Registration Rights Agreement, please read our Report on Form 6-K furnished to the SEC on January 15, 2019.

## Market Conditions

Containerships play an integral role in global trade, facilitating the movement of goods around the world. Gross domestic product (“GDP”) is an important measure of global trade, and global GDP growth is positively correlated with growth in container throughput. Container throughput has varied significantly since 2000, and was greater than 10% per annum in most years prior to the global credit crisis. In 2009, global container throughput declined by over 8% compared to the prior year, and after growing sharply in 2010 and 2011, ranged between 1.4% and 5.7% per annum between 2012 and 2017, as the global economy gradually recovered. In 2018, global economic expansion continued, and container throughput growth for the year reached approximately 4.4%, marginally restrained by global trade tensions. The idle fleet for December 2018 was approximately 2.8% of the global fleet, as measured by TEU, compared to approximately 2.2% of the global fleet at the same time last year. The increase in the idle fleet is consistent with the decrease in throughput growth and the increase in fleet capacity by 5.8%.

Even though containership demand has decreased, containership charter rates have increased. For example, charter rates for 4000 TEU Panamax vessels, were approximately \$9,500 per day in December 2018, compared to approximately \$7,800 per day in December 2017.

Approximately 80% of the current containership orderbook is for vessels greater than 10000 TEU in size. Vessels less than 4000 TEU in size make up approximately 20% of the global containership orderbook, with no vessels between 4000 TEU and 9999 TEU in size.

## B. Results of Operations

### Year Ended December 31, 2018 Compared with Year Ended December 31, 2017

The following discussion of our financial condition and results of operations is for the years ended December 31, 2018 and 2017. Our consolidated financial statements have been prepared in accordance with U.S. GAAP and, except where otherwise specifically indicated, all amounts are expressed in U.S. dollars.



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The following table presents our operating results for the years ended December 31, 2018 and 2017.

Year Ended December 31,	2018	2017
Statement of operations data (in thousands of USD):		
Revenue	\$1,096,331	\$831,324
Operating expenses:		
Ship operating	219,270	183,916
Cost of services, supervision fees	—	1,300
Depreciation and amortization	245,801	199,938
General and administrative		