

FREESEAS INC.  
Form 20-F  
August 17, 2017

**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, 2016**

**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 report. Not applicable

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 000-51672**

**FREESEAS INC.**

(Exact name of the Registrant as specified in its charter)

Republic of the Marshall Islands  
(Jurisdiction of incorporation or organization)

6 Loukianou Street, 10675 Athens, Greece  
(Address of principal executive offices)

Dimitris Papadopoulos, Chief Financial Officer  
FreeSeas Inc.  
6 Loukianou Street,  
10675 Athens, Greece  
011-30-210-729-7284  
(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:

None  
(Title of Class)

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

Title of Each Class  
Common Stock, par value \$0.001 per share  
Preferred Share Purchase Rights (attached to Common Stock)

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

None  
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report. 168,212 common shares, par value \$0.001 per share, as of December 31, 2016.

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large Accelerated filer      Accelerated filer      Non-accelerated filer      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.

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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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## **INTRODUCTION**

FreeSeas Inc. is a Republic of the Marshall Islands company that is referred to in this annual report on Form 20-F, together with its subsidiaries, as “FreeSeas Inc.,” “FreeSeas,” “the Company,” “we,” “us,” or “our.”

We use the term “deadweight tons,” or “dwt,” in describing the capacity of our drybulk carriers. Dwt, expressed in metric tons, each of which is equivalent to 1,000 kilograms, refers to the maximum weight of cargo and supplies that a vessel can carry. Drybulk carriers are generally categorized as Handysize, Handymax, Panamax and Capesize. The carrying capacity of a Handysize drybulk carrier typically ranges from 10,000 to 39,999 dwt and that of a Handymax drybulk carrier typically ranges from 40,000 to 59,999 dwt. By comparison, the carrying capacity of a Panamax drybulk carrier typically ranges from 60,000 to 79,999 dwt and the carrying capacity of a Capesize drybulk carrier typically is 80,000 dwt and above.

Unless otherwise indicated:

All references to “\$” and “dollars” in this annual report are to U.S. dollars;

Financial information presented in this annual report is derived from financial statements for the fiscal year ended December 31, 2016 appearing elsewhere in this annual report; and

All references to dollar amounts in this annual report, except share price, per share data, daily hire and fee rates are expressed in thousands of U.S. dollars.

All share-related and per share information in this annual report have been adjusted to give effect to the (i) one share for ten (10) share reverse stock split that was effective on February 14, 2013, (ii) the one share for five (5) share reverse stock split that was effective on December 2, 2013, (iii) the one share for seven and one-half share (7.5) reverse stock split that was effective on May 11, 2015, (iv) the one share for fifty (50) share reverse stock split that was effective on June 26, 2015, (v) the one share for sixty (60) share reverse stock split that was effective on January 15, 2016, (vi) the one share for two hundred (200) share reverse stock split that was effective on April 14, 2016, and (vii) the one share for five thousand (5,000) share reverse stock split that was effective on February 7, 2017.

This report should be read in conjunction with our audited consolidated financial statements and the accompanying notes thereto, which are included in Item 18 to this annual report.

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This annual report contains certain forward-looking statements. These forward-looking statements include information about possible or assumed future results of our operations and our performance. Our forward-looking statements include, but are not limited to, statements regarding us or our management's expectations, hopes, beliefs, intentions or strategies regarding the future and other statements other than statements of historical fact. In addition, any statements that refer to projections, forecasts or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. The words "anticipates," "forecasts," "believe," "continue," "could," "estimate," "expect," "intends," "may," "might," "plan," "possible," "potential," "predicts," "project," "should," "would" and similar expressions may identify forward-looking statements, but the absence of these words does not mean that a statement is not forward-looking. Forward-looking statements in this annual report may include, for example, statements about:

our future operating or financial results;

our financial condition and liquidity, including our ability to comply with our loan covenants, to repay our indebtedness and to continue as a going concern;

potential liability from future litigation and incidents involving our vessels, including seizures by pirates, and our expected recoveries of claims under our insurance policies;

our ability to comply with the continued listing standards on the exchange or trading market on which our common stock is listed for trading;

our ability to find employment for our vessels;

drybulk shipping industry trends, including charter rates and factors affecting vessel supply and demand;



business strategy, areas of possible expansion, and expected capital spending or operating expenses and general and administrative expenses;

the useful lives and value of our vessels;

our ability to receive in full or partially our accounts receivable and insurance claims;

greater than anticipated levels of drybulk vessel new building orders or lower than anticipated rates of drybulk vessel scrapping;

changes in the cost of other modes of bulk commodity transportation;

availability of crew, number of off-hire days, dry-docking requirements and insurance costs;

changes in condition of our vessels or applicable maintenance or regulatory standards (which may affect, among other things, our anticipated dry-docking costs);

competition in the seaborne transportation industry;

global and regional economic and political conditions;

fluctuations in currencies and interest rates;

the overall health and condition of the U.S. and global financial markets;

changes in seaborne and other transportation patterns;

changes in governmental rules and regulations or actions taken by regulatory authorities;

our ability to pay dividends in the future;

acts of terrorism and other hostilities; and

other factors discussed in the section titled “Risk Factors” in this annual report.

The forward-looking statements contained in this annual report are based on our current expectations and beliefs concerning future developments and their potential effects on us. There can be no assurance that future developments affecting us will be those that we have anticipated. These forward-looking statements involve a number of risks, uncertainties (some of which are beyond our control) or other assumptions that may cause actual results or performance to be materially different from those expressed or implied by these forward-looking statements. These risks and uncertainties include, but are not limited to, those factors described under the heading “Risk Factors.” Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, actual results may vary in material respects from those projected in these forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements contained in this annual report, or the documents to which we refer you in this annual report, to reflect any change in our expectations with respect to such statements or any change in events, conditions or circumstances on which any statement is based.



**PART I****Item 1. Identity of Directors, Senior Management and Advisers**

Not required.

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

Not required.

**Item 3. Key Information****A. Selected Financial Data**

The selected consolidated financial information set forth below has been derived from our audited financial statements for the years ended December 31, 2016, 2015, 2014, 2013 and 2012. The information is only a summary and should be read in conjunction with our audited consolidated financial statements for the years ended December 31, 2016, 2015 and 2014 and notes thereto contained elsewhere herein. The financial results should not be construed as indicative of financial results for subsequent periods. See “Item 4. Information on the Company” and “Item 5. Operating and Financial Review and Prospects.”

	Year Ended December 31,				
	2016	2015	2014	2013	2012
Statement of Operations Data:					
Operating revenues	\$506	\$2,304	\$3,773	\$6,074	\$14,260
Income/ (loss) from operations	(16,815)	(45,354 )	(26,460)	(47,968)	(28,036)
Other income/(expense)	(3,696 )	(7,595 )	13,772	(737 )	(2,852 )
Net income/ (loss)	(20,511)	(52,949 )	(12,688)	(48,705)	(30,888)
Earnings Per Share Data:					
Net income /(loss) per share:					
Basic earnings/ (loss) per share	\$(850 )	\$(111,139)	\$(55,758)	\$-	\$-
Diluted earnings/ (loss) per share	\$(850 )	\$(111,139)	\$(55,758)	\$-	\$-
Weighted average number of shares:					

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Basic weighted average number of shares	24,140	476	228	-	-
Diluted weighted average number of shares	24,140	476	228	*-	*-

\* - information not meaningful due to reverse splits.

Selected Balance Sheet Data:	Year Ended December 31,				
	2016	2015	2014	2013	2012
Total cash	\$52	\$20	\$45	\$7,581	\$29
Vessels, net	2,122	10,305	62,310	71,834	75,690
Total assets	2,931	18,718	64,253	87,632	114,359
Long-term debt, including current portion	17,598	17,598	17,598	59,687	89,169
Total shareholders' equity	(33,592)	(16,760)	25,004	12,793	7,803

**B. Capitalization and Indebtedness**

Not required.

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

Not required.

## **D. Risk Factors**

*The common shares of our company are considered speculative. Investing in our common shares involves a high degree of risk and uncertainty. You should carefully consider the following risks and uncertainties in addition to other information in this annual report in evaluating our company and our business before purchasing our common shares. Our business, operating or financial condition could be harmed due to any of the following risks.*

### **Risk Factors Relating to FreeSeas**

***At December 31, 2016, FreeSeas' current liabilities exceeded its current assets, which could impair its ability to successfully operate its business and could have material adverse effects on its revenues, cash flows and profitability and its ability to comply with its debt covenants and pay its debt service and other obligations.***

As a result of the historically low charter rates for drybulk vessels which have been affecting the Company for over seven years, and the resulting material adverse impact on the Company's results from operations, the accompanying consolidated financial statements have been prepared on a going concern basis. The Company has incurred net losses of \$20,511, \$52,949 and \$12,688 during the years ended December 31, 2016, 2015 and 2014, respectively. The Company's cash flow projections for 2017, indicate that cash on hand will not be sufficient to cover debt repayments scheduled as of December 31, 2016 and operating expenses and capital expenditure requirements for at least twelve months from the balance sheet date. As of December 31, 2016 and 2015, the Company had working capital deficits of \$35,715 and \$34,065, respectively. All of the above raises substantial doubt regarding the Company's ability to continue as a going concern. Management plans to continue to provide for its capital requirements by issuing additional equity securities and debt in addition to executing their business plan. The Company's ability to continue as a going concern is dependent upon its ability to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal course of business operations when they come due and to generate profitable operations in the future.

On February 22, 2014, the Company and certain of its subsidiaries entered into terms with the National Bank of Greece ("NBG") for settlement of its obligations arising from the loan agreement with NBG. Pursuant to the terms, NBG agreed to accept a cash payment of \$22,000 no later than December 31, 2014, in full and final settlement of all of the Company's obligations to NBG and NBG would forgive the remaining outstanding balance of approximately \$4,700. On September 17, 2014, the Company made a payment of \$2,700 to reduce outstanding indebtedness with NBG. On September 24, 2014, the Company sold the M/V Free Impala, a 1997-built, 24,111 dwt Handysize dry bulk carrier for a gross sale price of \$3,600 and the vessel was delivered to her new owners. Subsequently, the amount of \$3,300 had been used to reduce outstanding indebtedness with NBG, which had a mortgage on the vessel. The agreed settlement of the Company's obligations, arising from the loan agreement with NBG mentioned above, was not realized and negotiations have resumed for a new agreement. On June 18, 2015, the Company received from NBG a reservation of rights letter stating that the Bank may take any actions and may exercise all of their rights and remedies

referred in the security documents. In December 2016, the Company received notification from NBG that the Company has not paid the aggregate amount of \$23,956 constituting repayment installments, accrued loan and default interest due on December 16, 2016.

If the Company is not able to reach a new agreement with NBG its standalone lender, this could lead to the acceleration of the outstanding debt under its debt agreement. The Company's failure to satisfy its covenants under its debt agreement and any consequent acceleration of its outstanding indebtedness would have a material adverse effect on the Company's business operations, financial condition and liquidity.

Generally accepted accounting principles require that long-term debt be classified as a current liability when a covenant violation gives the lender the right to call the debt at the balance sheet date, absent a waiver. As a result of the actual breach existing under the Company's credit facility with NBG acceleration of such debt by its lender could result. Accordingly, as of December 31, 2016, the Company is required to reclassify its long-term debt as current liability on its consolidated balance sheet since the Company has not received waiver in respect to the breach discussed above.

The Company is currently exploring several alternatives aiming to manage its working capital requirements and other commitments, including offerings of securities through structured financing agreements, disposition of certain vessels in its current fleet and additional reductions in operating and other costs.

The consolidated financial statements as of December 31, 2016, were prepared assuming that the Company would continue as a going concern despite its significant losses and working capital deficit. Accordingly, the financial statements did not include any adjustments relating to the recoverability and classification of recorded asset amounts, the amounts and classification of liabilities, or any other adjustments that might result in the event the Company is unable to continue as a going concern, except for the classification of all debt, as current.

***We received a report from our independent registered public accounting firm with an explanatory paragraph for the year ended December 31, 2016 with respect to our ability to continue as a going concern. The existence of such a report may adversely affect our stock price and our ability to raise capital. There is no assurance that we will not receive a similar report for our year ending December 31, 2017.***

In their report dated August 17, 2017, our independent registered public accounting firm expressed substantial doubt about our ability to continue as a going concern as we have incurred recurring operating losses, have a working capital deficiency, have failed to meet scheduled payment obligations under our loan facilities and have not complied with certain covenants included in our loan agreements with banks. Furthermore, if we were forced to liquidate our assets, the amount realized could be substantially lower than the carrying value of these assets. Our ability to continue as a going concern is subject to our ability to obtain necessary funding from outside sources, including obtaining additional funding from the sale of our securities, obtaining loans from various financial institutions or lenders where possible and restructuring outstanding debt obligations that are currently in default. Our continued net operating losses increase the difficulty in meeting such goals and there can be no assurances that such methods will prove successful.

***We have been in breach of certain loan covenants contained in our loan agreement with NBG. If we are not successful in obtaining a waiver with respect to covenants breached, our lender may declare an event of default and accelerate our outstanding indebtedness under the agreement, which would impair our ability to continue to conduct our business, which raises substantial doubt about our ability to continue as a going concern.***

Our loan agreement requires that we comply with certain financial and other covenants. As a result of the drop in our drybulk asset values, we were not in compliance with the NBG facility covenants relating to vessel values as of December 31, 2016. In addition, we were in breach of interest cover ratios, leverage and minimum liquidity covenants with the NBG facility not previously waived. A violation of these covenants constitutes an event of default under our credit facility, which would, unless waived by our lender, provide our lender with the right to require us to post additional collateral, increase our interest payments and/or pay down our indebtedness to a level where we are in compliance with our loan covenants. Furthermore, our lender may accelerate our indebtedness and foreclose its liens on our vessels, in which case our vessels may be auctioned or otherwise transferred which would impair our ability to continue to conduct our business. As a result of these breaches, our total indebtedness is presented within current liabilities in the December 31, 2016 consolidated balance sheet.

If the Company is not able to reach an agreement with the NBG or if the Company is unable to comply with any such restructured loan terms agreed upon, this could lead to the acceleration of the outstanding debt under its debt agreements. The Company's failure to satisfy its covenants under its debt agreement, and any consequent acceleration of its outstanding indebtedness would have a material adverse effect on the Company's business operations, financial condition and liquidity.

***Our loan agreements contain covenants that may limit our liquidity and corporate activities.***

If the drybulk market remains depressed or further declines, we may require further waivers and/or covenant amendments to our loan agreements relating to our compliance with certain covenants for certain periods of time. The waivers and/or covenant amendments may impose additional operating and financial restrictions on us and modify the terms of our existing loan agreements. Any such waivers or amendments, if needed, could contain such additional restrictions and might not be granted at all.

Our loan agreements require that we maintain certain financial and other covenants. The low drybulk charter rates and drybulk vessel values have previously affected, and may in the future affect, our ability to comply with these covenants. A violation of these covenants constitutes an event of default under our credit facilities and would provide our lenders with various remedies, including the right to require us to post additional collateral, enhance our equity and liquidity, withhold payment of dividends, increase our interest payments, pay down our indebtedness to a level where we are in compliance with our loan covenants, sell vessels in our fleet, or reclassify our indebtedness as current liabilities. Our lenders could also accelerate our indebtedness and foreclose their liens on our vessels. The exercise of any of these remedies could materially adversely impair our ability to continue to conduct our business. Moreover, our lenders may require the payment of additional fees, require prepayment of a portion of our indebtedness to them, accelerate the amortization schedule for our indebtedness and increase the interest rates they charge us on our outstanding indebtedness.



As a result of our loan covenants, our lenders have imposed operating and financial restrictions on us. These restrictions may limit our ability to:

incur additional indebtedness;

create liens on our assets;

sell capital stock of our subsidiaries;

make investments;

engage in mergers or acquisitions;

pay dividends;

make capital expenditures;

change the management of our vessels or terminate or materially amend our management agreements; and

sell our vessels.

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

We have historically derived a significant part of our revenue from a small number of charterers. During the year ended December 31, 2016, we derived approximately 97% of our gross revenue from two charterers, and during the same period in 2015, we derived approximately 70% of our gross revenues from two charterers. If we do remain dependent, in large part, on a small number of charterers, if one or more of our charterers is unable to perform under one or more charters with us, if we are not able to find appropriate replacement charterers, or if a charterer exercises certain rights to terminate its charter, we could suffer a loss of revenues that could materially adversely affect our business, financial condition and results of operations.

***The international drybulk shipping industry is highly competitive, and we may not be able to compete successfully for charters with new entrants or established companies with greater resources.***

We employ our vessels in a highly competitive market that is capital intensive and highly fragmented. Competition arises primarily from other vessel owners, some of which have substantially greater resources than we do. Competition for the transportation of drybulk cargo by sea is intense and depends on price, customer relationships,

operating expertise, professional reputation and size, age, location and condition of the vessel. Due in part to the highly fragmented market, additional competitors with greater resources could enter the drybulk shipping industry and operate larger fleets through consolidations or acquisitions and may be able to offer lower charter rates than we are able to offer, which could have a material adverse effect on our fleet utilization and, accordingly, our profitability.

***We currently rely on our Managers to manage and charter our fleet.***

We currently have no employees and contract (a) the management of our fleet, including crewing, maintenance and repair, through Free Bulkiers S.A. and OpenSeas Maritime S.A. and (b) all of our financial, accounting, including our financial reporting and internal controls, and other back-office services, through Prodigy Inc., collectively, our “Managers”. We rely on our Managers to provide the technical management of our fleet and to attract charterers and charter brokers. The loss of its services or failure to perform its obligations could reduce our revenues and net income and adversely affect our operations and business if we are not able to contract with other companies to provide these services or take over these aspects of our business directly. FreeSeas has no control over our Managers. Our Managers are not liable to us for any losses or damages, if any, that may result from their management of our fleet unless the same shall have resulted from willful misconduct or gross negligence of our Managers or any person to whom performance of the management services has been delegated by our Managers. Pursuant to their agreements with us, our Managers’ liability for such acts, except in certain limited circumstances, may not exceed ten times the annual management fee payable by the applicable subsidiary to our Managers. Although we may have rights against our Managers, if our Managers default on their obligations to us, we may have no recourse against our Managers. Further, we will need approval from our lenders if we intend to replace our Managers as our fleet managers.

***We and two of our executive officers have affiliations with our Managers that could create conflicts of interest detrimental to us.***

Our Chairman, Chief Executive Officer and President, Ion G. Varouxakis, is also the controlling shareholder and officer of Free Bulkiers S.A. and is also the controlling shareholder of OpenSeas Maritime S.A. and Mr. Dimitris Filippas, our Deputy Chief Financial Officer is officer of OpenSeas Maritime S.A. These dual responsibilities of our officers and the relationships between the companies could create conflicts of interest between our Managers and us. Each of our operating subsidiaries has a nonexclusive management agreement with one of our Managers. Although our Managers currently each serves as manager for vessels owned or operated by us under bareboat charters, our Managers are not restricted from entering into management agreements with other competing shipping companies. Our Managers could also allocate charter and/or vessel purchase and sale opportunities to others. There can be no assurance that our Managers would resolve any conflicts of interest in a manner beneficial to us.

***Management and service fees are payable to our Managers, regardless of our profitability, which could have a material adverse effect on our business, financial condition and results of operations.***

The management and service fees due from us to our Managers are payable whether or not our vessels are employed, and regardless of our profitability. We have no ability to require our Managers to reduce the management fees and service fees if our profitability decreases, which could have a material adverse effect on our business, financial condition and results of operations.

***Our Managers are a privately held companies, and there is little or no publicly available information about them.***

The ability of our Managers to continue providing services for our benefit will depend in part on their own financial strength. Circumstances beyond our control could impair our Managers' financial strength. Because our Managers are privately held, it is unlikely that information about their financial strength would become public or available to us prior to any default by our Managers under the management agreement. As a result, an investor in us might have little advance warning of problems that affect our Managers, even though those problems could have a material adverse effect on us.

***As part of their services to us, our Managers must continue to upgrade their operational, accounting and financial systems, and add more staff. If our Managers cannot upgrade these systems or recruit suitable additional employees, their services to us and, therefore, our performance may suffer.***

Our current operating, internal control, accounting and financial systems are provided by our Managers and may not be adequate if our Managers' efforts to improve those systems may be ineffective. If our Managers cannot continue to upgrade their operational and financial systems effectively or recruit suitable employees, their services to us and, therefore, our performance may suffer and our ability to expand our business further will be restricted.

***We and our Managers may be unable to attract and retain key executive officers with experience in the shipping industry, which may reduce the effectiveness of our management and lower our results of operations.***

Our success depends to a significant extent upon the abilities and efforts of our and our Managers' executive officers. The loss of any of these individuals could adversely affect our business prospects and financial condition. Our success will depend on retaining these key members of our and our Managers' management team. Difficulty in retaining our executive officers, and difficulty in our Managers retaining their executive officers, could adversely affect our results

of operations and ability to pay dividends. We do not maintain “key man” life insurance on any of our officers.

*We intend to continue to charter most of our vessels in the spot market, and as a result, we will be exposed to the cyclical and volatility of the spot charter market.*

Since we intend to continue to charter our vessels in the spot market, we will be exposed to the cyclical and volatility of the spot charter market, and we may not have long term, fixed time charter rates to mitigate the adverse effects of downturns in the spot market. We cannot assure you that we will be able to successfully charter our vessels in the future at rates sufficient to allow us to meet our obligations. The supply of and demand for shipping capacity strongly influences freight rates. Because the factors affecting the supply and demand for vessels are outside of our control and are unpredictable, the nature, timing, direction and degree of changes in industry conditions are also unpredictable.

Factors that influence demand for drybulk vessel capacity include:

demand for and production of drybulk products;

global and regional economic and political conditions including developments in international trade, fluctuations in industrial and agricultural production and armed conflicts;

the distance drybulk cargo is to be moved by sea;

environmental and other regulatory developments; and

changes in seaborne and other transportation patterns.

The factors that influence the supply of drybulk vessel capacity include:

the number of new building deliveries;

port and canal congestion;

the scrapping rate of older vessels;

vessel casualties; and

the number of vessels that are out of service, i.e., laid-up, drydocked, awaiting repairs or otherwise not available for hire.

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

We anticipate that the future demand for our drybulk carriers will be dependent upon economic growth in the world's major industrialized economies, as well as emerging economies including in particular China, Japan and India, seasonal and regional changes in demand, changes in the capacity of the global drybulk carrier fleet and the sources and supply of drybulk cargo to be transported by sea. The capacity of the global drybulk carrier fleet seems likely to increase, and we can provide no assurance as to the timing or extent of future economic growth. Adverse economic, political, social or other developments could have a material adverse effect on our business, results of operations, cash flows and financial condition. Should the drybulk market strengthen significantly in the future, we may enter into medium to long term employment contracts for some or all of our vessels.

We intend to employ our vessels predominantly in the spot market with charters that typically last one to two months. The rates in the charter market were significantly depressed during the year ended December 31, 2016 and this will affect the charter revenue we will receive from our vessels, and will have an adverse effect on our revenues, cash flows and profitability, as well as our ability to comply with our debt covenants.

***When our charters in the spot market end, we may not be able to replace them promptly, and any replacement charters could be at lower charter rates, which may materially, adversely affect our earnings and results of***

*operations.*

We will generally attempt to recharter our vessels at favorable rates with reputable charterers. All of our vessels currently operate in the spot market. If the drybulk shipping market is in a period of depression when our vessels' charters expire, it is likely that we may be forced to re-charter them at reduced rates, if such charters are available at all. In the event charter rates fall below our costs to operate a vessel or for any other strategic or operational matter, we may determine not to recharter a vessel until such time as the charter rates increase or such strategic or operational matter ceases to exist. We cannot assure you that we will be able to obtain new charters at comparable or higher rates or with comparable charterers, that we will be able to obtain new charters at all or that we may decide not to charter a vessel at all. The charterers under our charters have no obligation to renew or extend the charters. We will generally attempt to recharter our vessels at favorable rates with reputable charterers as our charters expire. Failure to obtain replacement charters at rates comparable to our existing charters and our decision not to charter vessels will reduce or eliminate our revenue and will adversely affect our ability to service our debt. Further, we may have to incur lay-up expenses or reposition our vessels without cargo or compensation to deliver them to future charterers or to move vessels to areas where we believe that future employment may be more likely or advantageous. Laying up expenses and reactivating expenses would increase our vessel operating expenses. Repositioning our vessels would increase our vessel operating costs. If any of the foregoing events were to occur, our revenues, net income and earnings may be materially adversely affected.

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

We evaluate the recoverable amounts of our vessels to determine if events have occurred that would require an impairment of their carrying amounts. The recoverable amount of vessels is reviewed based on events and changes in circumstances that would indicate that the carrying amount of the assets might not be recovered. The review for potential impairment indicators and future undiscounted net operating cash flows related to the vessels is complex and requires us to make various estimates including future charter rates and earnings from the vessels which have been historically volatile.

When our estimate of future undiscounted net operating cash flows for any vessel is lower than the vessel's carrying value, the carrying value is written down, by recording a charge to operations, to the vessel's fair market value if the fair market value is lower than the vessel's carrying value. The carrying values of our vessels may not represent their fair market value because the market prices of secondhand vessels tend to fluctuate with changes in charter rates and the cost of new buildings. Any impairment charges incurred as a result of declines in charter rates could have a material adverse effect on our business, results of operations, cash flows and financial condition. The Company, as a result of the adverse market conditions the dry bulk industry faces and the substantial decline in the vessel market values, recognized an impairment charge of \$4,286 for the M/V Free Neptune during the year ended December 31, 2016, in the accompanying consolidated statement of operations.

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

The ability of each of our charterers to perform its obligations under a charter will depend on a number of factors that are beyond our control. These factors may include general economic conditions, the condition of the drybulk shipping industry, the charter rates received for specific types of vessels, hedging arrangements, the ability of charterers to obtain letters of credit from its customers, cash reserves, cash flow considerations and various operating expenses. Many of these factors impact the financial viability of our charterers. Charterers may not pay or may attempt to renegotiate charter rates. Should a charterer fail to honor its obligations under its agreement with us, it may be difficult for us to secure substitute employment for the affected vessel, and any new charter arrangements we secure in the spot market or on a time charter may be at lower rates.

We lose a charterer or the benefits of a charter if a charterer fails to make charter payments because of its financial inability, disagreements with us or otherwise, terminates the charter because we fail to deliver the vessel within the time specified in the charter, the vessel is lost or damaged beyond repair, there are serious deficiencies in the vessel or prolonged periods of off-hire, default under the charter or the vessel has been subject to seizure for more than a specified number of days.

If our charterers fail to meet their obligations to us, we would experience material adverse effects on our revenues, cash flows and profitability and our ability to comply with our debt covenants and pay our debt service and other obligations. The actual or perceived credit quality of our charterers, and any defaults by them, may materially affect our ability to obtain the additional debt financing that we will require to acquire additional vessels or may significantly increase our costs of obtaining such financing. Our inability to obtain additional financing at all, or at a higher than anticipated cost, may materially impair our ability to implement our business strategy.

***Charter rates are subject to seasonal fluctuations, which may adversely affect our operating results.***

Our fleet consists of Handysize and Handymax drybulk carriers that operate in markets that have historically exhibited seasonal variations in demand and, as a result, in charter rates. This seasonality may result in quarter-to-quarter volatility in our operating results. The energy markets primarily affect the demand for coal, with increases during hot summer periods when air conditioning and refrigeration require more electricity and towards the end of the calendar year in anticipation of the forthcoming winter period. Grain shipments are driven by the harvest within a climate zone. Because three of the five largest grain producers (the United States, Canada and the European Union) are located in the northern hemisphere and the other two (Argentina and Australia) are located in the southern hemisphere, harvests occur throughout the year and grains require drybulk shipping accordingly. As a result of these and other factors, the drybulk shipping industry is typically stronger in the fall and winter months. Therefore, we expect our revenues from our drybulk carriers to be typically weaker during the fiscal quarters ending June 30 and September 30 and, conversely, we expect our revenues from our drybulk carriers to be typically stronger in fiscal quarters ending December 31 and March 31. Seasonality in the drybulk industry could materially affect our operating results.

***The aging of our fleet may result in increased operating costs in the future, which could adversely affect our ability to operate our vessels profitably.***

The majority of our vessels were acquired second-hand, and we estimate their useful lives to be 28 years from their date of delivery from the yard, depending on various market factors and management's ability to comply with government and industry regulatory requirements. As of December 31, 2016, the average age of the vessels we operated was 20.94 years. Part of our business strategy includes the continued acquisition of second hand vessels when we find attractive opportunities.



In general, expenditures necessary for maintaining a vessel in good operating condition increase as a vessel ages. Second hand vessels may also develop unexpected mechanical and operational problems despite adherence to regular survey schedules and proper maintenance. Cargo insurance rates also tend to increase with a vessel's age, and older vessels tend to be less fuel-efficient than newer vessels. While the difference in fuel consumption is factored into the freight rates that our older vessels earn, if the cost of bunker fuels were to increase significantly, it could disproportionately affect our vessels and significantly lower our profits. In addition, changes in governmental regulations, safety or other equipment standards may require:

expenditures for alterations to existing equipment;

the addition of new equipment; or

restrictions on the type of cargo a vessel may transport.

We cannot give assurances that future market conditions will justify such expenditures or enable us to operate our vessels profitably during the remainder of their economic lives.

Although we inspect the secondhand vessels that we acquire prior to purchase, this inspection does not provide us with the same knowledge about a vessel's condition and the cost of any required (or anticipated) repairs that we would have had if this vessel had been built for and operated exclusively by us. Generally, we do not receive the benefit of warranties on secondhand vessels.

***Unless we set aside reserves or are able to borrow funds for vessel replacement, at the end of a vessel's useful life our revenue will decline, which would adversely affect our business, results of operations and financial condition.***

Unless we maintain reserves or are able to borrow or raise funds for vessel replacement, we may be unable to replace the vessels in our fleet upon the expiration of their useful lives, which we expect to be 28 years from their date of delivery from the yard. Our cash flows and income are dependent on the revenues earned by the chartering of our vessels to customers. If we are unable to replace the vessels in our fleet upon the expiration of their useful lives, our business, results of operations, financial condition and ability to pay dividends will be materially and adversely affected. Any reserves set aside for vessel replacement may not be available for dividends.

***If any of our vessels fail to maintain their class certification and/or fail any annual survey, intermediate survey, dry-docking or special survey, that vessel would be unable to carry cargo, thereby reducing our revenues and profitability and violating certain loan covenants of our third-party indebtedness.***

The hull and machinery of every commercial vessel must be classed by a classification society authorized by its country of registry. The classification society certifies that a vessel is safe and seaworthy in accordance with the applicable rules and regulations of the country of registry of the vessel and the Safety of Life at Sea Convention, or SOLAS.

A vessel must undergo annual surveys, intermediate surveys, dry-dockings and special surveys. In lieu of a special survey, a vessel's machinery may be on a continuous survey cycle, under which the machinery would be surveyed periodically over a five-year period. Our vessels are on special survey cycles for hull inspection and continuous survey cycles for machinery inspection. Every vessel is also required to be dry-docked every two to three years for inspection of the underwater parts of such vessel.

If any vessel does not maintain its class and/or fails any annual survey, intermediate survey, dry-docking or special survey, the vessel will be unable to carry cargo between ports and will be unemployable and uninsurable, thereby reducing our revenues and profitability. That could also cause us to be in violation of certain covenants in our loan agreements. In addition, the cost of maintaining our vessels' classifications may be substantial at times and could result in reduced revenues.

***Our vessels may suffer damage and we may face unexpected dry-docking costs, which could affect our cash flow and financial condition.***

If our vessels suffer damage, they may need to be repaired at a dry-docking facility, resulting in vessel downtime and vessel off-hire. The costs of dry-dock repairs are unpredictable and can be substantial. We may have to pay dry-docking costs that our insurance does not cover. The inactivity of these vessels while they are being repaired and repositioned, as well as the actual cost of these repairs, would decrease our earnings. In addition, space at dry-docking facilities is sometimes limited and not all dry-docking facilities are conveniently located. We may be unable to find space at a suitable dry-docking facility or we may be forced to move to a dry-docking facility that is not conveniently located to our vessels' positions. The loss of earnings while our vessels are forced to wait for space or to relocate to dry-docking facilities that are farther away from the routes on which our vessels trade would also decrease our earnings.

***Our growth depends on the growth in demand for and the shipping of drybulk cargoes.***

Our growth strategy focuses on the drybulk shipping sector. Accordingly, our growth depends on growth in world and regional demand for and the shipping of drybulk cargoes, which could be negatively affected by a number of factors, such as declines in prices for drybulk cargoes or general political and economic conditions.



Reduced demand for and the shipping of drybulk cargoes would have a material adverse effect on our future growth and could harm our business, results of operations and financial condition. In particular, Asian Pacific economies and India have been the main driving force behind the past increase in seaborne drybulk trade and the demand for drybulk carriers. The negative change in economic conditions in any Asian Pacific country, but particularly in China or Japan, as well as India, may have a material adverse effect on our business, financial condition and results of operations, as well as our future prospects, by further reducing demand and resultant charter rates.

*If we fail to manage our growth properly, we may not be able to successfully expand our market share.*

We will continue exploring expansion opportunities as our financial resources permit. Our growth will depend on:

locating and acquiring suitable vessels;

placing new building orders and taking delivery of vessels;

identifying and consummating acquisitions or joint ventures;

integrating any acquired vessel successfully with our existing operations;

enhancing our customer base;

managing our expansion; and

obtaining the required financing.

If our financial resources permit, we could face risks in connection with growth by acquisition, such as undisclosed liabilities and obligations and difficulty experienced in obtaining additional qualified personnel, managing relationships with customers and suppliers, and integrating newly acquired operations into existing infrastructures.

We cannot give any assurance that we will be successful in executing our growth plans or that we will not incur significant expenses and losses in connection with the execution of those growth plans.

Our ability to successfully implement our business plan depends on our ability to obtain additional financing, which may affect the value of your investment in us.

We plan to continue to explore expansion opportunities. We will require substantial additional financing to fund any acquisitions of additional vessels and to implement our business plan. We cannot be certain that sufficient financing will be available on terms that are acceptable to us or at all. If we cannot raise the financing we need in a timely manner and on acceptable terms, we may not be able to acquire the vessels necessary to implement our business plans and consequently you may lose some or all of your investment in us.

While we expect that a significant portion of the financing resources needed to acquire vessels, if any, will be through long-term debt financing, we may raise additional funds through offerings of securities and other structured financing agreements. New equity investors may dilute the percentage of the ownership interest of our existing shareholders. Sales or the possibility of sales of substantial amounts of shares of our common stock in the public markets could adversely affect the market price of our common stock.

***The market values of our vessels have declined and may further decrease, and we may incur losses when we sell vessels or we may be required to write down their carrying value, which may adversely affect our earnings and our ability to implement our fleet renewal program.***

The market values of our vessels will fluctuate depending on general economic and market conditions affecting the shipping industry and prevailing charter hire rates, competition from other shipping companies and other modes of transportation, the types, sizes and ages of our vessels, applicable governmental regulations and the cost of new buildings.

If a determination is made that a vessel's future useful life is limited or its future earnings capacity is reduced, it could result in an impairment of its carrying amount on our financial statements that would result in a charge against our earnings and the reduction of our shareholders' equity. The Company, as a result of the adverse market conditions the dry bulk industry faces and the substantial decline in the vessel market values, recognized an impairment charge of \$4,286 for the M/V Free Neptune during the year ended December 31, 2016, in the accompanying consolidated statement of operations. If for any reason we sell our vessels at a time when prices have fallen, the sale price may be less than the vessels' carrying amount on our financial statements, and we would incur a loss and a reduction in earnings. On September 26, 2016, the Company sold to unrelated third parties the M/V Free Maverick, a 1998-built, 23,994 dwt Handysize dry bulk carrier for a gross sale price of \$1,925. As a result of the sale the Company recognized a loss of \$277 for the year ended December 31, 2016 in the accompanying consolidated statement of operations.

We have incurred secured debt under loan agreements for all of our vessels. The market value of our vessels is based, in part, on charter rates and the stability of charter rates over a period of time. As a result of global economic conditions, volatility in charter rates, generally declining charter rates, and other factors, we have recently experienced a decrease in the market value of our vessels. Due to the decline of the market value of our fleet, we were not in compliance with certain covenants of our existing loan agreements that relate to maintenance of asset values and, as a result, we may not be able to refinance our debt or obtain additional financing. There can be no assurances that charter rates will stabilize or increase, that the market value of our vessels will stabilize or increase or that we will regain compliance with the financial covenants in our loan agreements or that our lenders will agree to waivers or forbearances.

If we fail to sell our vessels at prices acceptable to us, it could have a material adverse effect on our competitiveness and business operations.

***Maritime claimants could arrest our vessels, which could interrupt our cash flow.***

Crew members, suppliers of goods and services to a vessel, shippers of cargo and other parties may be entitled to a maritime lien against a vessel for unsatisfied debts, claims or damages. In many jurisdictions, a maritime lien holder, such as our lenders, may enforce its lien by arresting a vessel through foreclosure proceedings. The arresting or attachment of one or more of our vessels could interrupt our cash flow and require us to pay large sums of funds to have the arrest lifted.

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

***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 are known to 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 and financial condition.

***Rising fuel prices may adversely affect our profits.***

Upon redelivery of vessels at the end of a period time or trip time charter, we may be obligated to repurchase bunkers on board at prevailing market prices, which could be materially higher than fuel prices at the inception of the charter period. In addition, although we rarely deploy our vessels on voyage charters, fuel is a significant, if not the largest, expense that we would incur with respect to vessels operating on voyage charter. As a result, an increase in the price of fuel may adversely affect our profitability. The price and supply of fuel is volatile and fluctuates based on events outside our control, including geopolitical developments, supply and demand for oil and gas, actions by OPEC and other oil and gas producers, war and unrest in oil producing countries and regions, regional production patterns and environmental concerns and regulations.

***We are subject to regulation and liability under environmental laws and the failure to comply with these regulations may subject us to increased liability, may adversely affect our insurance coverage and may result in a denial of access to, or detention in, certain ports. This could require significant expenditures and reduce our cash flows and net income.***

Our business and the operation of our vessels are materially affected by government regulation in the form of international conventions and national, state and local laws and regulations in force in the jurisdictions in which the vessels operate, as well as in the country or countries of their registration, including those governing the management and disposal of hazardous substances and wastes, the cleanup of oil spills and other contamination, air emissions, and water discharges and ballast water management. We are also required by various governmental and quasi-governmental agencies to obtain certain permits, licenses and certificates with respect to our operations. Because such conventions, laws, regulations and permit requirements are often revised, or the required additional measures for compliance are still under development, we cannot predict the ultimate cost of complying with such conventions, laws, regulations or permit requirements, or the impact thereof on the resale prices or useful lives of our vessels. Additional conventions, laws and regulations may be adopted which could limit our ability to do business or increase the cost of our doing business and which may materially adversely affect our business, financial condition and results of operations.





Environmental requirements can also affect the resale prices or useful lives of our vessels or require reductions in cargo capacity, ship modifications or operational changes or restrictions. Failure to comply with these requirements could lead to decreased availability of or more costly insurance coverage for environmental matters or result in 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 claims for natural resource, personal injury and property damages in the event that there is a release of petroleum or other hazardous materials from our vessels or otherwise in connection with our operations. The 2010 explosion of the Deepwater Horizon and the subsequent release of oil into the Gulf of Mexico or similar events may result in further regulation of the shipping industry, including modifications to statutory liability schemes.

The operation of our vessels is affected by the requirements set forth in the International Safety Management, or ISM Code. The failure of a shipowner or bareboat charterer to comply with the ISM Code may subject such party to increased liability, may decrease available insurance coverage for the affected vessels, and/or may result in a denial of access to, or detention in, certain ports.

The European Union is currently considering proposals to further regulate vessel operations. Individual countries in the European Union may also have additional environmental and safety requirements. It is difficult to predict what legislation or regulation, if any, may be adopted by the European Union or any other country or authority.

The International Maritime Organization or other regulatory bodies may adopt additional regulations in the future that could adversely affect the useful lives of our vessels as well as our ability to generate income from them or resell them at attractive prices.

The United States Oil Pollution Act of 1990, or OPA, established an extensive regulatory and liability regime for the protection and clean-up of the environment from oil spills. Under OPA, vessel owners, operators and bareboat charterers are “responsible parties” and are jointly, severally and strictly liable (unless the spill results solely from the act or omission of a third party, an act of God or an act of war) for all containment and clean-up costs and other damages arising from discharges or threatened discharges of oil from their vessels, including bunkers (fuel).

Violations of, or liabilities under, environmental or other applicable laws and regulations can result in substantial penalties, fines and other sanctions, including, in certain instances, seizure or detention of our vessels. Events of this nature could have a material adverse effect on our business, financial condition and results of operations.

***Technological innovation related to existing or new vessels could reduce the competitiveness of our older vessels and therefore the value of such vessels in the chartering and secondhand resale markets.***

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

*Our vessels are exposed to inherent operational risks that may not be adequately covered by our insurance.*

The operation of any vessel includes risks such as mechanical failure, collision, fire, contact with fixed or floating objects, cargo or property loss or damage and business interruption due to political circumstances in foreign countries, piracy, terrorist attacks, armed hostilities and labor strikes. With a drybulk carrier, the cargo itself and its interaction with the ship can be a risk factor. By their nature, drybulk cargoes are often heavy, dense, easily shifted, and react badly to water exposure. In addition, drybulk carriers are often subjected to battering treatment during unloading operations with grabs, jackhammers (to pry encrusted cargoes out of the hold), and small bulldozers. This treatment may cause damage to the vessel. Vessels damaged due to treatment during unloading procedures may be more susceptible to breach to the sea. Hull breaches in drybulk carriers may lead to the flooding of the vessels' holds. If a drybulk carrier suffers flooding in its forward holds, the bulk cargo may become so dense and waterlogged that its pressure may buckle the vessel's bulkheads leading to the loss of a vessel. If we are unable to adequately maintain our vessels we may be unable to prevent these events. Any of these circumstances or events could negatively impact our business, financial condition and results of operations.

Further, such occurrences could result in death or injury to persons, loss of property or environmental damage, delays in the delivery of cargo, loss of revenues 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. In the past, political conflicts have also resulted in attacks on vessels, mining of waterways and other efforts to disrupt international shipping, particularly in the Arabian Gulf region. Acts of terrorism and piracy have also affected vessels trading in regions such as the South China Sea and the Gulf of Aden and Indian Ocean off the coast of Somalia and Kenya. If these attacks and other disruptions result in areas where our vessels are deployed being characterized by insurers as “war risk” zones or Joint War Committee “war, strikes, terrorism and related perils” listed areas, as the Gulf of Aden currently is, premiums payable for such coverage could increase significantly and such insurance coverage may be more difficult or impossible to obtain. In addition, there is always the possibility of a marine disaster, including oil spills and other environmental damage. Although our vessels carry a relatively small amount of the oil used for fuel (“bunkers”), a spill of oil from one of our vessels or losses as a result of fire or explosion could be catastrophic under certain circumstances.

We may not be adequately insured against all risks, and our insurers may not pay particular claims. With respect to war risks insurance, which we usually obtain for certain of our vessels making port calls in designated war zone areas, such insurance may not be obtained prior to one of our vessels entering into an actual war zone, which could result in that vessel not being insured. Even if our insurance coverage is adequate to cover our losses, we may not be able to timely obtain a replacement vessel in the event of a loss. Under the terms of our credit facilities, we will be subject to restrictions on the use of any proceeds we may receive from claims under our insurance policies. Furthermore, in the future, we may not be able to maintain or obtain adequate insurance coverage at reasonable rates for our fleet. We may also be subject to calls, or premiums, in amounts based not only on our own claim records but also the claim records of all other members of the protection and indemnity associations through which we receive indemnity insurance coverage for tort liability. Our insurance policies also contain deductibles, limitations and exclusions which, although we believe are standard in the shipping industry, may nevertheless increase our costs in the event of a claim or decrease any recovery in the event of a loss. If the damages from a catastrophic oil spill or other marine disaster exceeded our insurance coverage, the payment of those damages could have a material adverse effect on our business and could possibly result in our insolvency.

In addition, we may not carry loss of hire insurance. Loss of hire insurance covers the loss of revenue during extended vessel off-hire periods, such as those that occur during an unscheduled drydocking due to damage to the vessel from accidents. Accordingly, any loss of a vessel or any extended period of vessel off-hire, due to an accident or otherwise, could have a material adverse effect on our business, financial condition and results of operations.

***We may be subject to increased premium payments because we obtain some of our insurance through protection and indemnity associations.***

We may be subject to increased premium payments, or calls, in amounts based not only on our and our Manager’s claim records but also the claim records of other members of the protection and indemnity associations through which

we receive insurance coverage for tort liability, including pollution-related liability. Our protection and indemnity associations may not have enough resources to cover claims made against them. Our payment of these calls could result in significant expense to us, which could have a material adverse effect on our business, results of operations, cash flows and financial condition.

***Our operations expose us to global political risks, such as wars and political instability that may interfere with the operation of our vessels causing a decrease in revenues from such vessels.***

We are an international company and primarily conduct our operations outside the United States. Changing economic, political and governmental conditions in the countries where we are engaged in business or where our vessels are registered will affect us. In the past, political conflicts, particularly in the Middle East, resulted in attacks on vessels, mining of waterways and other efforts to disrupt shipping in the area. In addition, future political and governmental instability, revolutions and wars in regions where our vessels trade could affect our trade patterns and adversely affect our operations by causing delays in shipping on certain routes or making shipping impossible on such routes, thereby causing a decrease in revenues.

During a period of war or emergency, a government could requisition for title or seize our vessels. Requisition for title occurs when a government takes control of a vessel and becomes the owner. A government could also requisition our vessels for hire, when a government takes control of a vessel and effectively becomes the charterer at dictated charter rates. Government requisition of one or more of our vessels could reduce our revenues and net income.

***Because our seafaring employees are covered by collective bargaining agreements, failure of industry groups to renew those agreements may disrupt our operations and adversely affect our earnings.***

All of the seafarers employed on the vessels in our fleet are covered by collective bargaining agreements that set basic standards. We cannot assure you that these agreements will prevent labor interruptions. Any labor interruptions could disrupt our operations and harm our financial performance.

Crew costs are a significant expense for us under our charters. Recently, the limited supply of and 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 generally bear under our period time and spot charters. Increases in crew costs may adversely affect our profitability.

***Increases in interest rates would reduce funds available to purchase vessels and service debt.***

We have purchased, and may purchase in the future, vessels with loans that provide for periodic interest payments based on indices that fluctuate with changes in market interest rates. If interest rates increase significantly, it would increase our costs of financing our acquisition of vessels, which could decrease the number of additional vessels that we could acquire and adversely affect our financial condition and results of operations and may adversely affect our ability to service debt.

***Because we generate all of our revenues in U.S. dollars but will incur a portion of our expenses in other currencies, exchange rate fluctuations could have an adverse impact on our results of operations.***

We generate all of our revenues in U.S. dollars, but we expect that portions of our future expenses will be incurred in currencies other than the U.S. dollar. This difference could lead to fluctuations in our net income due to changes in the value of the dollar relative to the other currencies, in particular the Euro. Expenses incurred in foreign currencies against which the dollar falls in value can increase, decreasing net income. For the year ended December 31, 2016 and 2015, the fluctuation in the value of the dollar against foreign currencies did not have a material impact on us.

***We may have to pay tax on United States source income, which would reduce our earnings.***

Under the laws of the countries of the Company and its subsidiaries incorporation and/or vessels' registration, the Company is not subject to tax on international shipping income; however, they are subject to registration and tonnage taxes, which have been included in Vessel operating expenses in the accompanying consolidated statement of operations. Pursuant to the Internal Revenue Code of the United States (the "Code"), U.S. source income from the international operations of ships is generally exempt from U.S. tax if the company operating the ships meets both of the following requirements, (a) the Company is organized in a foreign country that grants an equivalent exemption to corporations organized in the United States, and (b) either (i) more than 50% of the value of the Company's stock is owned, directly or indirectly, by individuals who are "residents" of the Company's country of organization or of another foreign country that grants an "equivalent exemption" to corporations organized in the United States (the "50% Ownership Test") or (ii) the Company's stock is "primarily and regularly traded on an established securities market" in its country of organization, in another country that grants an "equivalent exemption" to United States corporations, or in the United States (the "Publicly-Traded Test").

To complete the exemption process, the Company's shipowning subsidiaries must file a U.S. tax return, state the basis of their exemption and obtain and retain documentation attesting to the basis of their exemptions. The Company's subsidiaries completed the filing process for 2016 on or prior to the applicable tax filing deadline. All the Company's ship-operating subsidiaries currently satisfy the Publicly-Traded Test based on the trading volume and the widely-held ownership of the Company's shares, but no assurance can be given that this will remain so in the future, since continued compliance with this rule is subject to factors outside the Company's control. Based on its U.S. source Shipping Income for 2014, 2015 and 2016, the Company would be subject to U.S. federal income tax of approximately \$23, \$5 and \$nil, respectively, in the absence of an exemption under Section 883.

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

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

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

There is, however, no direct legal authority under the PFIC rules addressing our proposed method of operation, and a federal court decision has characterized income received from vessel time charters as rental rather than services income for U.S. tax purposes. Accordingly, no assurance can be given that the U.S. Internal Revenue Service, or IRS, or a court of law will accept our position, and there is a risk that the IRS or a court of law could determine that we are a PFIC. Moreover, no assurance can be given that we would not constitute a PFIC for any future taxable year if there were to be changes in the nature and extent of our operations.

If the IRS were to find that we are or have been a PFIC for any taxable year, our U.S. shareholders will face adverse U.S. tax consequences. Under the PFIC rules, unless those shareholders make an election available under the Code (which election could itself have adverse consequences for such shareholders), such shareholders would be liable to pay United States federal income tax at the then prevailing income tax rates on ordinary income plus interest upon excess distributions and upon any gain from the disposition of our common stock, as if the excess distribution or gain had been recognized ratably over the shareholder’s holding period of our common stock.

### **Risk Factors Relating to the Drybulk Shipping Industry**

*The international drybulk shipping industry is cyclical and volatile and charter rates have decreased significantly and may further decrease in the future, which may adversely affect our earnings, vessel values and results of operations.*

The drybulk shipping industry is cyclical with volatility in charter hire rates and profitability. The degree of charter hire rate volatility among different types of drybulk vessels has varied widely. Since the middle of the third quarter of 2008, charter hire rates for drybulk vessels have decreased substantially, they may remain volatile for the foreseeable future and could continue to decline further. Additionally, charter rates have been particularly volatile. As a result, our charter rates could further decline significantly, resulting in a loss and a reduction in earnings.

We anticipate that the future demand for our drybulk vessels will be dependent upon existing conditions in the world’s economies, seasonal and regional changes in demand, changes in the number of drybulk vessels being ordered and constructed, particularly if there is an oversupply of vessels, changes in the capacity of the global drybulk fleet and the

sources and supply of drybulk cargo to be transported by sea. Adverse economic, political, social or other developments could have a further material adverse effect on drybulk shipping in general and on our business and operating results in particular.

Our ability to re-charter our drybulk vessels upon the expiration or termination of their current time charters, the charter rates payable under any renewal or replacement charters will depend upon, among other things, the current state of the drybulk shipping market. If the drybulk shipping market is in a period of depression when our vessels' charters expire, it is likely that we may be forced to re-charter them at reduced rates, including rates whereby we incur a loss, which may reduce our earnings or make our earnings volatile.

In addition, because the market value of our vessels may fluctuate significantly, we may incur losses when we sell vessels, which may adversely affect our earnings. If we sell vessels at a time when vessel prices have fallen and before we have recorded an impairment adjustment to our financial statements, the sale may be at less than the vessel's carrying amount on our financial statements, resulting in a loss and a reduction in earnings.

***The drybulk carrier charter market remains significantly below its high in the middle of 2008 and the average rates achieved in the six prior years, which has and may continue to adversely affect our revenues, earnings and profitability and our ability to comply with our loan covenants and repay our indebtedness.***

The drybulk shipping industry is cyclical with attendant volatility in charter hire rates and profitability. The degree of charter hire rate volatility among different types of dry bulk vessels has varied widely; however, the continued downturn in the drybulk charter market has severely affected the entire dry bulk shipping industry and charter hire rates for drybulk vessels have declined significantly from historically high levels. The Baltic Dry Index (the "BDI"), which is published daily by the Baltic Exchange Limited, a London-based membership organization that provides daily shipping market information to the global investing community, is a daily average of charter rates in selected shipping routes measured on a time charter and voyage basis covering Handysize, Supramax, Panamax and Capesize drybulk carriers. The BDI has long been viewed as the main benchmark to monitor the movements of the dry bulk vessel charter market and the performance of the entire drybulk shipping market. The BDI declined 94% in 2008 from a peak of 11,793 in May 2008 to a low of 663 in December 2008 and remained volatile during 2009, ranging from a low of 772 in January 2009 to a high of 4,661 in November 2009. The BDI continued its volatility in 2014, 2015 and 2016. In 2016, the BDI reached a high of 1,257 and a low of 290. During the first six months of 2017, the BDI has remained volatile, ranging from a low of 685 on February 14, 2017 to a high of 1,338 on March 29, 2017.



The decline and volatility in charter rates has been due to various factors, including the lack of trade financing for purchases of commodities carried by sea, which had resulted in a significant decline in cargo shipments. The decline and volatility in charter rates in the drybulk market also affects the value of our drybulk vessels, which follows the trends of drybulk charter rates, and earnings on our charters, and similarly, affects our cash flows, our ability to repay our indebtedness and compliance with the covenants contained in our loan agreements.

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

We anticipate a significant number of the port calls made by our vessels will continue to involve the loading or discharging of drybulk commodities in ports in the Asia Pacific region. As a result, any negative changes in economic conditions in any Asia Pacific country, particularly in China, may exacerbate the effect of recent slowdowns in the economies of the European Union and may have a material adverse effect on our business, financial condition and results of operations, as well as our future prospects. Before the global economic financial crisis that began in 2008, China had one of the world's fastest growing economies in terms of gross domestic product ("GDP") which had a significant impact on shipping demand. A decrease in the level of China's export of goods or an increase in trade protectionism could have a material adverse impact on our charterers' business and, in turn, could cause a material adverse effect on our earnings, financial condition and cash flows.

***Changes in the economic and political environment in China and policies adopted by the government to regulate its economy may have a material adverse effect on our business, financial condition and results of operations.***

The Chinese economy differs from the economies of most countries belonging to the Organization for Economic Cooperation and Development, or OECD, in such respects as structure, government involvement, level of development, growth rate, capital reinvestment, allocation of resources, rate of inflation and balance of payments position. Since 1978, increasing emphasis has been placed on the utilization of market forces in the development of the Chinese economy. There is an increasing level of freedom and autonomy in areas such as allocation of resources, production, pricing and management and a gradual shift in emphasis to a "market economy" and enterprise reform. Although limited price reforms were undertaken, with the result that prices for certain commodities are principally determined by market forces, many of the reforms are experimental and may be subject to change or abolition. We cannot assure you that the Chinese government will continue to pursue a policy of economic reform. The level of imports to and exports from China could be adversely affected by changes to these economic reforms, as well as by changes in political, economic and social conditions or other relevant policies of the Chinese government, such as changes in laws, regulations or export and import restrictions, all of which could, adversely affect our business, financial condition and operating results.

***Risks involved with operating ocean-going vessels could affect our business and reputation, which may reduce our revenues.***

The operation of an ocean-going vessel has inherent risks. These risks include the possibility of:

crew strikes and/or boycotts;

marine disaster;

piracy;

environmental accidents;

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.

The involvement of any of our vessels in an environmental disaster may harm our reputation as a safe and reliable vessel operator. Any of these circumstances or events could increase our costs or lower our revenues.

The M/V Free Goddess was hijacked by Somali pirates on February 7, 2012 while transiting the Indian Ocean eastbound. On October 11, 2012, we announced that all 21 crew members of the M/V *Free Goddess* were reported safe and well after the vessel's release by the pirates. At the time of the hijacking the vessel was on time charter in laden condition. Since the release from the pirates, the ex M/V Free Goddess, renamed to M/V Figaro, has been laying at the port of Salalah, Oman, undertaking repairs funded mostly by insurers. The repairs of the vessel were completed, and notice of readiness was tendered to her Charterers for the resumption of the voyage. The Charterers repudiated the Charter and we accepted Charterers' repudiation and terminated the fixture. Cargo interests commenced proceedings before the local Omani Courts under the Bills of Lading for delivery of the cargo in Oman, which were rejected at the first instance and were appealed by Cargo interests. The appeal by Cargo interests was rejected by the Court. Concurrently with the above proceedings, Cargo interests have obtained favorable arbitration decisions and a UK High Court order against the former owner Adventure Five S.A. to deliver the cargo at the port of Salalah, Oman. Griffin Underwriting, The Kidnap and Ransom insurers of the M/V Free Goddess, have commenced action before the High Court in the UK against Adventure Five, Free Bulkers S.A. and our CEO alleging damages. Those proceedings have been frozen by mutual agreement between the parties pending the conclusion of the ongoing settlement negotiations. We, as the Bareboat Charterers of the M/V Figaro, have been exploring all options for a pragmatic and commercial resolution of the complex situation arising from the involvement of many parties with conflicting interests in this lengthy dispute.

***An oversupply of drybulk vessel capacity may lead to reductions in charter rates and profitability.***

An over-supply of drybulk carrier capacity may result in a reduction of charter hire rates. Because the factors affecting the supply and demand for vessels are outside of our control and are unpredictable, the nature, timing, direction and degree of changes in industry conditions are also unpredictable.

Factors that influence demand for vessel capacity include:

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

changes in the exploration or production of energy resources, commodities, semi-finished and finished consumer and industrial products;

the location of regional and global exploration, production and manufacturing facilities;

the location of consuming regions for energy resources, commodities, semi-finished and finished consumer and industrial products;

the globalization of production and manufacturing; global and regional economic and political conditions, including armed conflicts, terrorist activities, embargoes and strikes;

developments in international trade;

changes in seaborne and other transportation patterns, including the distance cargo is transported by sea;

environmental and other regulatory developments;

currency exchange rates; and weather.

The factors that influence the supply of vessel capacity include:

the number of new building deliveries;

port and canal congestion;

the scrapping rate of older vessels;

vessel casualties; and

the number of vessels that are out of service.

We anticipate that the future demand for our drybulk carriers will be dependent upon continued economic growth in the world's economies, including China and India, seasonal and regional changes in demand, changes in the capacity of the global drybulk carrier fleet and the sources and supply of drybulk cargoes to be transported by sea. The capacity of the global drybulk carrier fleet seems likely to increase and economic growth may not continue. Adverse economic, political, social or other developments could have a material adverse effect on our business and operating results.

***Increased inspection procedures and tighter import and export controls could increase costs and disrupt our business.***

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

***Since the terrorist attacks of September 11, 2001, there has been a variety of limitations intended to enhance vessel security.***

Regulations by the U.S. Coast Guard ("USCG") and rules pursuant to the International Convention for the Safety of Life at Sea have imposed increased compliance costs on vessel owners and charterers. These costs include certification costs imposed by relevant agencies and bonding costs under U.S. Customs and Border Protection, as well as potential delays in transit due to increased security procedures regulating the entry into harbors or the discharge of cargo.

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

### **Risks Related to Our Common Stock**

***The market price of our common stock has been and may in the future be subject to significant fluctuations.***

The market price of our common stock has been and may in the future be subject to significant fluctuations as a result of many factors, some of which are beyond our control. Among the factors that have in the past and could in the future affect our stock price are:

quarterly variations in our results of operations;

our lenders' willingness to extend our loan covenant waivers, if necessary;

changes in market valuations of similar companies and stock market price and volume fluctuations generally;

changes in earnings estimates or publication of research reports by analysts;

speculation in the press or investment community about our business or the shipping industry generally;

strategic actions by us or our competitors such as acquisitions or restructurings;

the thin trading market for our common stock, which makes it somewhat illiquid;

the current ineligibility of our common stock to be the subject of margin loans because of its low current market price;

regulatory developments;

additions or departures of key personnel;

general market conditions; and

domestic and international economic, market and currency factors unrelated to our performance.

The stock markets in general, and the markets for drybulk shipping and shipping stocks in particular, have experienced extreme volatility that has sometimes been unrelated to the operating performance of individual companies. These broad market fluctuations may adversely affect the trading price of our common stock.

***We have convertible securities outstanding, which if fully exercised, could require us to issue a significant number of shares of our common stock and result in substantial dilution to existing shareholders and cause the market price of our common stock to decline.***

As of August 10, 2017, we had 42,604,652 shares of common stock issued and outstanding, convertible notes outstanding that may be converted into an estimated 520,736,916 shares of common stock at current market prices and outstanding warrants to purchase 0.0014545 shares of our common stock that could result in our issuance of 8,498,911,492 shares of common stock based upon the exchange formula contained therein at current market prices. Although the investors may not convert their secured convertible note and/or exchange the Series C Preferred Shares if such conversion or exchange would cause them to own more than 4.99% of our outstanding common stock, this restriction does not prevent the investors from converting and/or exchanging some of their holdings and then converting the rest of their holdings. In this way, the investors could sell more than this limit while never holding more than this limit. There is no upper limit on the number of shares that may be issued which will have the effect of further diluting the proportionate equity interest and voting power of holders of our common stock. The conversion or exercise of our outstanding convertible securities could result in substantial dilution to our existing holders, and the sales of such material amounts of our common stock issued upon conversion or exercise could cause the market price for our common stock to decline.

***If we are unable to obtain additional funding our business operations will be harmed and if we do obtain additional financing our then existing shareholders may suffer substantial dilution.***

In order to fund further growth of our fleet, we may have to incur additional indebtedness and/or sell additional equity securities. Future issuances of our common stock, directly or indirectly through convertible or exchangeable securities, options, warrants or rights and will generally dilute the ownership interests of holders of our existing common stock. Additional series or classes of preferred shares, if issued, will generally have a preference on dividend payments, which could prohibit or otherwise reduce our ability to pay dividends to holders of our existing preferred stock. Any additional debt we incur will be senior in all respects to our common stock, could contain financial and operating covenants with which we must comply and will include acceleration provisions upon defaults thereunder, including our failure to make any debt service payments, and possibly under other debt. Because our decision to issue additional equity securities or incur additional debt in the future will depend on a variety of factors, including market conditions and other matters that are beyond our control, we cannot predict or estimate the timing, amount or form of our capital raising activities in the future. Future sales or other issuances of a substantial number of shares of common stock or other securities in the public market or otherwise, or the perception that these sales could occur, may depress the market price for our common stock. These sales or issuances could also impair our ability to raise additional capital through the sale of our equity securities in the future.

***The continuously adjustable conversion price feature of our convertible notes and warrants may encourage investors to make short sales in our common stock, which could have a depressive effect on the price of our common stock.***

Our convertible notes are convertible into shares of our common stock at a 35%-54% discount to the trading price of the common stock prior to the conversion. Our warrants are exercisable on a cashless basis pursuant to an exchange formula that is based on the difference between the black-scholes value of the warrant when issued and our current market price. The significant downward pressure on the price of the common stock as the investors convert/exercise and sell material amounts of common stock could encourage short sales by investors. This could place further downward pressure on the price of the common stock. The investors could sell common stock into the market in anticipation of covering the short sale by converting/exercising their securities, which could cause the further downward pressure on the stock price. In addition, not only the sale of shares issued upon conversion or exercise of the convertible note or warrants, but also the mere perception that these sales could occur, may adversely affect the market price of the common stock.

*There is no guarantee of a continuing and liquid public market for you to resell our common shares.*

On March 2, 2016, the Company received notice from the Listing Qualifications Staff (the "Staff") of The NASDAQ Stock Market LLC ("NASDAQ") indicating that unless the Company timely requests a hearing before the NASDAQ Listing Qualifications Panel (the "Panel"), its securities would be subject to delisting from The NASDAQ Capital Market based upon its non-compliance with the minimum bid price requirement, as set forth in NASDAQ Listing Rule 5550(a)(2), and concerns raised by the Staff, pursuant to the Staff's discretionary authority under NASDAQ Listing Rule 5101, regarding the Company's ability to remedy the bid price deficiency in light of dilution that may occur from financing transactions. The Company requested a hearing before the Panel, at which hearing it presented its plan to regain and sustain compliance with the bid price requirement and otherwise address the Staff's concerns in connection therewith.



On April 21, 2016, the Company was notified by NASDAQ that its pending appeal before the Panel had been denied, and that trading in the Company's common stock will be suspended on NASDAQ effective with the open of business on Monday April 25, 2016. The Company was approved for trading on the OTCQB® Venture Market, operated by OTC Markets Group Inc., and its common stock began trading on OTCQB effective April 25, 2016 under the trading symbol "FREEF." Effective June 16, 2017, as a result of our failure to timely file our annual report on Form 20-F, our common stock was removed from the OTCQB and began trading on the OTC Pink market. We cannot assure you that an active and liquid public market for our common shares will continue and you may not be able to sell your shares of our common stock in the future at the price that you paid for them, or at all.

***Our common stock is subject to the "penny stock" rules of the SEC and the trading market in our securities is limited, which makes transactions in our stock cumbersome and may reduce the value of an investment in our stock.***

The SEC has adopted Rule 15g-9 which establishes the definition of a "penny stock," for the purposes relevant to us, as any equity security that has a market price of less than \$5.00 per share or with an exercise price of less than \$5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require:

that a broker or dealer approve a person's account for transactions in penny stocks; and

the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

In order to approve a person's account for transactions in penny stocks, the broker or dealer must:

obtain financial information and investment experience objectives of the person; and

make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the SEC relating to the penny stock market, which, in highlight form:

sets forth the basis on which the broker or dealer made the suitability determination; and

that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

Generally, brokers may be less willing to execute transactions in securities subject to the “penny stock” rules. This may make it more difficult for investors to dispose of our common stock and cause a decline in the market value of our stock.

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

***FINRA sales practice requirements may also limit a shareholder’s ability to buy and sell our stock.***

In addition to the “penny stock” rules described above, FINRA has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer’s financial status, tax status, investment objectives and other information. Under interpretations of these rules, FINRA believes that there is a high probability that speculative low priced securities will not be suitable for at least some customers. The FINRA requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit your ability to buy and sell our stock and have an adverse effect on the market for our shares.

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

Issuance of a substantial number of shares of our common stock in public or private offerings, or in payment of obligations due, or the perception that these issuances could occur, may depress the market price for our common stock. These issuances could also impair our ability to raise additional capital through the sale of our equity securities in the future. We may issue additional shares of our common stock in the future and our shareholders may elect to sell large numbers of shares held by them from time to time. Also, we may need to raise additional capital to achieve our business plans.

***Because the Republic of the Marshall Islands, where we are incorporated, does not have a well-developed body of corporate law, shareholders may have fewer rights and protections than under typical United States law, such as Delaware, and shareholders may have difficulty in protecting their interest with regard to actions taken by our Board of Directors.***

Our corporate affairs are governed by amended and restated articles of incorporation and by-laws and by the Marshall Islands Business Corporations Act, or BCA. The provisions of the BCA resemble provisions of the corporation laws of a number of states in the United States. However, there have been few judicial cases in the Republic of the Marshall Islands interpreting the BCA. The rights and fiduciary responsibilities of directors under the law 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 U.S. jurisdictions. Shareholder rights may differ as well. For example, under Marshall Islands law, a copy of the notice of any meeting of the shareholders must be given not less than 15 days before the meeting, whereas in Delaware such notice must be given not less than 10 days before the meeting. Therefore, if immediate shareholder action is required, a meeting may not be able to be convened as quickly as it can be convened under Delaware law. Also, under Marshall Islands law, any action required to be taken by a meeting of shareholders may only be taken without a meeting if consent is in writing and is signed by all of the shareholders entitled to vote, whereas under Delaware law action may be taken by consent if approved by the number of shareholders that would be required to approve such action at a meeting. Therefore, under Marshall Islands law, it may be more difficult for a company to take certain actions without a meeting even if a majority of the shareholders approve of such action. While the BCA does specifically incorporate the non-statutory law, or judicial case law, of the State of Delaware and other states with substantially similar legislative provisions, public shareholders may have more difficulty in protecting their interests in the face of actions by the management, directors or controlling shareholders than would shareholders of a corporation incorporated in a U.S. jurisdiction.

***It may not be possible for investors to enforce U.S. judgments against us.***

We, and all our subsidiaries, are or will be incorporated in jurisdictions outside the U.S. and substantially all of our assets and those of our subsidiaries and will be located outside the U.S. In addition, most of our directors and officers are or will be non-residents of the U.S., and all or a substantial portion of the assets of these non-residents are or will be located outside the U.S. As a result, it may be difficult or impossible for U.S. investors to serve process within the U.S. upon us, our subsidiaries, or our directors and officers, or to enforce a judgment against us for civil liabilities in U.S. courts. In addition, you should not assume that courts in the countries in which we or our subsidiaries are incorporated or where our or the assets of our subsidiaries are located would enforce judgments of U.S. courts obtained in actions against us or our subsidiaries based upon the civil liability provisions of applicable U.S. federal and state securities laws or would enforce, in original actions, liabilities against us or our subsidiaries based on those laws.

***We can issue shares of preferred stock without shareholder approval, which could adversely affect the rights of common shareholders.***

Our articles of incorporation permit us to establish the rights, privileges, preferences and restrictions, including voting rights, of future series of our preferred stock and to issue such stock without approval from our stockholders. The rights of holders of our common stock may suffer as a result of the rights granted to holders of preferred stock that we may issue in the future. In addition, we could issue preferred stock to prevent a change in control of our company, depriving common shareholders of an opportunity to sell their stock at a price in excess of the prevailing market price.

***Our stockholder rights plan may discourage a takeover.***

In January 2009, our Board of Directors authorized shares of Series A Participating Preferred Stock in connection with its adoption of a stockholder rights plan, under which we issued rights to purchase Series A Preferred Stock to holders of our common stock. Upon certain triggering events, each Right entitles the registered holder to purchase from us one one-thousandth of a share of Preferred Stock at an exercise price of approximately \$4 billion, subject to adjustment. Our stockholder rights plan may generally discourage a merger or tender offer involving our securities that is not approved by our Board of Directors by increasing the cost of effecting any such transaction and, accordingly, could have an adverse impact on stockholders who might want to vote in favor of such merger or participate in such tender offer. Our stockholder rights plan expires in January 2019.

***Provisions in our organizational documents, our management agreement and under Marshall Islands corporate law could make it difficult for our shareholders to replace or remove our current Board of Directors or have the effect of discouraging, delaying or preventing a merger or acquisition, which could adversely affect the market price of our common stock.***

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

authorizing our Board of Directors to issue “blank check” preferred stock without shareholder approval;

providing for a classified Board of Directors with staggered, three year terms;

prohibiting cumulative voting in the election of directors;

authorizing the removal of directors only for cause and only upon the affirmative vote of the holders of a two-thirds majority of the outstanding shares of our common shares, voting as a single class, entitled to vote for the directors;

limiting the persons who may call special meetings of shareholders;

establishing advance notice requirements for election to our Board of Directors or proposing matters that can be acted on by shareholders at shareholder meetings; and

limiting our ability to enter into business combination transactions with certain shareholders.

Pursuant to the terms of our management agreement, our Manager is entitled to a termination fee if such agreement is terminated upon a “change of control,” which term includes, but is not limited to, the election of a director not recommended by the then-current Board of Directors, any person or entity or group of affiliated persons or entities that becomes a beneficial owner of 15% or more of our voting securities, a merger of FreeSeas where less than a majority of the shares of the resulting entity are held by the FreeSeas shareholders or the sale of all or substantially all of FreeSeas’ assets. The termination fee as of December 31, 2016 would have been \$59,959. In addition, we have implemented a shareholder rights plan pursuant to which the holders of our common stock receive one right to purchase one one-thousandth of a share of our Series A Participating Preferred Stock at an exercise price of approximately \$4 billion per share, subject to adjustment. The rights become exercisable upon the occurrence of certain change in control events. These provisions and our shareholder rights plan could substantially impede the ability of public shareholders to benefit from a change in control and, as a result, may adversely affect the market price of our common shares and your ability to realize any potential change of control premium.

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

##### **Our Organization and Corporate Structure**

We were incorporated on April 23, 2004 under the name “Adventure Holdings S.A.” pursuant to the laws of the Republic of the Marshall Islands to serve as the parent holding company of our ship-owning entities. On April 27, 2005, we changed our name to “FreeSeas Inc.”

We became a public reporting company on December 15, 2005, when we completed a merger with Trinity Partners Acquisition Company Inc., or Trinity, a blank check company formed to serve as a vehicle to complete a business combination with an operating business, in which we were the surviving corporation. At the time of the merger we owned three drybulk carriers. We currently own one Handysize dry bulk carrier and operate two Handysize dry bulk carriers.

Our common stock currently trades on the OTC Pink market under the trading symbol “FREEF”.

Our principal executive offices are located at 6, Loukianou Street, 10675, Athens, Greece and our telephone number is 011-30-210-729-7284.

### **Capital Expenditures and Divestitures**

During the last three fiscal years, our capital expenditures and divestitures were as follows:

On February 18, 2014, the Company sold the M/V *Free Knight*, a 1998-built, 24,111 dwt Handysize dry bulk carrier for a gross sale price of \$3,600 and the vessel was delivered to her new owners. The Company recognized an impairment charge of \$23,978 in the consolidated statement of operations for the year ended December 31, 2013;

On September 16, 2014, the Company sold the M/V *Free Jupiter*, a 2002-built, 47,777 dwt Handymax dry bulk carrier for a gross sale price of \$12,250, renamed Nemorino and subsequently entered into a long term bareboat charter with the vessel’s new owners;

On September 24, 2014, the Company sold the M/V *Free Impala*, a 1997-built, 24,111 dwt Handysize dry bulk carrier for a gross sale price of \$3,600 and the vessel was delivered to her new owners;

On May 20, 2015, the M/V *Free Hero*, 1995-built, 24,318 dwt Handysize dry bulk carrier and the M/V *Free Goddess*, 1995-built, 22,051 dwt Handysize dry bulk carrier, have been sold for a gross sale price of \$5,500 each, and the Company’s subsidiaries have entered into long-term bareboat agreements for such vessels with purchase options at a daily hire rate of \$1,100 per vessel. The vessels have been renamed to M/V *Fiorello* and M/V *Figaro*, respectively;

On June 15, 2016, the bareboat hire agreement in connection with the M/V *Fiorello* was terminated. Subsequent to the termination of the hire, the vessel was sold for a gross sale price of \$1,490 with the sale proceeds being applied towards obligations to the bareboat Owners of the vessel and trade creditors; and

On September 26, 2016, the Company sold to unrelated third parties the M/V *Free Maverick*, a 1998-built, 23,994 dwt Handysize dry bulk carrier for a gross sale price of \$1,925. As a result of the sale the Company recognized a loss of \$277.

## Our Fleet

We are an international drybulk shipping company incorporated under the laws of the Republic of the Marshall Islands with principal executive offices in Athens, Greece. As of December 31, 2016, the Company operated two Handysize dry bulk carriers. Our vessels carry a variety of drybulk commodities, including iron ore, grain and coal, which are referred to as “major bulks,” as well as bauxite, phosphate, fertilizers, steel products, cement, sugar and rice, or “minor bulks.” As of August 10, 2017, the aggregate dwt of the vessels we operate is 52,889 dwt and the average age of the vessels is 21.6 years.

Our investment and operational focus has been in the Handysize sector, which is generally defined as less than 40,000 dwt of carrying capacity and the Handymax sector which is generally defined as between 40,000 dwt and 60,000 dwt. Handysize and Handymax vessels are, we believe, more versatile in the types of cargoes that they can carry and trade routes they can follow, and offer less volatile returns than larger vessel classes. We believe this segment also offers better demand and supply demographics than other drybulk asset classes. Due to the very adverse charter rate environment of the latest shipping cycle values of larger vessels have dropped to levels that constitute buying opportunities.

We have contracted the management of our vessels to our Managers, entities beneficially owned by Ion G. Varouxakis, our Chairman, President and Chief Executive Officer. In addition, Mr. Dimitris Filippas, our Deputy Chief Financial Officer, is an officer of one of our Managers. Our Managers provide technical management of our fleet, commercial management of our fleet, financial reporting and accounting services and office space. While the Managers are responsible for finding and arranging charters for our vessels, the final decision to charter our vessels remains with us.

The following table details the vessels we operate as of August 10, 2017:

Vessel Name	Type	Built	Dwt	Employment
M/V Free Neptune	Handysize	1996	30,838	Lay-up

**M/V Figaro on Bareboat Charter** Handysize 1995 22,051 Lay-up, see note (\*) below.  
**(ex M/V Free Goddess)**

(\*) The M/V Free Goddess was hijacked by Somali pirates on February 7, 2012 while transiting the Indian Ocean eastbound. On October 11, 2012, we announced that all 21 crew members of the M/V *Free Goddess* were reported safe and well after the vessel's release by the pirates. At the time of the hijacking the vessel was on time charter in laden condition. Since the release from the pirates, the ex M/V Free Goddess, renamed to M/V Figaro, has been laying at the port of Salalah, Oman, undertaking repairs funded mostly by insurers. The repairs of the vessel were completed, and notice of readiness was tendered to her Charterers for the resumption of the voyage. The Charterers repudiated the Charter and we accepted Charterers' repudiation and terminated the fixture. Cargo interests commenced proceedings before the local Omani Courts under the Bills of Lading for delivery of the cargo in Oman, which were rejected at the first instance and were appealed by Cargo interests. The appeal by Cargo interests was rejected by the Court. Concurrently with the above proceedings, Cargo interests have obtained favorable arbitration decisions and a UK High Court order against the former owner Adventure Five S.A. to deliver the cargo at the port of Salalah, Oman. Griffin Underwriting, The Kidnap and Ransom insurers of the M/V Free Goddess, have commenced action before the High Court in the UK against Adventure Five, Free Bulkers S.A. and our CEO alleging damages. Those proceedings have been frozen by mutual agreement between the parties pending the conclusion of the ongoing negotiations. We, as the Bareboat Charterers of the M/V Figaro, have been exploring all options for a pragmatic and commercial resolution of the complex situation arising from the involvement of many parties with conflicting interests in this lengthy dispute.



## Competitive Strengths

We believe that we possess a number of strengths that provide us with a competitive advantage in the drybulk shipping industry, including:

***Experienced management team.*** We have benefited from the expertise of our executive officers, including that of Ion G. Varouxakis, our Chairman, President and Chief Executive Officer, and that of our Managers' personnel, which consists of seasoned shipping professionals with long-standing experience in the industry. We believe that our management team has a proven track record of strong performance throughout a challenging economic climate, as we have actively and decisively renewed our fleet while reducing operating costs without sacrificing quality or safety in the process.

***Experienced in managing older vessels.*** We have solid experience in managing older vessels and have very good relationships with third party suppliers, shipyards and contractors who can accommodate urgent needs for vessels that are older and may require urgent and competitively priced repairs. We have also forged over the years a relationship of trust with insurers and classification societies who are willing to provide their services at competitive rates, and accommodate bespoke requirements suitable to older vessels. The lower capital requirement for the acquisition of older vessels in conjunction with our ability to keep their maintenance cost at competitive levels provides us with unique investment opportunities.

## Business Strategy

Our primary objectives are to profitably grow our business and maximize value to our shareholders by pursuing the following strategies:

***Expanding into larger asset classes (Supramax and/or Panamax).*** The recent market downturn has particularly affected the value of larger asset classes creating the potential for relatively greater capital appreciation and operational leverage as the market recovers. We shall also consider pursuing investments in larger asset classes in order to take advantage of all available opportunities as they arise.

***Build on our experience in operating older vessels.*** Our experience in managing older vessels provides us with the flexibility to make investments in older vessels, a segment where little or no financing is available from traditional capital sources, and often superior return on capital can be achieved compared to high capital modern vessels.

***Build upon our strategic relationships.*** We intend to continue to build upon our extensive experience and relationships with ship brokers, financial institutions, industrial partners and commodity traders. We use these relationships to identify chartering and acquisition opportunities and gain access to sources of additional financing, industry contacts and market intelligence. In addition, our relationships and experience with insurers and technical

service providers, spares suppliers and repair shipyards position us optimally for the competitive operation of a versatile fleet with heavy employment commitments and demanding technical requirements.

### **Vessel Employment**

We intend to employ predominantly our vessels in the spot market with charters that typically last one to two months.

A trip time charter is a short-term time charter for a voyage between load port(s) and discharge port(s) under which the charterer pays fixed daily hire rate on a semi-monthly basis for use of the vessel. A period time charter is charter for a vessel for a fixed period of time at a set daily rate. Under trip time charters and time charters, the charterer pays voyage expenses. Under all three types of charters, the vessel owners pay for vessel operating expenses, which include crew costs, provisions, deck and engine stores, lubricating oil, insurance, maintenance and repairs. The vessel owners are also responsible for each vessel's dry-docking and intermediate and special survey costs. Lastly, vessels can be chartered under "bareboat" contracts whereby the charterer is responsible for the vessel's maintenance and operations, as well as all voyage expenses.

Vessels operating on period time charter provide more predictable cash flows, but can yield lower profit margins than vessels operating in the spot market during periods characterized by favorable market conditions. Vessels operating in the spot market generate revenues that are less predictable but may enable us to increase profit margins during periods of increasing drybulk charter rates. However, we would then be exposed to the risk of declining drybulk charter rates, which may be higher or lower than the rates at which we chartered our vessels. We are constantly evaluating opportunities for period time charters, but only expect to enter into additional period time charters if we can obtain contract terms that satisfy our criteria.

Although we have not previously done so, we may from time to time utilize forward freight agreements that enable us to enter into contractual obligations to sell the spot charter forward and thereby reduce our exposure to a potential deterioration of the charter market.

## **Customers**

During 2016, we derived approximately 97%% of our gross revenues from two charterers, and during 2015, we derived approximately 70% of our gross revenues from two charterers. We believe that our customer base is composed of established charterers.

## **Management of Operations and Fleet**

Pursuant to our amended and restated services agreement with our Managers, our operations are executed and supervised by our Manager, based on the strategy devised by the board of directors and subject to the approval of our board of directors as described below. We pay a monthly fee of \$50, (on the basis that the \$/Euro exchange rate is 1.35 or lower; if on the last business day of each month the \$/Euro exchange rate exceeds 1.35 then the service fee payable will be adjusted for the following month in question, so that the amount payable in dollars will be the equivalent in Euro based on 1.35 \$/Euro exchange rate) as compensation for services related to accounting, financial reporting, implementation of Sarbanes-Oxley internal control over financial reporting procedures and general administrative and management services plus expenses. The Manager is entitled to a termination fee if the agreement is terminated upon a “change of control” as defined in its services agreement. The termination fee as of December 31, 2016 would be approximately \$59,959.

Our Managers, provide us with the following services:

**General Administration.** Our Managers provide us with general administrative, office and support services necessary for our operations and our fleet, including technical and clerical personnel, communication, accounting, and data processing services.

**Financial Accounting Services.** Our Managers maintain our books, records and accounts and provides all services as are necessary for the preparation and maintenance of the our accounting records in accordance with U.S. GAAP, preparing and filing financial statements with the SEC in accordance with applicable financial reporting requirements, and developing, implementing, monitoring and assessing our internal controls;

***Sale and Purchase of Vessels.*** Our Managers advise our board of directors when opportunities arise to purchase, including through new buildings, or to sell any vessels. All decisions to purchase or sell vessels require the approval of our board of directors. Any purchases or sales of vessels approved by our board of directors are arranged and completed by our Managers. This involves the appointment of superintendents to inspect and take delivery of vessels and to monitor compliance with the terms and conditions of the purchase contracts.

We also contract the technical management of our vessels to our Managers, Free Bulkers S.A. and OpenSeas Maritime S.A. Free Bulkers S.A. has a separate management contract with one of our ship-owning subsidiaries and provides a wide range of services on a fixed fee per vessel basis, as described below. OpenSeas Maritime S.A. has a management contract with another of our subsidiaries relating to a vessel bareboat chartered. These services include vessel operations, maintenance, regulatory compliance, crewing, supervising dry-docking and repairs, arranging insurance for vessels, vessel supplying, advising on the purchase and sale of vessels, and performing certain accounting and other administrative services, including financial reporting and internal controls requirements. Pursuant to our amended management agreement with our Managers, we pay our Managers a monthly technical management fee of \$19 (on the basis that the dollar/Euro exchange rate is 1.30 or lower; if on the first business day of each month the dollar/Euro exchange rate exceeds 1.30 then the management fee payable will be increased for the month in question, so that the amount payable in dollars will be the equivalent in Euro based on 1.30 dollar/Euro exchange rate) plus a fee of \$400 per day for superintendent attendance and other direct expenses.

We also pay our Managers a fee equal to 1.25% of the gross freight or hire from the employment of FreeSeas' owned and bareboat chartered vessels and a 1% commission on the gross purchase price of any new vessel acquired or the gross sale price of any vessel sold by FreeSeas with the assistance of our Managers.

Our Managers currently manage the vessels owned and bareboat chartered.

We believe that we pay our Managers industry-standard fees for these services.

## **Crewing and Employees**

We currently have no employees, our Managers are responsible for employing all of the executive officers and staff to execute and supervise the operations. In addition, our Managers are responsible for recruiting, either directly or through a crewing agent, the senior officers and all other crew members for our vessels.

## **Long-Term Debt**

Please see “Item 5. Operating and Financial Review and Prospects – Long-Term Debt” for a description of our credit facility with NBG, our current non-compliance with our obligations and covenants under the facility agreement, and the status of our efforts to reach a settlement with the Bank.

## **Charter Hire Rates**

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

Charter hire rates paid for drybulk carriers are primarily a function of the underlying balance between vessel supply and demand, although at times other factors may play a role. Furthermore, the pattern seen in charter rates is broadly mirrored across the different charter types and the different drybulk carrier categories. However, because demand for larger drybulk vessels is affected by the volume and pattern of trade in a relatively small number of commodities, charter hire rates (and vessel values) of larger ships tend to be more volatile than those for smaller vessels.

In the time charter market, rates vary depending on the length of the charter period and vessel specific factors such as age, speed and fuel consumption.

In the voyage charter market, rates are influenced by cargo size, commodity, port dues and canal transit fees, as well as commencement and termination regions. In general, a larger cargo size is quoted at a lower rate per ton than a

smaller cargo size. Routes with costly ports or canals generally command higher rates than routes with low port dues and no canals to transit. Voyages with a load port within a region that includes ports where vessels usually discharge cargo or a discharge port within a region with ports where vessels load cargo also are generally quoted at lower rates, because such voyages generally increase vessel utilization by reducing the unloaded portion (or ballast leg) that is included in the calculation of the return charter to a loading area.

Within the drybulk shipping industry, the charter hire rate references most likely to be monitored are the freight rate indices issued by the Baltic Exchange. These references are based on actual charter hire rates under charters entered into by market participants as well as daily assessments provided to the Baltic Exchange by a panel of major shipbrokers.

### **Property**

We had entered into an agreement with Free Bulkers S.A., pursuant to which we had agreed to pay Free Bulkers S.A. 65% of the rents due from Free Bulkers S.A. to the lessor of rented office space and 65% of the apportioned common expenses and maintenance expenses. In June 2017, we relocated our offices to 6, Loukianou Street, 10675, Athens, Greece. We have entered into an agreement pursuant to which we agreed to pay our Manager, Prodigy Inc., 50% of the rents due from Prodigy Inc. to the lessor for use of office space by the Company and 50% of the apportioned common expenses and maintenance expenses.

### **Competition**

We operate in markets that are highly competitive and based primarily on supply and demand. We compete for charters on the basis of price, vessel location, size, age and condition of the vessel, as well as on our reputation. There are many drybulk shipping companies which are publicly traded on the U.S. stock markets, such as DryShips Inc. and Diana Shipping Inc., which are significantly larger than we are and have substantially more capital, more and larger vessels, personnel, revenue and profits and which are in competition with us. There is no assurance that we can successfully compete with such companies for charters or other business.

Our Managers arrange our charters (whether spot charters, period time charters, bareboat charters or pools) through the use of brokers, who negotiate the terms of the charters based on market conditions. We compete with other owners of drybulk carriers in the Handysize and Handymax sectors. Charters for our vessels are negotiated by our Managers utilizing a worldwide network of shipbrokers. These shipbrokers advise our Managers on a continuous basis of the availability of cargo for any particular vessel. There may be several shipbrokers involved in any one charter. The negotiation for a charter typically begins prior to the completion of the previous charter in order to avoid any idle time. The terms of the charter are based on industry standards.



## **Seasonality**

Coal, iron ore and grains, which are the major bulks of the drybulk shipping industry, are somewhat seasonal in nature. The energy markets primarily affect the demand for coal, with increases during hot summer periods when air conditioning and refrigeration require more electricity and towards the end of the calendar year in anticipation of the forthcoming winter period. The demand for iron ore tends to decline in the summer months because many of the major steel users, such as automobile makers, reduce their level of production significantly during the summer holidays. Grains are completely seasonal as they are driven by the harvest within a climate zone. Because three of the five largest grain producers (the United States of America, Canada and the European Union) are located in the northern hemisphere and the other two (Argentina and Australia) are located in the southern hemisphere, harvests occur throughout the year and grains required drybulk shipping accordingly.

## **Environmental and Other Regulations**

Government regulation and laws significantly affects the ownership and operation of our vessels. The vessels are subject to international conventions and treaties, national, state and local laws and regulations in force in the countries in which our vessels may operate or are registered, including those governing the management and disposal of hazardous substances and wastes, the cleanup of oil spills and other contamination, air emissions, and water discharges and ballast water management.

A variety of governmental and private entities subject our vessels to both scheduled and unscheduled inspections. These entities include the local port authorities (United States Coast Guard, harbor master or equivalent), classification societies, flag state administration (country of registry) and charterers. Certain of these entities require us to obtain permits, licenses, financial assurances and certificates for the operation of our vessels. Failure to maintain necessary permits or approvals could require us to incur substantial costs or result in the temporary suspension of operation of one or more of our vessels.

We believe that the heightened level of environmental and quality concerns among insurance underwriters, regulators and charterers is leading to greater inspection and safety requirements on all vessels and may accelerate the scrapping of older vessels throughout the industry. Increasing environmental concerns have created a demand for vessels that conform to the stricter environmental standards. We are required to maintain operating standards for all of our vessels that will emphasize operational safety, quality maintenance, continuous training of its officers and crews and compliance with U.S. and international regulations. We believe that the operation of our vessels is in substantial compliance with applicable environmental laws and regulations; however, because such laws and regulations are frequently changed and may impose increasingly stricter requirements, such future requirements may limit our ability to do business, increase our operating costs, force the early retirement of our vessels, and/or affect their resale value, all of which could have a material adverse effect on our financial condition and results of operations.



*International Maritime Organization*

The International Maritime Organization, or IMO, the United Nations agency for maritime safety and the prevention of pollution by ships, has adopted the International Convention for the Prevention of Marine Pollution, 1973, as modified by the related Protocol of 1978, or the MARPOL Convention, which has been updated through various amendments. The MARPOL Convention establishes environmental standards relating to oil leakage or spilling, garbage management, sewage, air emissions, handling and disposal of noxious liquids and handling of harmful substances in packaged forms. The IMO adopted regulations that set forth pollution prevention requirements applicable to drybulk carriers. These regulations have been adopted by over 150 nations, including many of the jurisdictions in which our vessels operate.

In September 1997, the IMO adopted Annex VI to the International Convention for the Prevention of Pollution from Ships to address air pollution from vessels. Annex VI, which came into effect on May 19, 2005, set limits on sulfur oxide (“SOx”) and NOx emissions from vessels and prohibited deliberate emissions of ozone depleting substances, such as chlorofluorocarbons. Annex VI also included a global cap on the sulfur content of fuel oil and allowed for special areas to be established with more stringent controls on sulfur emissions. Annex VI has been ratified by some, but not all IMO member states, including the Marshall Islands. Pursuant to a Marine Notice issued by the Marshall Islands Maritime Administrator as revised in March 2005, vessels flagged by the Marshall Islands that are subject to Annex VI must, if built before the effective date, obtain an International Air Pollution Prevention Certificate evidencing compliance with Annex VI by the first dry docking after May 19, 2005, but no later than May 19, 2008. All vessels subject to Annex VI and built after May 19, 2005 must also have this Certificate. We have obtained International Air Pollution Prevention certificates for all of our vessels. Amendments to Annex VI regarding particulate matter, NOx and SOx emission standards entered into force in July 2010. The amendments provide for a progressive reduction in SOx emissions from ships, with the global sulfur cap reduced initially to 3.50% (from the current 4.50%), effective from 1 January 2012; then progressively to 0.50%, effective from 1 January 2020, subject to a feasibility review to be completed no later than 2018. The Annex VI amendments also establish tiers of stringent NOx emissions standards for new marine engines, depending on their dates of installation. The United States ratified the amendments, and all vessels subject to Annex VI must comply with the amended requirements when entering U.S. ports or operating in U.S. waters. Additionally, more stringent emission standards apply in coastal areas designated by MEPC as Emission Control Areas (ECAs). The North American ECA, which includes the area extending 200 nautical miles from the Atlantic/Gulf and Pacific Coasts of the United States and Canada, the Hawaiian Islands, and the French territories of St. Pierre and Miquelon, has been enforceable since August 1, 2012. Fuel used by vessels operating in the ECA cannot exceed a 1.0% sulfur content, dropping to a 0.1% sulfur content in 2015. NOx after-treatment requirements will apply in 2016. The U.S. Caribbean ECA, which includes the waters of Puerto Rico and the Virgin Islands, became enforceable on January 1, 2014. We may incur costs to install control equipment on our engines in order to comply with the new requirements. Other ECAs may be designated, and the jurisdictions in which our vessels operate may adopt more stringent emission standards independent of IMO.

The operation of our vessels is also affected by the requirements set forth in the IMO’s Management Code for the Safe Operation of Ships and Pollution Prevention, or the ISM Code. The ISM Code requires shipowners and bareboat charterers to develop and maintain an extensive “Safety Management System” that includes the adoption of a safety and environmental protection policy setting forth instructions and procedures for safe operation and describing procedures for dealing with emergencies. The failure of a shipowner or management company to comply with the ISM Code may subject such party to increased liability, may decrease available insurance coverage for the affected vessels, and may result in a denial of access to, or detention in, certain ports. Currently, each of our vessels is ISM Code-certified. However, there can be no assurance that such certification will be maintained indefinitely.

Additional or new conventions, laws and regulations may also be adopted that could adversely affect our ability to operate our vessels.

*The U.S. Oil Pollution Act of 1990*

The United States Oil Pollution Act of 1990, or OPA, established an extensive regulatory and liability regime for the protection and clean-up of the environment from oil spills. OPA affects all owners and operators whose vessels trade in the United States, its territories and possessions or whose vessels operate in waters of the United States, which includes the United States' territorial sea and its 200 nautical mile exclusive economic zone. The United States has also enacted the Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, which applies to the discharge of hazardous substances other than oil, whether on land or at sea. Both OPA and CERCLA affect our operations.

Under OPA, vessel owners, operators, charterers and management companies are "responsible parties" and are jointly, severally and strictly liable (unless the spill results solely from the act or omission of a third party, an act of God or an act of war) for all containment and removal costs and other damages arising from discharges or threatened discharges of oil from their vessels, including bunkers (fuel). Effective July 31, 2009, the U.S. Coast Guard adjusted the limits of OPA liability for drybulk vessels to the greater of \$1,000 per gross ton or \$854,400 and established a procedure for adjusting the limits for inflation every three years. CERCLA contains a liability scheme that is similar to that under the OPA, and liability under CERCLA is limited to the greater of \$300 per gross ton or \$5 million for vessels carrying a hazardous substance as cargo and the greater of \$300 per gross ton or \$0.5 million for any other vessel. These limits of liability do not apply if an incident was directly caused by violation of applicable U.S. federal safety, construction or operating regulations or by a responsible party's gross negligence or willful misconduct, or if the responsible party fails or refuses to report the incident or to cooperate and assist in connection with oil removal activities. In response to the 2010 oil spill in the Gulf of Mexico resulting from the explosion of the *Deepwater Horizon* drilling rig, bills have been introduced in the U.S. Congress to increase the limits of OPA liability for all vessels.

OPA requires owners and operators of vessels to establish and maintain with the United States Coast Guard evidence of financial responsibility sufficient to meet their potential liabilities under OPA. Under the regulations, vessel owners and operators may evidence their financial responsibility by showing proof of insurance, surety bond, self-insurance, or guaranty. Upon satisfactory demonstration of financial responsibility, a Certificate of Financial Responsibility, or COFR, is issued by the United States Coast Guard. This certificate must be carried aboard the vessel to comply with these financial responsibility regulations. We have complied with these financial responsibility regulations by obtaining and carrying COFRs for each of our vessels that operate in U.S. waters. Currently none of our vessels operate in U.S. waters. We may incur additional costs to obtain COFRs for vessels, if required, and to comply with increased limits of liability in the future.

OPA specifically permits individual states to impose their own liability regimes with regard to oil pollution incidents occurring within their boundaries, and some states have enacted legislation providing for unlimited liability for oil spills. In some cases, states, which have enacted such legislation, have not yet issued implementing regulations defining vessels owners' responsibilities under these laws. We currently comply, and intend to continue to comply in the future, with all applicable state regulations in the ports where our vessels call. We currently maintain pollution liability coverage as part of our protection and indemnity insurance for each of our vessels in the amount of \$1 billion per incident. If the damages from a catastrophic pollution liability incident exceed our insurance coverage, the payment of those damages may materially decrease our net income.



*The United States Clean Water Act*

The United States Clean Water Act, or CWA, prohibits the discharge of oil or hazardous substances in navigable waters and imposes strict liability in the form of penalties for any unauthorized discharges. The CWA also imposes substantial liability for the costs of removal, remediation and damages and complements the remedies available under the OPA and CERCLA. Under U.S. Environmental Protection Agency, or EPA, regulations we are required to obtain a CWA permit regulating and authorizing any discharges of ballast water or other wastewaters incidental to our normal vessel operations if we operate within the three-mile territorial waters or inland waters of the United States. The permit, which EPA has designated as the Vessel General Permit for Discharges Incidental to the Normal Operation of Vessels, or VGP, incorporated the then-current U.S. Coast Guard requirements for ballast water management, as well as supplemental ballast water requirements and limits for 26 other specific discharges. Regulated vessels cannot operate in U.S. waters unless they are covered by the VGP. To do so, vessel owners must submit a Notice of Intent, or NOI, at least 30 days before the vessel operates in U.S. waters. To comply with the VGP vessel owners and operators may have to install equipment on their vessels to treat ballast water before it is discharged or implement port facility disposal arrangements or procedures at potentially substantial cost. The VGP also requires states to certify the permit, and certain states have imposed more stringent discharge standards as a condition of their certification. Many of the VGP requirements have already been addressed in our vessels' current ISM Code SMS Plan. We have submitted NOIs for all of our vessels that operate in U.S. waters. As part of a settlement of a lawsuit challenging the VGP, EPA has proposed a new VGP with numerical restrictions on organisms in ballast water discharges. The new VGP is now in effect by EPA and it is monitored onboard by the USCG. Our ships are in full compliance with the VGP regulations.

*Other Environmental Initiatives*

The EU has also adopted legislation that: requires member states to impose criminal sanctions for certain pollution events, such as the unauthorized discharge of tank washings. The European Parliament recently endorsed a European Commission proposal to criminalize certain pollution discharges from ships. If the proposal becomes formal EU law, it will affect the operation of vessels and the liability of owners for oil and other pollutional discharges. It is difficult to predict what legislation, if any, may be promulgated by the European Union or any other country or authority.

The Paris Memorandum of Understanding on Port State Control (Paris MoU) to which 27 nations are party adopted the "New Inspection Regime" (NIR) to replace the existing Port State Control system, effective January 1, 2011. The NIR is a significant departure from the previous system, as it is a risk based targeting mechanism that will reward quality vessels with a smaller inspection burden and subject high-risk ships to more in-depth and frequent inspections. The inspection record of a vessel, its age and type, the Voluntary IMO Member State Audit Scheme, and the performance of the flag State and recognized organizations are used to develop the risk profile of a vessel.

The U.S. National Invasive Species Act, or NISA, was enacted in 1996 in response to growing reports of harmful organisms being released into U.S. ports through ballast water taken on by ships in foreign ports. Under NISA, the USCG adopted regulations in July 2004 imposing mandatory ballast water management practices for all vessels equipped with ballast water tanks entering U.S. waters. These requirements can be met by performing mid-ocean ballast exchange, by retaining ballast water on board the ship, or by using environmentally sound alternative ballast water management methods approved by the USCG. (However, mid-ocean ballast exchange is mandatory for ships heading to the Great Lakes or Hudson Bay, or vessels engaged in the foreign export of Alaskan North Slope crude oil.) Mid-ocean ballast exchange is the primary method for compliance with the USCG regulations, since holding ballast water can prevent ships from performing cargo operations upon arrival in the United States, and alternative methods are still under development. Vessels that are unable to conduct mid-ocean ballast exchange due to voyage or safety concerns may discharge minimum amounts of ballast water (in areas other than the Great Lakes and the Hudson River), provided that they comply with record keeping requirements and document the reasons they could not follow the required ballast water management requirements. On March 23, 2012 the USCG adopted ballast water discharge standards that set maximum acceptable discharge limits for living organisms and established standards for ballast water management systems. The regulations became effective on June 21, 2012 and will be phased in between January 1, 2014 and January 1, 2016 for existing vessels, depending on the size of their ballast water tanks and their next drydocking date. Although the USCG ballast water management requirements are consistent with the requirements in EPA's proposed VGP, the USCG intends to review the practicability of implementing even more stringent ballast water discharge standards and publish the results of that review no later than January 1, 2016. In the past absence of federal standards, states enacted legislation or regulations to address invasive species through ballast water and hull cleaning management and permitting requirements. Michigan's ballast water management legislation was upheld by the Sixth Circuit Court of Appeals and California enacted legislation extending its ballast water management program to regulate the management of "hull fouling" organisms attached to vessels and adopted regulations limiting the number of organisms in ballast water discharges. Other states may proceed with the enactment of requirements similar to those of California and Michigan or the adoption of requirements that are more stringent than the EPA and USCG requirements. We could incur additional costs to comply with the new VGP and additional USCG or state ballast water management requirements.

At the international level, the IMO adopted the International Convention for the Control and Management of Ships' Ballast Water and Sediments, or the BWM Convention, in February 2004. The Convention's implementing regulations call for a phased introduction of mandatory ballast water exchange requirements, to be replaced in time with mandatory concentration limits. The BWM Convention will not enter into force until 12 months after it has been adopted by 30 states, the combined merchant fleets of which represent not less than 35% of the gross tonnage of the world's merchant shipping. The Convention has not yet entered into force because a sufficient number of states have failed to adopt it. However, in March 2010, MEPC passed a resolution urging the ratification of the Convention and calling upon those countries that have already ratified it to encourage the installation of ballast water management systems.

If the mid-ocean ballast exchange is made mandatory throughout the United States or at the international level, or if water treatment requirements or options are instituted, the cost of compliance could increase for ocean carriers. Although we do not believe that the costs of compliance with a mandatory mid-ocean ballast exchange would be material, it is difficult to predict the overall impact of such a requirement on our business.

#### *Greenhouse Gas Regulation*

The 2005 Kyoto Protocol to the United Nations Framework Convention on Climate Change required adopting countries to implement national programs to reduce emissions of certain greenhouse gases, but emissions from international shipping are not subject to the soon to expire Kyoto Protocol. International negotiations regarding a successor to the Kyoto Protocol are on-going. The IMO's MEPC adopted two new sets of mandatory requirements to address greenhouse gas emissions from vessels at its July 2011 meeting. The EEDI establishes a minimum energy efficiency level per capacity mile and will be applicable to new vessels. The Ship Energy Efficiency Management Plan will be applicable to currently operating vessels of 400 metric tons and above. These requirements entered into force in January 2013 and could cause us to incur additional compliance costs. The IMO is also considering the development of market based mechanisms to reduce greenhouse gas emissions from vessels, as well as sustainable development goals for marine transportation, but it is impossible to predict the likelihood that such measures might be adopted or their potential impacts on our operations at this time. The EU is considering measures including an expansion of the existing EU emissions trading scheme to greenhouse gas emissions from marine vessels. The U.S. EPA Administrator issued a finding that greenhouse gases threaten the public health and safety and has adopted regulations relating to the control of greenhouse gas emissions from certain mobile and stationary sources. Although the EPA findings and regulations do not extend to vessels and vessel engines, the EPA is separately considering a petition from the California Attorney General and environmental groups to regulate greenhouse gas emissions from ocean-going vessels under the CAA. Any passage of climate control legislation or other regulatory initiatives by the IMO, the EU or individual countries in which we operate or any international treaty adopted to succeed the Kyoto Protocol could require us to make significant financial expenditures or otherwise limit our operations that we cannot predict with certainty at this time.

#### *Vessel Security Regulation*

Since the terrorist attacks of September 11, 2001, there have been a variety of initiatives intended to enhance vessel security. On November 25, 2002, the Maritime Transportation Security Act of 2002, or MTSA, came into effect. To implement certain portions of the MTSA, in July 2003, the United States Coast Guard issued regulations requiring the implementation of certain security requirements aboard vessels operating in waters subject to the jurisdiction of the United States of America. Similarly, in December 2002, amendments to SOLAS created a new chapter of the convention dealing specifically with maritime security. The new chapter went into effect in July 2004, and imposes various detailed security obligations on vessels and port authorities, most of which are contained in the newly created 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 provided such vessels have on board, by July 1, 2004, a valid International Ship Security Certificate that attests to the vessel's compliance with SOLAS security requirements and the ISPS Code. Our vessels are in compliance with the various security measures addressed by the MTSA, SOLAS and the ISPS Code. We do not believe these additional requirements will have a material financial impact on our operations.

#### *Inspection by Classification Societies*

The hull and machinery of every commercial vessel must be classed by a classification society authorized by its country of registry. The classification society certifies that a vessel is safe and seaworthy in accordance with the applicable rules and regulations of the country of registry of the vessel and SOLAS.

A vessel must undergo annual surveys, intermediate surveys, dry-dockings and special surveys. In lieu of a special survey, a vessel's machinery may be on a continuous survey cycle, under which the machinery would be surveyed periodically over a five-year period. Our vessels are on special survey cycles for hull inspection and continuous survey cycles for machinery inspection. Every vessel is also required to be dry-docked every two to three years for inspection of the underwater parts of such vessel. If any vessel does not maintain its class and/or fails any annual survey, intermediate survey, dry-docking or special survey, the vessel will be unable to carry cargo between ports and will be unemployable and uninsurable. That could cause us to be in violation of certain covenants in our loan agreements.

At an owner's application, the surveys required for class renewal may be split according to an agreed schedule to extend over the entire period of class. This process is referred to as continuous class renewal.

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

Most insurance underwriters make it a condition for insurance coverage and lending that a vessel be certified as "in class" by a classification society which is a member of the International Association of Classification Societies. Our vessels are certified as being "in class" by their respective classification societies all of which are members of the International Association of Classification Societies.

The table below lists the next dry-docking and special surveys scheduled for each vessel, to the extent such dates are known as of the date of this annual report:

<b>Vessel</b>	<b>Next Intermediate Dry-docking</b>	<b>Next Special Survey Dry-docking</b>
<i>M/V Figaro</i>	Third quarter 2018	Fourth quarter 2015*
<i>M/V Free Neptune</i>	Third quarter 2017	Second quarter 2019

\* The *M/V Figaro* cannot pass her special survey dry-docking until the cargo on board has been delivered to its receivers.

ISM and ISPS certifications have been awarded to all of our vessels and to the Managers by either the vessel's flag country or a member of the International Association of Classification Societies

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

#### *General*

The operation of any cargo vessel includes risks such as mechanical failure, physical damage, collision, property loss, cargo loss or damage and business interruption due to political circumstances in foreign countries, hostilities and labor strikes. In addition, there is always an inherent possibility of marine disaster, including oil spills and other environmental mishaps, and the liabilities arising from owning and operating vessels in international trade. OPA, which imposes virtually unlimited liability upon owners, operators and bareboat charterers of any vessel trading in the exclusive economic zone of the United States of America for certain oil pollution accidents in the United States of America, has made liability insurance more expensive for ship owners and operators trading in the United States of America market. While we believe that our present insurance coverage is adequate, not all risks can be insured, and there can be no guarantee that any specific claim will be paid, or that we will always be able to obtain adequate insurance coverage at reasonable rates.

*Hull and Machinery Insurance*

We have obtained marine hull and machinery and war risk insurance, which include the risk of actual or constructive total loss, for all of our vessels. The vessels are each covered up to at least their fair market values or such higher amounts as may be required to meet the requirements of any outstanding indebtedness on a particular vessel, with deductibles in amounts of approximately \$250.

*Protection and Indemnity Insurance*

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

Our current protection and indemnity insurance coverage for pollution is \$1 billion per vessel per incident. The 14 P&I associations that comprise the International Group insure approximately 90% of the world’s commercial tonnage and have entered into a pooling agreement to reinsure each association’s liabilities. Each P&I association has capped its exposure to this pooling agreement at \$5.4 billion. As a member of a P&I association, which is a member of the International Group, we are subject to calls payable to the associations based on its claim records as well as the claim records of all other members of the individual associations and members of the pool of P&I associations comprising the International Group.

*Loss of Hire Insurance*

With the exception of kidnap and ransom insurance and its loss of hire extension (described below), we have not obtained loss of hire insurance for any of our vessels. Loss of hire insurance generally provides coverage against loss of charter hire that result from the loss of use of a vessel. We will review annually whether obtaining and/or maintaining this insurance is cost effective. Our ability to obtain loss of hire insurance is subject to market conditions and general availability.

### *Kidnap and Ransom*

We have kidnap and ransom insurance on a case by case basis, generally when one of our vessels is transitioning in an area where acts of piracy are known to take place. Kidnap and ransom insurance generally provides coverage of ransom paid, including interest if ransom money are through financing products and including delivery expense of ransom, fees of negotiators and crisis management personnel and the cost of reinstatement of replacement crew. The loss of hire extension covers the insured for any hire lost during seizure for a certain number of days that have been agreed on at the inception of the coverage, typically either 90, 120 or 180 days.

### *Procedures in the Event of an Insured Event*

Marine casualties are an inherent risk in the shipping industry. If one of our vessels undergoes a marine casualty, we intend to take prompt action in consultation with the appropriate insurers, as described above, to ascertain the extent of any damage to our vessel, its cargo, the crew, the vessel's ability to complete its charter and any environmental impact and the appropriate steps to try to mitigate the impact of the casualty on our financial condition and results of operations.

### **Legal Proceedings**

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

### **Exchange Controls**

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

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

None.

#### **Item 5. Operating and Financial Review and Prospects**

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

The historical consolidated financial results of FreeSeas described below are presented, unless otherwise stated, in thousands of United States dollars.

#### **Overview**

We are an international drybulk shipping company incorporated under the laws of the Republic of the Marshall Islands with principal executive offices in Athens, Greece. The Company currently operates two Handysize dry bulk carriers. Our vessels carry a variety of drybulk commodities, including iron ore, grain and coal, which are referred to as "major bulks," as well as bauxite, phosphate, fertilizers, steel products, cement, sugar and rice, or "minor bulks." As of August 10, 2017, the aggregate dwt of the vessels we operate is 52,889 dwt and the average age of the vessels is 21.6 years.

Our investment and operational focus has been in the Handysize sector, which is generally defined as less than 40,000 dwt of carrying capacity and the Handymax sector which is generally defined as between 40,000 dwt and 60,000 dwt. Handysize and Handymax vessels are, we believe, more versatile in the types of cargoes that they can carry and trade routes they can follow, and offer less volatile returns than larger vessel classes. We believe this segment also offers better demand and supply demographics than other drybulk asset classes. Due to the very adverse charter rate environment of the latest shipping cycle values of larger vessels have dropped to levels that constitute buying opportunities.

#### **Recent Developments**

On January 20, 2017, the Company sold to LG Capital Funding, LLC, a \$45 convertible promissory note, which matures a year from issuance and accrues interest at the rate of 8% per annum. The investor subject to the restrictions of Rule 144 promulgated under the 1933 Act, is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 9.9% of the common stock of the Company, into shares of Common Stock. The conversion price is 65% of the lowest trading price of the Common Stock as reported by the Trading Market on which the Company's shares are traded, for the twenty prior trading days. Upon written notice, during the first six months the Company may prepay the note with amounts ranging from 118% of principal plus interest (during days 1-30) to 148% of principal plus interest (during days 151-180).

On January 20 and March 20, 2017, debt purchase agreements were executed between LG Capital Funding, LLC, a US investor, the buyer and M. DALAKOS – I. FASSOLIS – N. THEOFANOPOULOS & PARTNERS LAW FIRM, a non-US creditor, the seller of the \$108 convertible promissory note plus accrued interest, issued on August 16, 2016. Two replacement notes were issued on January 20 and March 20, 2017, respectively, aggregating the total principal amount of the convertible promissory note outstanding plus accrued interest.

Effective February 7, 2017, the Company effectuated a one-to-five thousand reverse stock split on its issued and outstanding common stock.

On February 9, 2017, the Company's Board of Directors agreed the reduction of the five-member Board to a three-member Board. Thus, Mr. Galinas and Mr. Panagiotopoulos resigned and they nominated Mr. Dimitrios Filippas to fill their vacancy. Mr. Dimitrios Filippas, currently serving as deputy Chief Financial Officer of the Company, accepted the nomination and elected as member of the Board and Treasurer.

On February 13, 2017, the Company sold to Power Up Lending Group Ltd., a \$93 12% interest bearing convertible note due in nine months subject to the restrictions of Rule 144 promulgated under the 1933 Act. One hundred eighty days following the date of this note, the holder has the right to convert all or any part of the outstanding and unpaid principal amount and accrued interest of the note into Company's common stock, provided that such conversion does not cause it to own more than 4.99% of the common stock of the Company, into shares of Common Stock. The conversion price is the 58% of the average of the lowest three trading prices of the Company's common stock on any trading day during the ten trading days prior to the conversion. Upon written notice, during the first six months the Company may prepay the note with amounts ranging from 115% of principal plus interest (during days 1-30) to 140% of principal plus interest (during days 151-180).

On February 16, 2017, the Company sold to Crown Bridge Partners, LLC, a \$45 convertible promissory note, which contained a \$5 original issue discount (OID) and matures a year from issuance and accrues interest at the rate of 6% per annum. The investor subject to the restrictions of Rule 144 promulgated under the 1933 Act, is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 4.99% of the common stock of the Company, into shares of Common Stock. The conversion price is 60% of the lowest trading price of the Common Stock as reported by the Trading Market on which the Company's shares are traded, for the twenty prior trading days. Upon written notice, during the first six months the Company may prepay the note with amounts ranging from 120% of principal plus interest (during days 1-60) to 145% of principal plus interest (during days 121-180).

On February 16, 2017, upon full conversion of the \$30 convertible promissory note in connection with a debt settlement agreement entered into with Anyland Travel Ltd, plus accrued interest, the Company has issued in aggregate 17,242 shares of common stock to the note holder.

On February 17, 2017, the Company issued to Brighton Capital Ltd., a \$68 convertible promissory note in connection with a debt settlement agreement entered into, of the same amount of outstanding invoice, which note matures a year from issuance and accrues interest at the rate of 8% per annum. The holder, subject to the restrictions of Rule 144 promulgated under the 1933 Act, is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 4.99% of the common stock of the Company, into shares of Common Stock. The conversion price is the lower of (i) \$0.02 and (ii) 65% of the lowest daily VWAP on any trading day during the twenty-one consecutive trading days prior to conversion. Upon prior notice, the Company may prepay the holder in cash, for 127.5% of any outstanding principal and interest remaining on the note.

On February 22, 2017, a debt purchase agreement was executed between APG Capital Holdings, LLC, a US investor, the buyer and Marine Plus S.A a non-US creditor, the seller of the outstanding \$45 convertible promissory note issued on June 27, 2016. A replacement note was issued for the amount of the outstanding convertible promissory note.

On February 22, 2017, the Company sold to APG Capital Holdings, LLC, a \$37 convertible promissory note, which contained a \$3.6 original issue discount (OID) and matures a year from issuance and accrues interest at the rate of 10% per annum. The investor subject to the restrictions of Rule 144 promulgated under the 1933 Act, is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 9.9% of the common stock of the Company, into shares of Common Stock. The conversion price is 46% of the lowest trading price of the Common Stock as reported by the Trading Market on which the Company's shares are traded, for the twenty prior trading days. Upon written notice, during the first six months the Company may prepay the note to 150% of principal plus interest.

On February 24, 2017, the Company sold to Oakmore Opporutnity Fund I, LP, a \$50 convertible promissory note, which matures a year from issuance and accrues interest at the rate of 8% per annum. The investor is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 4.99% of the common stock of the Company, into shares of Common Stock. The conversion price is the 60% of the lowest daily VWAP on any trading day during the twenty-one consecutive trading days prior to conversion. Upon prior notice, the Company may prepay the investor in cash, for 127.5% of any outstanding principal and interest remaining on the note.

On March 14, 2017, the Company issued to Sichenzia Ross Ference Kesner LLP, a \$47 convertible promissory note in connection with a debt settlement agreement entered into, of the same aggregate amount of outstanding invoices, which note matures a year from issuance and accrues interest at the rate of 8% per annum. The holder, subject to the restrictions of Rule 144 promulgated under the 1933 Act, is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 4.99% of the common stock of the Company, into shares of Common Stock. The conversion price is the lower of (i) \$0.06 and (ii) 60% of the lowest daily VWAP on any trading day during the twenty-one consecutive trading days prior to conversion. Upon prior notice, the Company may prepay the holder in cash, for 127.5% of any outstanding principal and interest remaining on the note.



On March 15, 2017, the Company sold to Marine Plus S.A., a non-U.S. investor, an \$72 convertible promissory note in connection with a debt settlement agreement entered into, of the same aggregate amount of outstanding invoices, which matures a year from issuance and accrues interest at the rate of 8% per annum. The investor is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 4.99% of the common stock of the Company, into shares of Common Stock. The conversion price is the lower of (i) \$0.403 (as adjusted for stock splits, stock dividends, stock combinations or other similar transactions) and (ii) the lowest daily VWAP on any trading day during the twenty-one consecutive trading days prior to conversion. Upon prior notice, the Company may prepay the investor in cash, for 127.5% of any outstanding principal and interest remaining on the note.

On March 15, 2017, a debt purchase agreement was executed between Yoshar Trading LLC, a US investor, the buyer and YES Properties Inc, the seller of the \$35 convertible promissory note, issued on August 16, 2016. The purchase price for the note was the Buyer's payment of \$40 to the seller.

On March 20, 2017, the Company sold to LG Capital Funding, LLC, a \$45 convertible promissory note, which matures a year from issuance and accrues interest at the rate of 8% per annum. The investor subject to the restrictions of Rule 144 promulgated under the 1933 Act, is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 9.9% of the common stock of the Company, into shares of Common Stock. The conversion price is 65% of the lowest trading price of the Common Stock as reported by the Trading Market on which the Company's shares are traded, for the twenty prior trading days. Upon written notice, during the first six months the Company may prepay the note with amounts ranging from 118% of principal plus interest (during days 1-30) to 148% of principal plus interest (during days 151-180).

On March 22, 2017, the Company sold to E. Stavropoulos & Co O.E. "Hydra Travel", a non-U.S. investor, a \$22 convertible promissory note in connection with a debt settlement agreement entered into, of the same aggregate amount of outstanding invoices, which matures a year from issuance and accrues interest at the rate of 8% per annum. The investor is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 4.99% of the common stock of the Company, into shares of Common Stock. The conversion price is the lower of (i) \$0.2394 (as adjusted for stock splits, stock dividends, stock combinations or other similar transactions) and (ii) the lowest daily VWAP on any trading day during the twenty-one consecutive trading days prior to conversion. Upon prior notice, the Company may prepay the investor in cash, for 127.5% of any outstanding principal and interest remaining on the note.

On March 28, 2017, the Company sold to Cerberus Finance Group Ltd, a non-U.S. investor, a \$25 convertible promissory note which matures a year from issuance and accrues interest at the rate of 8% per annum. The investor is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 9.9% of the common stock of the Company, into shares of Common Stock. The conversion price is 60% of the lowest trading price of the Common Stock as reported by the Trading Market on which the Company's shares are traded, for the fifteen prior trading days. Upon written notice, during the first 39 days the Company may prepay the investor in cash, for 125% of any outstanding principal and interest remaining on the note.

On April 6, 2017, upon full conversion of the \$137 convertible promissory note to Sichenzia Ross Ference Kesner LLP, dated May 9, 2016, plus accrued interest, the Company has issued in aggregate 4,109,800 shares of common stock to the note holder.

On April 7, 2017, the Company sold to GS Capital Partners, a \$30 convertible promissory note, which matures a year from issuance and accrues interest at the rate of 10% per annum. The investor subject to the restrictions of Rule 144 promulgated under the 1933 Act, is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 9.9% of the common stock of the Company, into shares of Common Stock. The conversion price is 60% of the lowest trading price of the Common Stock as reported by the Trading Market on which the Company's shares are traded, for the twenty prior trading days. Upon written notice, during the first six months the Company may prepay the note at 150% of principal plus interest.

On May 23, 2017, the Company received a letter from OTCQB that the Company's (FREEF) bid price closed below \$0.01 for more than 30 consecutive calendar days and no longer meets the Standards for Continued Eligibility for OTCQB as per the OTCQB Standards, section 2.3(2). To remain eligible for trading on the OTCQB marketplace, the Company must have proprietary priced quotations published by a Market Maker in OTC Link with a minimum closing bid price of \$0.01 per share on at least one of the prior thirty consecutive calendar days. As per the OTCQB Standards, section 4.1, in the event that the minimum closing bid price for the Company's common stock falls below \$0.01 per share, a grace period of 90 calendar days to regain compliance shall begin, during which the minimum closing bid price for the Company's common stock must be \$0.01 or greater for ten consecutive trading days; Pursuant to these OTCQB Standards, the Company has been granted a period of 90 calendar days in which to regain compliance with Section 4.1. The grace period expires August 21, 2017 and at that time if the Company's bid price has not closed at or above \$0.01 for any ten consecutive trading days then the Company will be removed from the OTCQB. In addition, in the event that the Company's closing bid price falls below \$0.001 at any time for five consecutive trading days, the Company will be immediately removed from OTCQB.

On June 1, 2017, the Company entered into a management services agreement with Prodigy Inc., a Manager, for the provision of financial services, including all of our accounting, financial reporting and internal controls, and other back-office services, as well as the provision of use of space for the Company's offices at 6, Loukianou St. Athens Greece. Our Chairman, Chief Executive Officer and President, Ion G. Varouxakis, is a shareholder of Prodigy Inc.

On June 15, 2017, the Company was notified by the OTC Markets that as a result of the Company's failure to file its annual report on Form 20-F, the Company's common stock would be removed from the OTCQB market and would be available for quotation on the OTC Pink market operated by the OTC Markets, effective June 16, 2017, under the same trading symbol of "FREEF".

On July 21, 2017, the Company sold to L.G. CAPITAL FUNDING, LLC two 8% convertible notes of the Company, in the aggregate principal amount of \$79 (each Note being in the amount of \$39.5) which mature a year from issuance. The second such Note is initially paid by a same amount and maturity note collateralized by liquid assets of equal value, it is not repayable, except that if the first Note is redeemed within 6 months from issuance then the second note and its collateral note are automatically cancelled, and it can only be converted when the collateral is liquidated by the Company. The investor subject to the restrictions of Rule 144 promulgated under the 1933 Act, is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 9.9% of the common stock of the Company, into shares of Common Stock. The conversion price for both Notes is 65% of the lowest trading price of the Common Stock as reported by the Trading Market on which the Company's shares are traded, for the twenty prior trading days; and

On July 24, 2017, the Company sold to, ADAR BAYS, LLC a 8% convertible note of the Company in the principal amount of \$39.5 which matures a year from issuance paid for by a same amount and maturity note collateralized by liquid assets of equal value, it is not prepayable, and it can only be converted when the collateral is liquidated by the Company. The investor subject to the restrictions of Rule 144 promulgated under the 1933 Act, is entitled at any time after 6 months from issuance to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 9.9% of the common stock of the Company, into shares of Common Stock. The conversion price for both Notes is 65% of the lowest trading price of the Common Stock as reported by the Trading Market on which the Company's shares are traded, for the twenty prior trading days.

On August 17, 2017, the Company sold to L.G. CAPITAL FUNDING, LLC two 8% convertible notes of the Company, in the aggregate principal amount of \$75 (each Note being in the amount of \$37.5) which mature a year from issuance. The second such Note is initially paid by a same amount and maturity note collateralized by liquid assets of equal value, it is not repayable, except that if the first Note is redeemed within 6 months from issuance then the second note and its collateral note are automatically cancelled, and it can only be converted when the collateral is liquidated by the Company. The investor subject to the restrictions of Rule 144 promulgated under the 1933 Act, is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 9.9% of the common stock of the Company, into shares of Common Stock. The conversion price for both Notes is 65% of the lowest trading price of the Common Stock as reported by the Trading Market on which the Company's shares are traded, for the twenty prior trading days.

**Employment and Charter Rates**

**Our Fleet**

The following table details the vessels we operate in our fleet as of August 10, 2017:

Vessel Name	Type	Built	Dwt	Employment
M/V Free Neptune	Handysize	1996	30,838	Lay-up
M/V Figaro on Bareboat Charter (ex M/V Free Goddess)	Handysize	1995	22,051	Lay-up, see note (*) below.

(\* The M/V Free Goddess was hijacked by Somali pirates on February 7, 2012 while transiting the Indian Ocean eastbound. On October 11, 2012, we announced that all 21 crew members of the M/V *Free Goddess* were reported safe and well after the vessel's release by the pirates. At the time of the hijacking the vessel was on time charter in laden condition. Since the release from the pirates, the ex M/V Free Goddess, renamed to M/V Figaro, has been laying at the port of Salalah, Oman, undertaking repairs funded mostly by insurers. The repairs of the vessel were completed, and notice of readiness was tendered to her Charterers for the resumption of the voyage. The Charterers repudiated the Charter and we accepted Charterers' repudiation and terminated the fixture. Cargo interests commenced proceedings before the local Omani Courts under the Bills of Lading for delivery of the cargo in Oman, which were rejected at the first instance and were appealed by Cargo interests. The appeal by Cargo interests was rejected by the Court. Concurrently with the above proceedings, Cargo interests have obtained favorable arbitration decisions and a UK High Court order against the former owner Adventure Five S.A. to deliver the cargo at the port of Salalah, Oman. Griffin Underwriting, The Kidnap and Ransom insurers of the M/V Free Goddess, have commenced action before the High Court in the UK against Adventure Five, Free Bulkers S.A. and our CEO alleging damages. Those proceedings have been frozen by mutual agreement between the parties pending the conclusion of the ongoing settlement negotiations. We, as the Bareboat Charterers of the M/V Figaro, have been exploring all options for a pragmatic and commercial resolution of the complex situation arising from the involvement of many parties with conflicting interests in this lengthy dispute.

### **Acquisition of Vessels**

From time to time, as opportunities arise and depending on the availability of financing, we intend to acquire additional secondhand drybulk carriers. When a vessel is acquired free of charter, we enter into a new charter contract. The shipping industry uses income days (also referred to as "voyage" or "operating" days) to measure the number of days in a period during which vessels actually generate revenues.

Consistent with shipping industry practice, we treat the acquisition of a vessel (whether acquired with or without a charter) as the acquisition of an asset rather than a business. When we acquire a vessel, we conduct, also consistent with shipping industry practice, an inspection of the physical condition of the vessel, unless practical considerations do not allow such an inspection. We also examine the vessel's classification society records. We do not obtain any historical operating data for the vessel from the seller. We do not consider that information material to our decision on acquiring the vessel.

Prior to the delivery of a purchased vessel, the seller typically removes from the vessel all records and log books, including past financial records and accounts related to the vessel. Upon the change in ownership, the technical management agreement between the seller's technical manager and the seller is automatically terminated and the vessel's trading certificates are revoked by its flag state, in the event the buyer determines to change the vessel's flag state.

When a vessel has been under a voyage charter, the seller delivers the vessel free of charter to the buyer. When a vessel is under time charter and the buyer wishes to assume that charter, the buyer cannot acquire the vessel without the charterer's consent and an agreement between the buyer and the charterer for the buyer to assume the charter. The purchase of a vessel does not in itself transfer the charter because the charter is a separate service agreement between the former vessel owner and the charterer.

When we acquire a vessel and want to assume or renegotiate a related time charter, we must take the following steps:

Obtain the charterer's consent to us as the new owner;

Obtain the charterer's consent to a new technical manager;

Obtain the charterer's consent to a new flag for the vessel, if applicable;

Arrange for a new crew for the vessel;

Replace all hired equipment on board the vessel, such as gas cylinders and communication equipment;

Negotiate and enter into new insurance contracts for the vessel through our own insurance brokers;

Register the vessel under a flag state and perform the related inspections in order to obtain new trading certificates from the flag state, if we change the flag state;

Implement a new planned maintenance program for the vessel; and

Ensure that the new technical manager obtains new certificates of compliance with the safety and vessel security regulations of the flag state.

## **Business Components and Activities**

Our business comprises the following primary components:

Employment and operation of our drybulk carriers; and

Management of the financial, general and administrative elements involved in the ownership and operation of our drybulk vessels.

The employment and operation of our vessels involve the following activities:

Vessel maintenance and repair;

Planning and undergoing dry-docking, special surveys and other major repairs;

Organizing and undergoing regular classification society surveys;

Crew selection and training;

Vessel spares and stores supply;

Vessel bunkering;

Contingency response planning;

Onboard safety procedures auditing;

Accounting;

Vessel insurance arrangements;

Vessel chartering;

Vessel hire management; and

Vessel performance monitoring.

## **Our Fleet-Illustrative Comparison of Possible Excess of Carrying Value over Estimated Charter-Free Market Value of Certain Vessels**

In “-Critical Accounting Policies-Impairment of Long Lived Assets,” we discuss our policy for impairing the carrying values of our vessels. Historically, the market values of vessels have experienced volatility, which from time to time may be substantial. As a result, the charter-free market value, or basic market value, of certain of our vessels may have declined below those vessels’ carrying value, even though we would not impair those vessels’ carrying value under our accounting impairment policy, due to our belief that future undiscounted cash flows expected to be earned by such vessels over their operating lives would exceed such vessels’ carrying amounts. The Company, as a result of the unprecedented adverse market conditions the dry bulk industry faced and the substantial decline in the vessel market values, recognized an impairment charge of \$4,286 for the M/V Free Neptune during the year ended December 31, 2016, in the accompanying consolidated statement of operations.

Drybulk Vessels	DWT	Year Built	Date of Acquisition	Purchase Price (in million USD)	Carrying	Fair Market	Carrying	Fair Market
					Value as of 12/31/2016 (in million USD)	Value as of 12/31/2016 (in million USD)	Value as of 12/31/2015 (in million USD)	Value as of 12/31/2015 (in million USD)
Free Neptune	30,838	1996	08/25/09	\$ 11.0	\$ 2.1	\$ 2.1	\$ 6.8	\$ 3.0



## Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of those financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses and related disclosure at the date of our financial statements. Actual results may differ from these estimates under different assumptions and conditions. Critical accounting policies are those that reflect significant judgments of uncertainties and potentially result in materially different results under different assumptions and conditions. We have described below what we believe are our most critical accounting policies, because they generally involve a comparatively higher degree of judgment in their application. For a description of all our significant accounting policies, see Note 2 to our consolidated financial statements.

*Impairment of Long-lived Assets:* The Company follows the guidance under ASC 360, “Property, Plant and Equipment,” which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The standard requires that, long-lived assets and certain identifiable intangibles held and used or disposed of by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. When the estimate of undiscounted cash flows, excluding interest charges, expected to be generated by the use of the asset is less than its carrying amount, the Company should evaluate the asset for an impairment loss. Measurement of the impairment loss is based on the fair value of the asset which is determined based on management estimates and assumptions and by making use of available market data. The fair values are determined through Level 2 inputs of the fair value hierarchy as defined in ASC 820 “Fair value measurements and disclosures” and are derived principally from or by corroborated or observable market data. Inputs, considered by management in determining the fair value, include independent broker’s valuations, FFA indices, average charter hire rates and other market observable data that allow value to be determined. The Company evaluates the carrying amounts and periods over which long-lived assets are depreciated to determine if events have occurred which would require modification to their carrying values or useful lives. In evaluating useful lives and carrying values of long-lived assets, management reviews certain indicators of potential impairment, such as future undiscounted net operating cash flows, vessel sales and purchases, business plans and overall market conditions. In performing the recoverability tests the Company determines future undiscounted net operating cash flows for each vessel and compares it to the vessel’s carrying value. The future undiscounted net operating cash flows are determined by considering the Company’s alternative courses of action, estimated vessel’s utilization, its scrap value, the charter revenues from existing time charters for the fixed fleet days and an estimated daily time charter equivalent for the unfixed days over the remaining estimated useful life of the vessel, net of vessel operating expenses adjusted for inflation, and cost of scheduled major maintenance. When the Company’s estimate of future undiscounted net operating cash flows for any vessel is lower than the vessel’s carrying value, the carrying value is written down, by recording a charge to operations, to the vessel’s fair market value.

As of December 31, 2016, the Company performed an impairment assessment of its long-lived asset M/V Free Neptune by comparing the undiscounted net operating cash flows for the vessel to its respective carrying value. The significant factors and assumptions the Company used in each future undiscounted net operating cash flow analysis included, among others, operating revenues, commissions, off-hire days, dry-docking costs, operating expenses and

management fee estimates. Revenue assumptions were based on contracted time charter rates up to the end of life of the current contract of each vessel as well as the ten-year historical average time charter rates for the remaining life of the vessel after the completion of the current contracts. In addition, the Company used an annual operating expenses escalation factor and an estimate of off hire days. All estimates used and assumptions made were in accordance with the Company's internal budgets and historical experience of the shipping industry. The Company, as a result of the adverse market conditions the dry bulk industry faces and the substantial decline in the vessel market values, recognized an impairment charge of \$4,286 for the M/V Free Neptune during the year ended December 31, 2016, in the accompanying consolidated statement of operations.

*Vessels' Depreciation:* The cost of the Company's vessels is depreciated on a straight-line basis over the vessels' remaining economic useful lives from the acquisition date, after considering the estimated residual value (vessel's residual value is equal to the product of its lightweight tonnage and estimated scrap rate). Effective April 1, 2009, and following management's reassessment of the useful lives of the Company's assets, the fleets useful life was increased from 27 to 28 years since the date of initial delivery from the shipyard. Management's estimate was based on the current vessels' operating condition, as well as the conditions prevailing in the market for the same type of vessels.

*Accounting for Special Survey and Dry-docking Costs:* Effective as of January 1, 2014, the Company changed the deferral method of accounting for special survey and dry-docking costs whereby actual costs incurred were deferred and amortized over periods of five and two and a half years, respectively. The Company now follows the direct expense method of accounting for special survey and dry-docking costs whereby costs are expensed in the period incurred for the vessels.

*Accounting for Revenue and Expenses:* Revenue is recorded when services are rendered, the Company has a signed charter agreement or other evidence of an arrangement, the price is fixed or determinable, and collection is reasonably assured. A voyage charter involves the carriage of a specific amount and type of cargo from specific load port(s) to specific discharge port(s), subject to various cargo handling terms, in return for payment of an agreed upon freight rate per ton of cargo. A time charter involves placing a vessel at the charterers' disposal for a period of time during which the charterer uses the vessel in return for the payment of a specified daily hire rate. Short period charters for less than three months are referred to as spot charters. Time charters extending three months to a year are generally referred to as medium term charters. All other time charters are considered long term. Voyage revenues for the transportation of cargo are recognized ratably over the estimated relative transit time of each voyage. A voyage is deemed to commence when a vessel is available for loading of its next fixed cargo and is deemed to end upon the completion of the discharge of the current cargo. Revenues from time chartering of vessels are accounted for as operating leases and are thus recognized on a straight-line basis as the average revenue over the rental periods of such charter agreements, as service is provided. Voyage expenses, primarily consisting of port, canal and bunker expenses that are unique to a particular charter, are paid for by the charterer under time charter arrangements or by the Company under voyage charter arrangements, except for commissions, which are always paid for by the Company, regardless of charter type. All voyage and vessel operating expenses are expensed as incurred, except for commissions. Commissions are deferred over the related voyage charter period to the extent revenue has been deferred since commissions are earned as the Company's revenues are earned. Probable losses on voyages in progress are provided for in full at the time such losses can be estimated.

### **Important Measures for Analyzing Results of Operations**

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

**Ownership days.** We define ownership days as the total number of calendar days in a period during which each vessel in the fleet was owned by us, including days of vessels in lay-up. Ownership days are an indicator of the size of the fleet over a period and affect both the amount of revenues earned and the amount of expenses that we incur during that period.

**Available days.** We define available days as the number of ownership days less the aggregate number of days that our vessels are offhire due to major repairs, dry-dockings or special or intermediate surveys or days of vessels in lay-up. The shipping industry uses available days to measure the number of ownership days in a period during which vessels are actually capable of generating revenues.

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

**Fleet utilization.** We calculate fleet utilization by dividing the number of operating days during a period by the number of available days during that period. The shipping industry uses fleet utilization to measure a company's

efficiency properly operating its vessels and minimizing the amount of days that its vessels are off-hire for any unforeseen reason.

Off-hire. The period a vessel is unable to perform the services for which it is required under a charter. Off-hire periods typically include days spent undergoing repairs and dry-docking, whether or not scheduled.

Time charter. A time charter is a contract for the use of a vessel for a specific period of time during which the charterer pays substantially all of the voyage expenses, including port costs, canal charges and bunkers expenses. The vessel owner pays the vessel operating expenses, which include crew wages, insurance, technical maintenance costs, spares, stores and supplies and commissions on gross voyage revenues. Time charter rates are usually fixed during the term of the charter. Prevailing time charter rates do fluctuate on a seasonal and year-to-year basis and may be substantially higher or lower from a prior time charter agreement when the subject vessel is seeking to renew the time charter agreement with the existing charterer or enter into a new time charter agreement with another charterer. Fluctuations in time charter rates are influenced by changes in spot charter rates.

Voyage charter. A voyage charter is an agreement to charter the vessel for an agreed per-ton amount of freight from specified loading port(s) to specified discharge port(s). In contrast to a time charter, the vessel owner is required to pay substantially all of the voyage expenses, including port costs, canal charges and bunkers expenses, in addition to the vessel operating expenses.

Time charter equivalent (TCE). The time charter equivalent, or TCE, equals voyage revenues minus voyage expenses divided by the number of operating days during the relevant time period, including the trip to the loading port. TCE is a non-GAAP, standard seaborne transportation industry performance measure used primarily to compare period-to-period changes in a seaborne transportation company's performance despite changes in the mix of charter types (i.e., spot charters, time charters and bareboat charters) under which the vessels may be employed during a specific period.

Adjusted EBITDA represents net earnings before taxes, depreciation and amortization, (gain)/loss on derivative instruments, stock-based compensation expense, vessel impairment loss, loss on commitment and contingency, contractual derivative obligation, interest and finance cost net, gain on debt extinguishment, provision and write-offs of insurance claims and bad debts, gain on settlement of payable, loss on settlement of liability through stock issuance and dry-docking costs. Effective as of January 1, 2014, the Company follows the direct expense method of accounting for special survey and dry-docking costs whereby such costs are expensed in the period incurred and not amortized until the next dry-docking. Under the laws of the Marshall Islands, we are not subject to tax on international shipping income. However, we are subject to registration and tonnage taxes, which have been included in vessel operating expenses. Accordingly, no adjustment for taxes has been made for purposes of calculating Adjusted EBITDA. Adjusted EBITDA is a non-GAAP measure and does not represent and should not be considered as an alternative to net income or cash flow from operations, as determined by U.S. GAAP, and our calculation of Adjusted EBITDA may not be comparable to that reported by other companies. The shipping industry is capital intensive and may involve significant financing costs. The Company uses Adjusted EBITDA because it presents useful information to management regarding the Company's ability to service and/or incur indebtedness by excluding items that we do not believe are indicative of our core operating performance, and therefore is an alternative measure of our performance. The Company also believes that Adjusted EBITDA is useful to investors because it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. Adjusted EBITDA has limitations as an analytical tool, however, and should not be considered in isolation or as a substitute for analysis of the Company's results as reported under U.S. GAAP. Some of these limitations are: (i) Adjusted EBITDA does not reflect changes in, or cash requirements for, working capital needs; and (ii) although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such capital expenditures.

## Revenues

Our revenues were driven primarily by the number of vessels we operate, the number of operating days during which our vessels generate revenues, and the amount of daily charter hire that our vessels earn under charters. These, in turn, are affected by a number of factors, including the following:

The nature and duration of our charters;

The amount of time that we spent repositioning its vessels;

The amount of time that our vessels spent in dry-dock undergoing repairs;

Maintenance and upgrade work;

The age, condition and specifications of our vessels;

The levels of supply and demand in the drybulk carrier transportation market; and

Other factors affecting charter rates for drybulk carriers under voyage charters.

A voyage charter is generally a contract to carry a specific cargo from a load port to a discharge port for an agreed-upon total amount. Under voyage charters, voyage expenses such as port, canal and fuel costs are paid by the vessel owner. A trip time charter is a short-term time charter for a voyage between load port(s) and discharge port(s) under which the charterer pays fixed daily hire rate on a semi-monthly basis for use of the vessel. A period time charter is charter for a vessel for a fixed period of time at a set daily rate. Under trip time charters and time charters, the charterer pays voyage expenses. Under all three types of charters, the vessel owners pay for vessel operating expenses, which include crew costs, provisions, deck and engine stores, lubricating oil, insurance, maintenance and repairs. The vessel owners are also responsible for each vessel's dry-docking and intermediate and special survey costs.

Vessels operating on period time charters provide more predictable cash flows, but can yield lower profit margins than vessels operating in the spot charter market for single trips during periods characterized by favorable market conditions.

Vessels operating in the spot charter market generate revenues that are less predictable, but can yield increased profit margins during periods of improvements in drybulk rates. Spot charters also expose vessel owners to the risk of declining drybulk rates and rising fuel costs. Our vessel was chartered in the spot market during the year ended December 31, 2016.

A standard maritime industry performance measure is the TCE. TCE rates are defined as our time charter revenues less voyage expenses during a period divided by the number of our operating days during the period, which is consistent with industry standards. Voyage expenses include port charges, bunker (fuel oil and diesel oil) expenses, canal charges and commissions. Our average TCE rate for financial year 2014, 2015 and 2016 was \$3,463, \$649 and \$(1,163), respectively.

### **Vessel Operating Expenses**

Vessel operating expenses include crew wages and related costs, the cost of insurance, expenses relating to repairs and maintenance, the costs of spares and consumable stores, tonnage taxes and other miscellaneous expenses. Vessel operating expenses generally represent costs of a fixed nature.

### **Principal Factors Affecting Our Business**

The principal factors that affected our financial position, results of operations and cash flows include the following:

Number of vessels owned and operated;

Charter market rates and periods of charter hire;

Vessel operating expenses and direct voyage costs, which are incurred in both U.S. dollars and other currencies, primarily Euros;

Management fees and service fees;

Depreciation and amortization expenses, which are a function of vessel cost, any significant post-acquisition improvements, estimated useful lives, estimated residual scrap values, and fluctuations in the carrying value of our vessels, as well as, drydocking and special survey costs;

Financing costs related to indebtedness associated with the vessels; and

Fluctuations in foreign exchange rates.

### **Performance Indicators**

*(All amounts in tables in thousands of U.S. dollars except for fleet data and average daily results)*

The following performance measures were derived from our audited consolidated financial statements for the year ended December 31, 2016, 2015 and 2014 included elsewhere in this report. The historical data included below is not necessarily indicative of our future performance.

	For the year ended December 31,		
	2016	2015	2014
Adjusted EBITDA (1)	\$ (5,877 )	\$ (9,408 )	\$ (15,030 )

### **Fleet Data:**

Average number of vessels (2)	1.7	3.0	5.6
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Ownership days (3)	635	1,088	2,033
Available days (4)	182	480	962
Operating days (5)	104	462	771
Fleet utilization (6)	57.1 %	96.3 %	80.1 %
Average Daily Results:			
Average TCE rate (7)	\$(1,163 )	\$649	\$3,463
Vessel operating expenses (8)	\$3,438	\$4,565	\$6,250
Management fees (9)	\$1,106	\$983	\$789
General and administrative expenses(10)	\$4,477	\$3,083	\$1,705
Total vessel operating expenses (11)	\$4,543	\$5,548	\$7,040



Adjusted EBITDA represents net earnings before taxes, depreciation and amortization, (gain)/loss on derivative instruments, stock-based compensation expense, vessel impairment loss, loss on commitment and contingency, contractual derivative obligation, interest and finance cost net, gain on debt extinguishment, provision and write-offs of insurance claims and bad debts, gain on settlement of payable, loss on settlement of liability through stock issuance and dry-docking costs. Effective as of January 1, 2014, the Company follows the direct expense method of accounting for special survey and dry-docking costs whereby such costs are expensed in the period incurred and not amortized until the next dry-docking. Under the laws of the Marshall Islands, we are not subject to tax on international shipping income. However, we are subject to registration and tonnage taxes, which have been included in vessel operating expenses. Accordingly, no adjustment for taxes has been made for purposes of calculating Adjusted EBITDA. Adjusted EBITDA is a non-GAAP measure and does not represent and should not be considered as an alternative to net income or cash flow from operations, as determined by U.S. GAAP, and our (1) calculation of Adjusted EBITDA may not be comparable to that reported by other companies. The shipping industry is capital intensive and may involve significant financing costs. The Company uses Adjusted EBITDA because it presents useful information to management regarding the Company's ability to service and/or incur indebtedness by excluding items that we do not believe are indicative of our core operating performance, and therefore is an alternative measure of our performance. The Company also believes that Adjusted EBITDA is useful to investors because it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. Adjusted EBITDA has limitations as an analytical tool, however, and should not be considered in isolation or as a substitute for analysis of the Company's results as reported under U.S. GAAP. Some of these limitations are: (i) Adjusted EBITDA does not reflect changes in, or cash requirements for, working capital needs; and (ii) although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such capital expenditures.

	For the year ended December 31,		
	2016	2015	2014
Net loss	\$(20,511 )	\$(52,949 )	\$(12,688 )
Depreciation and amortization	1,939	3,585	5,320
Stock-based compensation charge	206	898	638
Vessel impairment loss	4,286	18,891	—
Loss on derivative instruments	—	—	21
Interest and finance cost, net of interest income	3,632	5,027	2,342
Loss on sale of vessels	277	7,620	1,098
Loss on commitment and contingency	—	2,000	—
Contractual derivative obligation	5,442	3,300	—
Loss due to capital lease write-off	—	3,058	—
Provision and write-offs of insurance claims and bad debts	(1,185 )	(525 )	872
Gain / (loss) on settlement of payable	37	(313 )	—
Gain on debt extinguishment	—	—	(16,057 )
Dry-docking costs	—	—	3,424
Adjusted EBITDA	\$(5,877 )	\$(9,408 )	\$(15,030 )

Average number of vessels is the number of vessels that constituted our fleet for the relevant period, as measured (2) by the sum of the number of days each vessel was a part of our fleet during the period divided by the number of calendar days in the period.

Ownership days are the total number of days in a period during which the vessels in our fleet have been owned by (3)us, including days of vessels in lay-up. Ownership days are an indicator of the size of our fleet over a period and affect both the amount of revenues and the amount of expenses that we record during a period.

(4) Available days are the number of ownership days less the aggregate number of days that our vessels are off-hire due to major repairs, dry dockings or special or intermediate surveys or days of vessels in lay-up. The shipping industry uses available days to measure the number of ownership days in a period during which vessels are actually capable of generating revenues.

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

(6) We calculate fleet utilization by dividing the number of our fleet's operating days during a period by the number of available days during the period. The shipping industry uses fleet utilization to measure a company's efficiency in properly operating its vessels and minimizing the amount of days that its vessels are off-hire for any unforeseen reasons.

(7) TCE is a non-GAAP measure of the average daily revenue performance of a vessel on a per voyage basis. Our method of calculating TCE is consistent with industry standards and is determined by dividing operating revenues (net of voyage expenses and commissions) by operating days for the relevant time period. Voyage expenses primarily consist of port, canal and fuel costs that are unique to a particular voyage, which would otherwise be paid by the charterer under a time charter contract. TCE is a standard shipping industry performance measure used primarily to compare period-to-period changes in a shipping company's performance despite changes in the mix of charter types (i.e., spot charters, time charters and bareboat charters) under which the vessels may be employed between the periods:

	For the year ended December 31,		
	2016	2015	2014
Operating revenues	\$ 506	\$ 2,304	\$ 3,773
Voyage expenses and commissions	\$ (627 )	\$ (2,004 )	\$ (1,103 )
Net operating revenues	\$ (121 )	\$ 300	\$ 2,670
Operating days	\$ 104	\$ 462	\$ 771
Time charter equivalent daily rate	\$ (1,163 )	\$ 649	\$ 3,463

(8) Average daily vessel operating expenses, which includes crew costs, provisions, deck and engine stores, lubricating oil, insurance, maintenance and repairs, is calculated by dividing vessel operating expenses by ownership days for the relevant time periods:

	For the year ended December 31,		
	2016	2015	2014
Vessel operating expenses (excluding dry-docking costs)	\$ 2,183	\$ 4,967	\$ 12,707

Ownership days	635	1,088	2,033
Daily vessel operating expense	\$ 3,438	\$ 4,565	\$ 6,250

Daily management fees are calculated by dividing total management fees (excluding stock-based compensation (9) charge and gain on shares issued to the Manager) paid on ships owned by ownership days for the relevant time period.

Average daily general and administrative expenses are calculated by dividing general and administrative expenses (10)(excluding stock-based compensation charge and gain on shares issued to the Manager) by ownership days for the relevant period.

Total vessel operating expenses, or TVOE, is a measurement of our total expenses associated with operating our (11)vessels. TVOE is the sum of vessel operating expenses and management fees. Daily TVOE is calculated by dividing TVOE by fleet ownership days for the relevant time period.

## Results of Operations

### *Year Ended December 31, 2016 as Compared to Year Ended December 31, 2015*

REVENUES - Operating revenues for the year ended December 31, 2016 were \$506 compared to \$2,304 for the year ended December 31, 2015. The decrease of \$1,798 is mainly attributable to the fact that the average number of vessels owned was 1.7 for the year ended December 31, 2016 compared to 3 for the year ended December 31, 2015. In addition, the charter rates during the year ended December 31, 2016 were substantially lower than 2015, which negatively affected our revenues.

VOYAGE EXPENSES AND COMMISSIONS - Voyage expenses, which include bunkers, cargo expenses, port expenses, port agency fees, tugs, extra insurance and various expenses, were \$609 for the year ended December 31, 2016, as compared to \$1,831 for the year ended December 31, 2015. The variance in voyage expenses reflects mainly the decreased replenishment of bunkers to the owners' account during the year ended December 31, 2016. For year ended December 31, 2016, commissions charged amounted to \$18, as compared to \$174 for the year ended December 31, 2015. The decrease in commissions is due to the decrease of operating revenues for the year ended December 31, 2016 compared to year ended December 31, 2015. The commission fees represent commissions paid to the Managers, other affiliated companies associated with family members of our CEO, and unaffiliated third parties relating to vessels chartered during the relevant periods.

OPERATING EXPENSES - Vessel operating expenses, which include dry-docking costs, crew cost, provisions, deck and engine stores, lubricating oil, insurance, maintenance and repairs, totaled \$2,183 in the year ended December 31, 2016, as compared to \$4,967 in the year ended December 31, 2015. The decrease in operating expenses was due to the fact that fewer vessels were owned in our fleet, 1.7 during the year ended December 31, 2016, as compared to 3 during the year ended December 31, 2015, resulting in the reduction of ownership days of our fleet to 635 days compared to 1,088 days in the same period of 2015.

DEPRECIATION AND AMORTIZATION - For the year ended December 31, 2016, depreciation expense was at \$1,939 as compared to \$3,585 in the year ended December 31, 2015. The decrease was due to the decrease of the average number of vessels owned referred in the "REVENUES" paragraph above.

MANAGEMENT FEES - Management fees for the year ended December 31, 2016 totaled \$702 as compared to \$1,070 in the year ended December 31, 2015. The \$368 decrease in management fees reflects the reduction of the number of vessels managed in our fleet.

**GENERAL AND ADMINISTRATIVE EXPENSES** - General and administrative expenses, which include, among other things, legal, audit, audit-related expenses, travel expenses, communications expenses, stock-based compensation charges and services fees and expenses charged by the Manager, totaled \$3,049 for the year ended December 31, 2016 as compared to \$4,252 for the year ended December 31, 2015. The decrease reflected the successful efforts of the Company to reduce the overhead expenses.

**PROVISION AND WRITE-OFFS OF INSURANCE CLAIMS AND BAD DEBTS** - For the years ended December 31, 2016 and 2015, the amounts were \$1,185 and \$525 respectively, which reflected the reversed provision and write-off of various long outstanding accounts receivable.

**LOSS ON COMMITMENT AND CONTINGENCY** - There was no corresponding amount in 2016. The Company, as of December 31, 2015, has recognized a contingency loss of \$2,000 on the repurchase commitment by writing-off \$2,000 on the Options Advance Payment.

**CONTRACTUAL DERIVATIVE OBLIGATION** - The Company, as of December 31, 2016, recognized, as a contractual derivative obligation, an expense of \$5,442 being the remaining balance of the put-option price of \$3,500 for the vessel Figaro, plus \$1,490 being the sale price of M/V Fiorello and \$452 due under its bareboat charter terms as of the date of its termination June 15, 2016.

**LOSS ON SALE OF VESSELS** - For the year ended December 31, 2016, as a result of the sale of M/V Free Maverick, the Company recognized a loss of \$277 in the accompanying consolidated statements of operations. There was no corresponding amount in 2015.

**FINANCING COSTS** - Financing costs amounted to \$3,632 and \$5,026 for the years ended December 31, 2016 and 2015, respectively. The decrease of the interest and financing costs incurred for the year ended December 31, 2016 as compared to the same period in 2015 was attributed to less amount of convertible debt net discount expensed for the year ended December 31, 2016.

NET LOSS - Net loss for the year ended December 31, 2016 was \$20,511 as compared to net loss of \$52,949 for the year ended December 31, 2015. The decrease of \$32,438 for the year ended December 31, 2016 was mainly due to the following one-off charges recorded in the year ended December 2015: (a) the loss due to capital lease write-off of \$3,058 recorded in the year ended December 31, 2015; (b) the impairment charge of \$18,891 for the M/V Free Maverick recorded as of December 31, 2015; (c) the loss on commitment and contingency of \$2,000 recorded as of December 31, 2015; (d) the contractual derivative obligation of \$3,000 recorded as of December 31, 2015 and (e) the loss of \$7,620 on sale of M/V Free Hero and M/V Free Goddess recorded as of December 31, 2015.

***Year Ended December 31, 2015 as Compared to Year Ended December 31, 2014***

REVENUES - Operating revenues for the year ended December 31, 2015 were \$2,304 compared to \$3,773 for the year ended December 31, 2014. The decrease of \$1,469 is mainly attributable to the fact that the M/V *Free Jupiter*, M/V *Free Impala*, and M/V *Free Hero* - M/V *Free Goddess* were sold on September 16, 2014, September 24, 2014 and on May 20, 2015, respectively. The Company's subsidiaries have entered into long-term bareboat agreements for the M/V *Free Hero* and M/V *Free Goddess* with purchase options at a daily hire rate of \$1,100 per vessel. The vessels have been renamed to *Fiorello* and *Figaro*, respectively. In addition, the charter rates during the year ended December 31, 2015 kept substantially decreasing, which negatively affected our revenues.

VOYAGE EXPENSES AND COMMISSIONS - Voyage expenses, which include bunkers, cargo expenses, port expenses, port agency fees, tugs, extra insurance and various expenses, were \$1,830 for the year ended December 31, 2015, as compared to \$829 for the year ended December 31, 2014. The variance in voyage expenses reflects mainly the increased replenishment of bunkers to the owners' account during the year ended December 31, 2015. For year ended December 31, 2015, commissions charged amounted to \$174, as compared to \$274 for the year ended December 31, 2014. The decrease in commissions is due to the decrease of operating revenues for the year ended December 31, 2015 compared to year ended December 31, 2014. The commission fees represent commissions paid to the Managers, other affiliated companies associated with family members of our CEO, and unaffiliated third parties relating to vessels chartered during the relevant periods.

OPERATING EXPENSES - Vessel operating expenses, which include dry-docking costs, crew cost, provisions, deck and engine stores, lubricating oil, insurance, maintenance and repairs, totaled \$4,967 in the year ended December 31, 2015, as compared to \$16,131 in the year ended December 31, 2014. The decrease in operating expenses was due to the fact that: (a) dry-docking costs of approximately \$3,500 were expensed in the year ended December 31, 2014 and (b) less vessels were owned in our fleet during the year ended December 31, 2015 resulting in the reduction of ownership days of our fleet to 1,088 days compared to 2,033 days in the same period of 2014.

DEPRECIATION AND AMORTIZATION - For the year ended December 31, 2015, depreciation expense was at \$3,585 as compared to \$5,320 in the year ended December 31, 2014. The decrease was due to the sale of the vessels

referred in the “REVENUES” paragraph above.

**MANAGEMENT FEES** - Management fees for the year ended December 31, 2015 totaled \$1,070 as compared to \$1,605 in the year ended December 31, 2014. The \$535 decrease in management fees reflects the reduction of the vessels managed in our fleet.

**GENERAL AND ADMINISTRATIVE EXPENSES** - General and administrative expenses, which include, among other things, legal, audit, audit-related expenses, travel expenses, communications expenses, stock-based compensation charges and services fees and expenses charged by Free Bulkers, totaled \$4,252 for the year ended December 31, 2015 as compared to \$4,104 for the year ended December 31, 2014.

**PROVISION AND WRITE-OFFS OF INSURANCE CLAIMS AND BAD DEBTS** - For the years ended December 31, 2015 and 2014, the amounts were \$525 and \$(872), respectively, which reflected the reversed provision and write-off of various long outstanding accounts receivable.

**LOSS ON COMMITMENT AND CONTINGENCY** - The Company, as of December 31, 2015, has recognized a contingency loss of \$2,000 on the repurchase commitment by writing-off \$2,000 on the Options Advance Payment.

**CONTRACTUAL DERIVATIVE OBLIGATION** - On November 22, 2015 the owners of the vessels Figaro and Fiorello exercised their put-option rights, pursuant to the terms of the bareboat charters. Consequently, the Company recognized as of December 31, 2015, an expense of additional \$3,300 as part of the put-option price.



**LOSS ON SALE OF VESSELS** - For the year ended December 31, 2015, as a result of the sale and lease back of the M/V *Free Hero* and the M/V *Free Goddess* renamed to *Fiorello* and *Figaro*, respectively, the Company recognized a loss of \$7,620 in the accompanying consolidated statements of operations for the year ended December 31, 2015.

**VESSEL IMPAIRMENT LOSS** - As of December 31, 2015, the Company performed an impairment assessment of its long-lived assets by comparing the undiscounted net operating cash flows for each vessel to its respective carrying value. The Company, as a result of the current unprecedented adverse market conditions the dry bulk industry faces and the substantial decline in the vessel market values, concluded to recognize an impairment charge of \$18,891 for the M/V *Free Maverick* during the year ended December 31, 2015, in the accompanying consolidated statement of operations.

**FINANCING COSTS** - Financing costs amounted to \$5,027 for the year ended December 31, 2015 and \$2,342 for the year ended December 31, 2014. The increase of the interest and financing costs incurred for the year ended December 31, 2015 as compared to the same period in 2014 was attributed to the convertible debt net discount of \$3,515 expensed for the year ended December 31, 2015.

**LOSS DUE TO CAPITAL LEASE WRITE-OFF** - For the year ended December 31, 2015, the Company recognized a loss of \$3,058 as a result of the settlement agreement on September 9, 2015 with regards to disputes that arose in connection with the notice of termination received by the Company relating to the bareboat charter agreement, dated September 11, 2014, for the M/V *Nemorino*.

**GAIN/(LOSS) ON INTEREST RATE SWAPS** - The Company is exposed to interest rate fluctuations associated with its variable rate borrowings and its objective is to manage the impact of such fluctuations on earnings and cash flows of its borrowings. In this respect, the Company partially used interest rate swaps to manage net exposure to interest rate fluctuations related to its borrowings. The Company was party of two interest rate swap agreements, which were fully unwound on February 3, 2014. The total of the change in fair value and settlements for the year ended December 31, 2015 and 2014 aggregate to losses of \$nil and \$21, respectively, which is separately reflected in "Loss on derivative instruments" in the accompanying consolidated statements of operations.

**NET LOSS** - Net loss for the year ended December 31, 2015 was \$52,949 as compared to net loss of \$12,688 for the year ended December 31, 2014. The increase of \$37,686 for the year ended December 31, 2015 was due to: (a) the gain on debt extinguishment of \$16,057, booked in the year ended December 31, 2014, as a result of the settlement of the Credit Suisse loan in May 2014; (b) the loss due to provision for claim of \$3,058 recorded in the year ended December 31, 2015; (c) the impairment charge of \$18,891 for the M/V *Free Maverick* recorded as of December 31, 2015; (d) loss on commitment and contingency of \$2,725 recorded as of December 31, 2015 and (e) the continuous decrease of charter rates during the year ended December 31, 2015, which negatively affected the Company's revenues.

## Liquidity and Capital Resources

The Company has historically financed its capital requirements from sales of equity or equity-linked securities, operating cash flows and long-term borrowings. As of December 31, 2016, its bank borrowing with NBG its standalone lender, totaled \$17,598. The Company has primarily used its funds for capital expenditures to maintain its fleet, comply with international shipping standards and environmental laws and regulations, and fund working capital requirements.

As a result of the historically low charter rates for drybulk vessels, which have affected the Company for over six years, and the resulting material adverse impact on the Company's results from operations, the accompanying consolidated financial statements have been prepared on a going concern basis. The Company has incurred net losses of \$20,511, \$52,949 and \$12,688 during the years ended December 31, 2016, 2015 and 2014, respectively. The Company's cash flow projections for 2017, indicate that cash on hand will not be sufficient to cover debt repayments scheduled as of December 31, 2016 and operating expenses and capital expenditure requirements for at least twelve months from the balance sheet date. As of December 31, 2016 and 2015, the Company had working capital deficits of \$35,715 and \$34,065, respectively. All of the above raises substantial doubt regarding the Company's ability to continue as a going concern. Management plans to continue to provide for its capital requirements by issuing additional equity securities and debt in addition to executing their business plan. The Company's ability to continue as a going concern is dependent upon its ability to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal course of business operations when they come due and to generate profitable operations in the future.

On February 22, 2014, the Company and certain of its subsidiaries entered into terms with NBG for settlement of its obligations arising from the loan agreement with NBG. Pursuant to the terms, NBG agreed to accept a cash payment of \$22,000 no later than December 31, 2014, in full and final settlement of all of the Company's obligations to NBG and NBG would forgive the remaining outstanding balance of approximately \$4,700. On September 17, 2014 the Company made a payment of \$2,700 to reduce outstanding indebtedness with NBG. On September 24, 2014, the Company sold the M/V Free Impala, a 1997-built, 24,111 dwt Handysize dry bulk carrier for a gross sale price of \$3,600 and the vessel was delivered to her new owners. Subsequently, the amount of \$3,300 had been used to reduce outstanding indebtedness with NBG, which had a mortgage on the vessel. The agreed settlement of the Company's obligations, arising from the loan agreement with NBG mentioned above, was not realized and negotiations have resumed for a new agreement. On June 18, 2015, the Company received from NBG a reservation of rights letter stating that the Bank may take any actions and may exercise all of their rights and remedies referred in the security documents. In December 2016, the Company received notification from NBG that the Company has not paid the aggregate amount of \$23,956 constituting repayment installments, accrued loan and default interest due on December 16, 2016.

If the Company is not able to reach an agreement with NBG, this could lead to the acceleration of the outstanding debt under its debt agreement. The Company's failure to satisfy its covenants under its debt agreement and any consequent acceleration of its outstanding indebtedness would have a material adverse effect on the Company's business operations, financial condition and liquidity.

Generally accepted accounting principles require that long-term debt be classified as a current liability when a covenant violation gives the lender the right to call the debt at the balance sheet date, absent a waiver. As a result of the actual breach existing under the Company's credit facility with NBG acceleration of such debt by its lender could result. Accordingly, as of December 31, 2016, the Company is required to reclassify its long-term debt as current liability on its consolidated balance sheet since the Company has not received waiver in respect to the breach discussed above.

The Company is currently exploring several alternatives aiming to manage its working capital requirements and other commitments, including offerings of securities through structured financing agreements, disposition of certain vessels in its current fleet and additional reductions in operating and other costs.

## **Cash Flows**

*Year Ended December 31, 2016 as Compared to Year Ended December 31, 2015*

**OPERATING ACTIVITIES** - Net cash used in operating activities decreased by \$1,092 to \$8,873 for the year ended December 31, 2016, as compared to \$9,965 for the year ended December 31, 2015. The decrease reflected the lower number of vessels owned and in operation during the year ended December 31, 2016.

**FINANCING ACTIVITIES** - Net cash provided by financing activities for the year ended December 31, 2016 was \$7,233, as compared to \$6,489 for the year ended December 31, 2015. The increase reflects the cash provided as by the proceeds of convertible notes the Company sold during the year ended December 31, 2016.

**INVESTING ACTIVITIES** - Net cash provided by investing activities for the year ended December 31, 2016 was \$1,672, as compared to \$3,451 for the year ended December 31, 2015. The decrease reflects the sale of only one vessel compared to two vessels in the year ended December 31, 2015.

***Year Ended December 31, 2015 as Compared to Year Ended December 31, 2014***

**OPERATING ACTIVITIES** - Net cash used in operating activities decreased by \$9,628 to \$9,965 for the year ended December 31, 2015, as compared to \$19,593 for the year ended December 31, 2014. The decrease reflected the lower number of vessels owned and in operation in our fleet during the year ended December 31, 2015.

**FINANCING ACTIVITIES** - Net cash provided by financing activities for the year ended December 31, 2015 was \$6,489, as compared to \$2,815 for the year ended December 31, 2014. The cash was mainly provided as a result of the proceeds from the convertible notes the Company sold during the year ended December 31, 2015.

**INVESTING ACTIVITIES** - Net cash provided by investing activities for the year ended December 31, 2015 was \$3,451, as compared to \$14,872 for the year ended December 31, 2014. The decrease reflects the sale of two vessels compared to three vessels in the year ended December 31, 2014.

**Bank Loan - current portion**

As of December 31, 2016, the Company's bank debt is as follows:

	<b>NBG</b>
December 31, 2015	\$17,598
Additions	\$-
Payments	\$-
December 31, 2016	\$17,598

The remaining repayment terms of the loan outstanding as of December 31, 2016, is as follows:

Lender	Vessel	Remaining Repayment Terms
National Bank of Greece	<i>M/V Free Neptune</i>	The loan matured on December 16, 2016.

The vessel indicated in the above table is pledged as collateral for the respective loan.

The Company's credit facility with NBG bears interest at LIBOR plus a margin of 4%, and is secured by mortgage on the financed vessel (*M/V Free Neptune*) and assignments of vessel's earnings and insurance coverage proceeds. It also includes affirmative and negative financial covenants of the borrower, including maintenance of operating accounts, average cash balances to be maintained with the lending bank and minimum ratios for the fair value of the collateral vessel compared to the outstanding loan balance. The borrower is restricted under its respective loan agreement from incurring additional indebtedness, changing the vessel's flag without the lender's consent or distributing earnings.

The weighted average interest rate for the year ended December 31, 2016 and 2015 was 4% and 4%, respectively. Interest expense incurred under the above loan agreements amounted to \$1,467, \$1,237 and \$1,655 for the years ended December 31, 2016, 2015 and 2014, respectively, and is included in "Interest and Finance Costs" in the accompanying consolidated statements of operations.

*Credit Suisse Facility*

The Company and certain of its subsidiaries entered into an agreement with Credit Suisse, on May 28, 2014, whereby the Company agreed to pay to Credit Suisse approximately \$22,636 from the offering proceeds to eliminate all of its debt obligations owed to Credit Suisse, amounting to \$37,636 as of that date, and be discharged and released from any and all payment obligations (actual and contingent) owed and payable by the Company in respect of all amounts of principal, interest thereon, fees, costs and expenses under the credit Facility Agreement and Master Swap Agreement, both dated December 24, 2007 (as amended and/or supplemented and/or restated from time to time). Under the terms of this agreement Credit Suisse undertook, upon receipt of such payment, to cancel all the remaining debt of \$15,000 owed by the Company and to release (i) any and all liens it has on the assets of the Company and (ii) all corporate guarantees received from the Company's subsidiaries.

On May 30, 2014, the Company paid the amount of \$22,636 to Credit Suisse, as per the agreement above and received the relative Waiver of Debt and Deed of Release and Reassignment, which included the release of all first preferred mortgages, general assignments of collateral and charter assignments (relating to its vessels *M/V Free Jupiter*, *M/V Free Hero* and *M/V Free Goddess*) together with each vessel's release and reassignment of insurance, as well as the release of all first priority account pledges and guarantee agreements executed by its subsidiaries owning these vessels.

#### *NBG Facility*

On February 22, 2014, the Company and certain of its subsidiaries entered into terms with NBG for settlement of its obligations arising from the loan agreement with NBG. Pursuant to the terms, NBG agreed to accept a cash payment of \$22,000 no later than December 31, 2014, in full and final settlement of all of the Company's obligations to NBG and NBG would forgive the remaining outstanding balance of approximately \$4,700. On September 17, 2014, the Company made a payment of \$2,700 to reduce outstanding indebtedness with NBG. On September 24, 2014, the Company sold the *M/V Free Impala*, a 1997-built, 24,111 dwt Handysize dry bulk carrier for a gross sale price of \$3,600 and the vessel was delivered to her new owners. Subsequently, the amount of \$3,300 had been used to reduce outstanding indebtedness with NBG, which had a mortgage on the vessel. The agreed settlement of the Company's obligations, arising from the loan agreement with NBG mentioned above, was not realized and negotiations have resumed for a new agreement. On June 18, 2015, the Company received from NBG a reservation of rights letter stating that the Bank may take any actions and may exercise all of their rights and remedies referred in the security documents. In December 2016, the Company received notification from NBG that the Company has not paid the aggregate amount of \$23,956 constituting repayment installments, accrued loan and default interest due on December 16, 2016. The Company is currently in negotiations with the Bank to find an amicable solution for full and final settlement of all its obligations to the Bank.

### ***Loan Covenants***

As of December 31, 2015 and December 31, 2016, the Company was in breach of certain of its financial covenants for its loan agreement with NBG, including the loan-to-value ratio, interest cover ratio, minimum liquidity requirements and leverage ratio. Thus, in accordance with guidance related to classification of obligations that are callable by the creditor, the Company has classified all of the related long-term debt amounting to \$17,598 as current at December 31, 2016.

#### *NBG loan agreement:*

Average corporate liquidity: the Company is required to maintain an average corporate liquidity of at least \$3,000;

Leverage ratio: the corporate guarantor's leverage ratio shall not at any time exceed 55%;

Ratio of EBITDA to net interest expense shall not be less than 3; and

Value to loan ratio: the fair market value of the financed vessels shall be at least (a) 115% for the period July 1, 2010 to June 30, 2011 and (b) 125% thereafter.

The covenants described above are tested annually on December 31st.

### **Off-Balance Sheet Arrangements**

As of December 31, 2016, we did not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K promulgated by the SEC.

### **Summary of Contractual Obligations**

The following table summarizes our contractual committed obligations and their maturity dates as of December 31, 2016:

(Dollars in thousands)	Payments Due by Period						More than 5 years
	Total	Less					
		than 1 year	2-year	3-year	4-year	5-year	
	(U.S. dollars in thousands)						
Services fees to the Manager*	4,031	1,031	600	600	600	600	600
Management fees to the Managers	3,319	455	455	455	455	455	1,044
Hire on Leased Vessel	1,360	402	402	402	154	-	-
Total obligations	\$8,710	\$1,888	\$1,457	\$1,457	\$1,209	\$1,055	\$1,644

\*As of June 1, 2017, the services fees were reduced to \$50 per month from \$136.

The above table does not include our share of the monthly rental expenses for our offices of Euro 1.5 (in thousands) compared to Euro 8.7 (in thousands).



## Item 6. Directors, Senior Management and Employees

### A. Directors and Senior Management

The following sets forth the names of the members of our board of directors and our senior management. Generally, each member of the board of directors serves for a three-year term. Additionally, the directors are divided among three classes, so the term of office of a certain number of directors expires each year. Consequently, the number of directors who stand for re-election each year may vary. Our executive officers are appointed by, and serve at the pleasure of, the board of directors. The primary business address of each of our executive officers and directors is 6, Loukianou Street, 106 75, Athens, Greece.

Name	Age	Position	Term Expires
Ion G. Varouxakis	46	Chairman of the Board of Directors, Chief Executive Officer and President	2017
Dimitris Papadopoulos	72	Chief Financial Officer, Secretary and Director	2019
Dimitris Filippas	40	Deputy Chief Financial Officer, Treasurer and Director	2018

*Ion G. Varouxakis* is one of our founders and is the Chairman of our Board of Directors. He also serves as our President and Chief Executive Officer. In 2003, Mr. Varouxakis founded Free Bulkers, the beginning of a single-vessel, self-financed entrepreneurial venture that led to FreeSeas' founding and NASDAQ listing in 2005. Prior to founding Free Bulkers, Mr. Varouxakis held since 1997 management positions in private shipping companies operating in the drybulk sector. Mr. Varouxakis holds a candidature degree in law from the Catholic University of Saint Louis in Brussels and a Bachelor of Science degree in economics from the London School of Economics and Political Science. Mr. Varouxakis is a member of the Hellenic Committee of the Korean Register of Shipping, a member of the Hellenic and Black Sea Committee of Bureau Veritas and an officer of the reserves of the Hellenic Army.

*Dimitris D. Papadopoulos* became our chief financial officer in November 2013 having served in the same position from 2007 to 2008, and joined the Board of Directors in December 2016. Mr. Papadopoulos started his career with Citigroup in New York from 1968 to 1970, in the European credit division, and was later posted in Athens from 1970 to 1975, where he left as general manager of corporate finance to join Archirodon Group Inc. There he served as financial and administration vice president from 1975 to 1991, which included the financial supervision of the Group's shipping division, the Konkar Group. He served as chairman and chief executive officer of the group's U.S. arm, Delphinance Development Corp. from 1984 to 1991. In addition to its real estate development, oil and gas development and venture capital investments, Delphinance owned several U.S. contracting companies engaged in both the public and private sectors with special expertise in harbor and marine works. In 1991, he assumed the position of managing director of Dorian Bank, a full-charter commercial and investment bank in Greece, where he served until 1996. From 1996 until 1998 and from 2000 until 2001, he was a freelance business consultant. From 1998

to 1999, he served as managing director of Porto Carras S.A., a resort hotel in Northern Greece. Later, as executive vice president at the Hellenic Investment Bank, from 1999 to 2000, he was responsible for developing the bank's new banking charter formation, obtaining charter approval, and organizing, staffing and commencing banking operations. From 2004 until April 2007, Mr. Papadopoulos served as president of Waterfront Developments S.A. As a Fullbright grantee, Mr. Papadopoulos studied economics at Austin College, Texas (B.A. and "Who's Who Amongst Students in American Colleges and Universities" - 1968) and did graduate studies at the University of Delaware. In 1974, he received an executive business diploma from Cornell University, Ithaca, N.Y.

*Dimitris K. Filippas* became our Deputy Chief Financial Officer in November 2013 and joined the Board of Directors in February 2017. Mr. Filippas has been the Finance Manager for Free Bulkers S.A. since 2007. Mr. Filippas has substantial experience in the ship finance field. He holds a BSc in Banking and International Finance from Cass Business School and a Master's Degree in Shipping Business and Finance with Distinction from LGU.

## **B. Compensation**

### *Director Compensation*

The total gross cash compensation paid for each of the years ended December 31, 2015 and 2016 to our directors was \$nil. Starting from the fourth quarter in 2015, we have reduced the fee we pay to each of our non-executive directors to \$3 per quarter, except that if the U.S. Dollar/Euro exchange rate exceeds 1.35 on the last business day of each quarter, then the amount of the directors' fees payable for that quarter will be increased so that the amount payable in U.S. Dollars will be the equivalent in Euros based on a 1.35 U.S. Dollar/Euro exchange rate. Our directors received shares of common stock in addition to directors' fees in 2013.

### *Management Compensation*

The Company currently does not pay any cash compensation to the Company's executive officers, including our President and Chief Executive Officer, our Chief Financial Officer and our Deputy Financial Officer. Instead, the Company has entered into restated new services agreements with one of the Managers, pursuant to which the Company pays the Manager a monthly fee of \$50 for services related to accounting, financial reporting, implementation of Sarbanes-Oxley internal controls procedures, and general administrative and management services, including the services of the Company's President and Chief Executive Officer and Chief Financial Officer, plus expenses.

### *Compensation Discussion and Analysis*

As described above, we do not directly retain the services of our President and Chief Executive Officer, our Chief Financial Officer and our Deputy Financial Officer. Instead, their services are provided pursuant to the terms of a new services agreement with one of the Managers. Pursuant to the terms of this services agreement, we pay the Manager a monthly fee of \$50 (on the basis that the dollar/Euro exchange rate is 1.35 or lower; if on the last business day of each month the dollar/Euro exchange rate exceeds 1.35 then the service fee payable will be adjusted for the following month in question, so that the amount payable in dollars will be the equivalent in Euro based on 1.35 dollar/Euro exchange rate) as compensation for services related to accounting, financial reporting, implementation of Sarbanes-Oxley internal controls procedures, and general administrative and management services, plus expenses. The Managers are also entitled to a termination fee if the agreements are terminated upon a "change of control" as defined in the services agreements. See "Certain Relationships and Related Transactions—Manager."

In determining the amount to be paid to the Managers under the services agreement, our Board of Directors considers the costs incurred and expected to be incurred by the Managers in providing the services within industry standards.

From time to time, the compensation committee also considers the appropriateness of granting to our directors, executive officers and certain key employees of the Managers restricted shares of our common stock, subject to vesting requirements, in order to align the interest of our directors, executive officers and such key employees with those of our shareholders. In determining the amount of these grants, the compensation committee considers the then-current market price of our common stock, the aggregate share holdings of our directors, management and key employees of the Managers, the results of the Company's operations for the year, and the contribution of the Board, management and the Managers to the Company's results.

On March 14, 2016, the Company, pursuant to the unanimous written consent of the Board of Directors, issued 10 common shares to the Manager, for settling \$250, part of unpaid amount due in connection with services provided to the Company by the Manager. The common shares issued were valued at the consolidated closing bid price of the common stock at the day of the issuance.

### **C. Board Practices**

The term of our Class A director expires in 2018, the term of our Class B director expires in 2019 and the term of our Class C director expires in 2017. There are no agreements between us and any director that provide for benefits upon termination or retirement.

### **Board Responsibilities, Structure and Requirements**

Our Board of Directors oversees, counsels and directs management in our long-term interests and those of our shareholders. The Board's responsibilities include:

Evaluating the performance of, and selecting, our President and Chief Executive Officer and our other executive officers;

Reviewing and approving our major financial objectives and strategic and operating plans, business risks and actions;

Overseeing the conduct of our business to evaluate whether the business is being effectively managed; and

Overseeing the processes for maintaining the integrity of our financial statements and other publicly disclosed information in compliance with law.

Ion G. Varouxakis serves as both Chairman of the Board and as our President and Chief Executive Officer. The Board believes that the combined role of Chairman of the Board and President and Chief Executive Officer is the appropriate leadership structure for us at this time. This leadership model provides efficient and effective leadership of our business, and the Board believes Mr. Varouxakis is the appropriate person to lead both our Board and the management of our business.

We encourage our directors to attend formal training programs in areas relevant to the discharge of their duties as directors. We reimburse directors for all expenses they incur in attending such programs.

All of our directors are expected to comply with our Code of Business Conduct and Ethics and our Insider Trading Policy.

### **Director Independence**

Our securities are listed on the OTCQB and we are not required to have any independent directors. The Board of Directors has determined that none of our current directors is an “independent director” within the meaning of the listing requirements of NASDAQ. The NASDAQ independence definition includes a series of objective tests, such as that the director is not our employee and has not engaged in various types of business dealings with us. As a result of our financial condition, we no longer have any independent directors and rely upon our management to also serve on the Board without additional compensation.

### **Meetings and Committees of the Board of Directors**

The Board and its committees meet throughout the year generally on a quarterly schedule, and hold special meetings and act by written consent from time to time as appropriate. During the fiscal year ended December 31, 2016, our Board of Directors held one meeting and also approved certain actions by unanimous written consent. All of our directors attended at least 75% of the meetings of the Board of Directors and applicable committees on which they served. We strongly encourage all directors to attend our annual meeting of Shareholders, but we have no specific policy requiring attendance by directors at such meetings.

The Board delegates various responsibilities and authority to different Board committees. Committees regularly report on their activities and actions to the full Board. The committees of the Board of Directors are the audit committee, the compensation committee, the corporate governance committee, and the nominating committee. The Board has determined that none of the members of the audit committee, compensation committee, corporate governance committee and nominating committee is an independent director in accordance with the standards adopted by the NASDAQ Stock Market. Our Board or the applicable committee has adopted written charters for the audit, compensation, nominating and corporate governance committees and has adopted corporate governance guidelines that address the composition and duties of the Board and its committees. The charters for the audit, compensation, corporate governance and nominating committees and corporate governance guidelines are posted in the “Corporate Governance” section of our website at [www.freeseas.gr](http://www.freeseas.gr), and each is available in print, without charge, to any shareholder. Each of the committees has the authority to retain independent advisors and consultants, with all fees and

expenses to be paid by us.

#### *Audit Committee*

Our audit committee consists of Messrs. Varouxakis, Papadopoulos and Filippas, none of whom is an independent director. Mr. Papadopoulos has been designated the “Audit Committee Financial Expert” under the SEC rules.

The audit committee has powers and performs the functions customarily performed by such a committee (including those required of such a committee under the SEC). The audit committee is responsible for selecting and meeting with our independent registered public accounting firm regarding, among other matters, audits and the adequacy of our accounting and control systems.

#### *Compensation Committee*

Our compensation committee consists of Messrs. Varouxakis, Papadopoulos and Filippas, none of whom is an independent director. The compensation committee reviews and approves the equity compensation of our executive officers. Currently, we do not pay cash compensation to our executive officers. We have entered into services agreements with the Managers, which are entities beneficially owned by Mr. Varouxakis, pursuant to which they provide us services related to accounting, financial reporting, implementation of Sarbanes-Oxley internal control over financial reporting procedures and general administrative and management services.

#### *Nominating Committee*

Our nominating committee consists of Messrs. Varouxakis, Papadopoulos and Filippas, none of whom is an independent director. The nominating committee is responsible for overseeing the selection of persons to be nominated to serve on our board of directors.

In connection with the selection and nomination process, the nominating committee, along with the full Board of Directors, shall consider and determine the desired experience, mix of skills and other qualities necessary to assure appropriate Board composition, taking into account the current Board members and the specific needs of the Company and the Board. The criteria for selecting directors includes such factors as (i) the candidate's ability to comprehend the Company's strategic goals and to help guide the Company towards the accomplishment of those goals; (ii) the history of the candidate in conducting his/her personal and professional affairs with the utmost integrity and observing the highest standards of values, character and ethics; (iii) the candidate's time availability for in-person participation at Board and committee meetings; (iv) the candidate's judgment and business experience with related businesses or other organizations of comparable size; (v) the knowledge and skills the candidate would add to the Board and its committees, including the candidate's knowledge of the rules and regulations of the SEC and the NASDAQ Stock Market, and accounting and financial reporting requirements; (vi) the candidate's ability to satisfy the criteria for independence established by the SEC and the NASDAQ Stock Market; and (vii) the interplay of the candidate's experience with the experience of other Board members.

Although the Company does not have a formal procedure, the nominating committee will consider all candidates recommended by the Company's shareholders. The Company is relatively small and our shares of common stock are not widely held. As a result, the Company does not believe the adoption of a formal policy for consideration of shareholder nominees is appropriate at this time.

#### ***Corporate Governance Committee***

Our corporate governance committee consists of Messrs. Varouxakis, Papadopoulos and Filippas, none of whom is an independent director. The corporate governance committee ensures that we have and follow appropriate governance standards.

#### **Shareholder Communication with the Board of Directors**

Although our Board of Directors has not adopted a formal procedure for shareholders to communicate in writing with members of the Board of Directors, any such communications received by the Company will be forwarded to our Board of Directors. Because our Board of Directors is relatively small, and our shares of common stock are not widely held, the Company has not deemed it necessary to adopt a formal communication procedure at this time.

#### **Corporate Governance Guidelines**

The Board has adopted Corporate Governance Guidelines. The corporate governance committee is responsible for overseeing these guidelines and making recommendations to the Board concerning corporate governance matters. Among other matters, the guidelines address the following items concerning the Board and its committees:

Director qualifications generally and guidelines on the composition of the Board and its committees;

Director responsibilities and the standards for carrying out such responsibilities;

Board committee requirements;

Director compensation;

Director access to management and independent advisors;

Director orientation and continuing education requirements; and

CEO evaluation, management succession and CEO compensation.

### **Role of Board in Risk Oversight**

We have a risk management process in which management is responsible for managing our risks and the Board and its committees provide review and oversight in connection with these efforts. Risks are identified, assessed and managed on an ongoing basis by management and addressed during periodic senior management meetings, resulting in both Board and committee discussions and public disclosure, as appropriate. The Board is responsible for overseeing management in the execution of its risk management responsibilities and for reviewing our approach to risk management. The Board administers this risk oversight function either through the full Board or through one of its standing committees, each of which examines various components of our enterprise risks as part of its responsibilities. An overall review of risk is inherent in the Board's consideration of our long and short term strategies, acquisitions and significant financial matters. The audit committee oversees financial risks (including risks associated with accounting, financial reporting, enterprise resource planning, and collectability of receivables), legal and compliance risks and other risk management functions. The other Board committees are involved in the risk assessment process as needed.



## **Code of Conduct and Ethics**

We have adopted a code of conduct and ethics applicable to our directors, officers and employees in accordance with applicable federal securities laws.

## **D. Employees**

We currently have no employees. Our Managers are responsible for employing all of the executive officers and staff to execute and supervise our operations based on the strategy devised by the Board of Directors and subject to the approval of our Board of Directors and for recruiting, and employing, either directly or through a crewing agent, the senior officers and all other crew members for our vessels.

## **2014 Equity Incentive Plan**

On July 30, 2014, the Company's Board of Directors approved the Company's 2014 Equity Incentive Plan (the "2014 Plan"). Under the terms of the 2014 Plan, the Company may issue (1) stock options (incentive and non-statutory), (2) restricted stock, (3) stock appreciation rights, or SARs, (4) restricted stock units, or RSUs, (5) other stock-based awards, and (6) cash-based awards. The Board determines the exercise price, vesting and expiration period of the grants under the 2014 Plan. However, the exercise price of an incentive stock option may not be less than 110% of fair value of the common stock at the date of the grant for a 10% or more shareholder and 100% of fair value for a grantee who is not a 10% shareholder. The fair value of the common stock is determined based on quoted market price or in absence of such quoted market price, by the Board in good faith. Additionally, the vesting period of the grants under the 2014 Plan may not be more than five years and expiration period not more than ten years.

Pursuant to the plan, there are no shares of the Company's common stock available for grant as of December 31, 2016.

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

### **A. Major Shareholders**

None.

## **B. Related Party Transactions**

### *Managers*

The vessels owned and the vessels sold and leased back by the Company receive management services from the Managers pursuant to ship management agreements between each of the subsidiaries and the Managers.

Each of the Company's subsidiaries pays, as per its management agreement with the Managers, a monthly management fee of \$19 (on the basis that the \$/Euro exchange rate is 1.30 or lower; if on the first business day of each month the \$/Euro exchange rate exceeds 1.30 then the management fee payable will be increased for the month in question, so that the amount payable in \$ will be the equivalent in Euro based on 1.30 \$/Euro exchange rate) plus a fee of \$400 per day for superintendent attendance and other direct expenses.

The Company also pays Managers a fee equal to 1.25% of the gross freight or hire from the employment of the Company's vessels. In addition, the Company pays a 1% commission on the gross purchase price of any new vessel acquired or the gross sale price of any vessel sold by the Company with the assistance of the Managers. On February 18, 2014 the Company sold the M/V Free Knight, a 1998-built, 24,111 dwt Handysize dry bulk carrier for a gross sale price of \$3,600 and the vessel was delivered to her new owners. In this respect, the Company paid the Managers \$36 relating to the sale of the M/V Free Knight during the year ended December 31, 2014.

On September 16, 2014, the Company sold the M/V Free Jupiter a 2002-built, 47,777 dwt Handymax dry bulk carrier for a gross sale price of \$12,250 and subsequently entered into a long term bareboat charter with the vessel's new owners. In this respect, the Company paid the Managers \$122 relating to the sale of the M/V Free Jupiter during the year ended December 31, 2014. The vessel has been renamed to Nemorino and chartered by the Company for seven years at a rate of \$5,325 per day on bareboat charter terms typical for this type of transaction which grant the Company the full commercial utilization of the vessel against payment of the charter rate to its owners. On September 9, 2015, a settlement agreement was executed by the Company and the owners of M/V Nemorino with regards to disputes that arose in connection with the bareboat charter dated September 11, 2014. According to the terms of the settlement agreement, both the Company and the owners of M/V Nemorino released each other from any claim, discontinued the arbitration proceedings and agreed that the Company is entitled to receive, upon sale of the M/V Nemorino by its owners to a buyer acting in cooperation or associated with the Company, 20% of any net sale proceeds above \$7,000, such milestone amount to be reduced by any net profits resulting from any operations of the vessel prior to a sale.

On September 24, 2014, the Company sold the M/V Free Impala, a 1997-built, 24,111 dwt Handysize dry bulk carrier for a gross sale price of \$3,600 and the vessel was delivered to her new owners. Substantially all the proceeds have been used to reduce outstanding indebtedness with NBG, which had a mortgage on the vessel. In this respect, the Company paid the Managers \$36 relating to the sale of the M/V Free Impala during the year ended December 31, 2014.

On September 26, 2016, the Company sold to unrelated third parties the M/V Free Maverick, a 1998-built, 23,994 dwt Handysize dry bulk carrier for a gross sale price of \$1,925. As a result of the sale the Company recognized a loss of \$277. In this respect, the Company paid the Managers \$19 relating to the sale of the M/V Free Maverick during the year ended December 31, 2016.

In addition, the Company has incurred commission expenses relating to its commercial agreement with the Managers amounting to \$6, \$35, and \$36 for the year ended December 31, 2016, 2015 and 2014, respectively, included in "Commissions" in the accompanying consolidated statements of operations.

On May 20, 2015, the M/V Free Hero, 1995-built, 24,318 dwt Handysize dry bulk carrier and the M/V Free Goddess, 1995-built, 22,051 dwt Handysize dry bulk carrier, were sold for a gross sale price of \$5,500 each, and the Company's subsidiaries have entered into long-term bareboat agreements for such vessels with purchase options at a daily hire rate of \$1,100 per vessel. The vessels have been renamed to Fiorello and Figaro, respectively.

On March 14, 2016, the Company, pursuant to the unanimous written consent of the Board of Directors, issued 10 common shares to the Manager, for settling \$250, part of unpaid amount due in connection with services provided to the Company by the Manager. The common shares issued were valued at the consolidated closing bid price of the

common stock at the day of the issuance.

The Company also pays, as per its services agreement with the Managers, a monthly fee of \$50 effective June 1, 2017 (on the basis that the \$/Euro exchange rate is 1.35 or lower; if on the last business day of each month the \$/Euro exchange rate exceeds 1.35 then the service fee payable will be adjusted for the following month in question, so that the amount payable in dollars will be the equivalent in Euro based on 1.35 \$/Euro exchange rate) as compensation for services related to accounting, financial reporting, implementation of Sarbanes-Oxley internal control over financial reporting procedures and general administrative and management services plus expenses. The Manager is entitled to a termination fee if the agreement is terminated upon a “change of control” as defined in its services agreement with the Manager. The termination fee as of December 31, 2016, would be approximately \$59,959.

Fees and expenses charged by the Managers are included in the Company’s consolidated financial statements in “Management and other fees to a related party,” “General and administrative expenses,” “Operating expenses,” and “Loss on sale of vessel”. The total amounts charged for the year ended December 31, 2016, 2015, and 2014 amounted to \$2,344 (\$702 of management fees, \$1,635 of services fees, \$nil of superintendent fees and \$7 for other expenses), \$2,800 (\$1,070 of management fees, \$1,635 of services fees, \$88 of superintendent fees and \$7 for other expenses) and \$3,528 (\$1,605 of management fees, \$1,650 of services fees, \$265 of superintendent fees and \$8 for other expenses), respectively.

The balance due from the Managers as of December 31, 2016 and December 31, 2015 was \$nil. The amount paid to the Manager for office space during the year ended December 31, 2016, 2015 and 2014 was \$139, \$140 and \$148, respectively, and is included in “General and administrative expenses” in the consolidated statements of operations. The balance due to the Managers as December 31, 2016 and December 31, 2015 was \$2,107 and \$713, respectively, and is included in the “Management and other fees to a related party” in the consolidated statements of operations.

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

Not required.

**Item 8. Financial Information****A. Consolidated Statements and Other Financial Information.**

Please see “Item 18. Financial Statements” for a list of the financial statements filed as part of this annual report.

**B. Significant Changes**

Except as described in this annual report, since the date of the annual financial statements included in this annual report, no significant changes have occurred to our financial condition.

**Item 9. The Offer and Listing****A. Offer and Listing Details**

The closing high and low sales prices of our common stock as reported by the NASDAQ Stock Market or the OTCQB Market, as applicable, for the years, quarters and months indicated, are as follows (adjusted to give effect of our (i) one share for ten (10) share reverse stock split that was effective on February 14, 2013, (ii) the one share for five (5) share reverse stock split that was effective on December 2, 2013, (iii) the one share for seven and one-half share (7.5) reverse stock split that was effective on May 11, 2015, (iv) the one share for fifty (50) share reverse stock split that was effective on June 26, 2015, (v) the one share for sixty (60) share reverse stock split that was effective on January 15, 2016, (vi) the one share for two hundred (200) share reverse stock split that was effective on April 14, 2016, and (vii) the one share for five thousand (5,000) share reverse stock split that was effective on February 7, 2017):

For the Years Ended:	Common Stock	
	High	Low
December 31, 2012	\$2,081,250,000,000.00	\$78,750,000,000.00
December 31, 2013	652,500,000,000.00	19,125,000,000.00
December 31, 2014	54,900,000,000.00	1,575,000,000.00
December 31, 2015	1,200,000.00	600,000.00
December 31, 2016	160,000.00	1.50

For the Quarters Ended:	Common Stock	
	High	Low
June 30, 2015	\$228,000,000.00	\$140,000,000.00

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September 30, 2015	1,200,000.00	600,000.00
December 31, 2015	4,200,000.00	600,000.00
March 31, 2016	160,000.00	20,000.00
June 30, 2016	14,400.00	121.00
September 30, 2016	149.00	14.25
December 31, 2016	23.25	1.50
March 31, 2017	2.00	0.01
June 30, 2017	0.01	0.003

For the Months Ended:	Common Stock	
	High	Low
January 31, 2017	\$2.00	\$1.00
February 28, 2017	1.50	0.12
March 31, 2017	0.10	0.01
April 30, 2017	0.01	0.01
May 31, 2017	0.01	0.003
June 30, 2017	0.008	0.003

**B. Plan of Distribution**

Not applicable.

**C. Markets**

Our common stock began trading on the OTC Pink market on June 16, 2017 under the trading symbol “FREEF.” Between April 22, 2016 and June 15, 2016, our common stock traded on the OTCQB market under the trading symbol “FREEF.” Between February 26, 2013 and April 21, 2016, our common stock traded on the NASDAQ Capital Market under the trading symbol “FREE.” Prior to that time, our common stock traded on the NASDAQ Global Market between November 8, 2007 and February 25, 2013 under the trading symbol “FREE.” Prior to that time, our common stock was traded on the NASDAQ Capital Market under the symbol “FREE.”

**D. Selling Shareholders**

Not required.

**E. Dilution**

Not required.

**F. Expenses of the Issue**

Not required.

**Item 10. Additional Information**

**A. Share Capital**

Not required.

**B. Memorandum and Articles of Association**

The information required herein was provided in the Registration Statement on Form F-1 (File No. 333-145203), the report on Form 6-K dated October 22, 2009, both previously filed by us with the Securities and Exchange Commission and incorporated herein by reference, and filed herewith as Exhibit 1.5.

One million shares of our preferred stock have been designated Series A Participating Preferred Stock in connection with our adoption of a shareholder rights plan as described below.

## **Shareholder Rights Plan**

### *General*

Each share of our common stock includes a right that entitles the holder to purchase from us a unit consisting of one-thousandth of a share of our Series A participating preferred stock at a purchase price of approximately \$20 trillion per unit, subject to specified adjustments. The rights are issued pursuant to a rights agreement between us and American Stock Transfer & Trust Company, LLC, as rights agent. Until a right is exercised, the holder of a right will have no rights to vote or receive dividends or any other shareholder rights.

The rights may have anti-takeover effects. The rights will cause substantial dilution to any person or group that attempts to acquire us without the approval of our board of directors. As a result, the overall effect of the rights may be to render more difficult or discourage any attempt to acquire us. Because our board of directors can approve a redemption of the rights or a permitted offer, the rights should not interfere with a merger or other business combination approved by our board of directors.

We have summarized the material terms and conditions of the rights agreement and the rights below. For a complete description of the rights, we encourage you to read the rights agreement, which we have filed as an exhibit to this annual report.



*Detachment of the Rights*

The rights are attached to all certificates representing our outstanding common stock and will attach to all common stock certificates we issue prior to the rights distribution date that we describe below. The rights are not exercisable until after the rights distribution date and will expire at the close of business on the tenth anniversary date of the adoption of the rights plan, unless we redeem or exchange them earlier as described below. The rights will separate from the common stock and a rights distribution date will occur, subject to specified exceptions, on the earlier of the following two dates:

10 days following a public announcement that a person or group of affiliated or associated persons or an “acquiring person” has acquired or obtained the right to acquire beneficial ownership of 15% or more of our outstanding common stock; or

10 business days following the start of a tender or exchange offer that would result, if closed, in a person becoming an “acquiring person.”

Existing shareholders and their affiliates are excluded from the definition of “acquiring person” for purposes of the rights, and therefore their ownership or future share acquisitions cannot trigger the rights. Specified “inadvertent” owners that would otherwise become an acquiring person, including those who would have this designation as a result of repurchases of common stock by us, will not become acquiring persons as a result of those transactions.

Our board of directors may defer the rights distribution date in some circumstances, and some inadvertent acquisitions will not result in a person becoming an acquiring person if the person promptly divests itself of a sufficient number of shares of common stock.

Until the rights distribution date:

our common stock certificates will evidence the rights, and the rights will be transferable only with those certificates; and

any new shares of common stock will be issued with rights and new certificates will contain a notation incorporating the rights agreement by reference.

As soon as practicable after the rights distribution date, the rights agent will mail certificates representing the rights to holders of record of common stock at the close of business on that date. After the rights distribution date, only

separate rights certificates will represent the rights.

We will not issue rights with any shares of common stock we issue after the rights distribution date, except as our board of directors may otherwise determine.

#### *Flip-In Event*

A “flip-in event” will occur under the rights agreement when a person becomes an acquiring person. If a flip-in event occurs and we do not redeem the rights as described under the heading “—Redemption of Rights” below, each right, other than any right that has become void, as described below, will become exercisable at the time it is no longer redeemable for the number of shares of common stock, or, in some cases, cash, property or other of our securities, having a current market price equal to two times the exercise price of such right.

If a flip-in event occurs, all rights that then are, or in some circumstances that were, beneficially owned by or transferred to an acquiring person or specified related parties will become void in the circumstances the rights agreement specifies.

#### *Flip-Over Event*

A “flip-over event” will occur under the rights agreement when, at any time after a person has become an acquiring person:

we are acquired in a merger or other business combination transaction; or

50% or more of our assets, cash flows or earning power is sold or transferred.

If a flip-over event occurs, each holder of a right, other than any right that has become void as we describe under the heading “—Flip-In Event” above, will have the right to receive the number of shares of common stock of the acquiring company having a current market price equal to two times the exercise price of such right.

### *Antidilution*

The number of outstanding rights associated with our common stock is subject to adjustment for any stock split, stock dividend or subdivision, combination or reclassification of our common stock occurring prior to the rights distribution date. With some exceptions, the rights agreement does not require us to adjust the exercise price of the rights until cumulative adjustments amount to at least 1% of the exercise price. It also does not require us to issue fractional shares of our preferred stock that are not integral multiples of one one-hundredth of a share, and, instead we may make a cash adjustment based on the market price of the common stock on the last trading date prior to the date of exercise. The rights agreement reserves us the right to require, prior to the occurrence of any flip-in event or flip-over event that, on any exercise of rights, that a number of rights must be exercised so that we will issue only whole shares of stock.

### *Redemption of Rights*

At any time until 10 days after the date on which the occurrence of a flip-in event is first publicly announced, we may redeem the rights in whole, but not in part, at a redemption price of \$0.01 per right. The redemption price is subject to adjustment for any stock split, stock dividend or similar transaction occurring before the date of redemption. At our option, we may pay that redemption price in cash, shares of common stock or any other consideration our board of directors may select. The rights are not exercisable after a flip-in event until they are no longer redeemable. If our board of directors timely orders the redemption of the rights, the rights will terminate on the effectiveness of that action.

### *Exchange of Rights*

We may, at our option, exchange the rights (other than rights owned by an acquiring person or an affiliate or an associate of an acquiring person, which have become void), in whole or in part. The exchange must be at an exchange ratio of one share of common stock per right, subject to specified adjustments at any time after the occurrence of a flip-in event and prior to:

any person other than our existing shareholders becoming the beneficial owner of common stock with voting power equal to 50% or more of the total voting power of all shares of common stock entitled to vote in the election of directors; or

the occurrence of a flip-over event.

*Amendment of Terms of Rights*

While the rights are outstanding, we may amend the provisions of the rights agreement only as follows:

to cure any ambiguity, omission, defect or inconsistency;

to make changes that do not adversely affect the interests of holders of rights, excluding the interests of any acquiring person; or

to shorten or lengthen any time period under the rights agreement, except that we cannot change the time period when rights may be redeemed or lengthen any time period, unless such lengthening protects, enhances or clarifies the benefits of holders of rights other than an acquiring person.

At any time when no rights are outstanding, we may amend any of the provisions of the rights agreement, other than decreasing the redemption price.

**C. Material Contracts**

None.

**D. Exchange Controls.**

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

## **E. Taxation.**

The following is a discussion of the material Marshall Islands and United States federal income tax consequences relevant to a U.S. Holder, as defined below, of our common stock. This discussion does not purport to deal with the tax consequences of owning common stock to all categories of investors, some of which, such as dealers in securities, investors whose functional currency is not the United States dollar, and investors that own, actually or under applicable constructive ownership rules, 10% or more of the voting power of our stock, may be subject to special rules. This discussion deals only with U.S. Holders that hold the common stock as a capital asset. You are encouraged to consult your own tax advisors concerning the overall tax consequences arising in your own particular situation under United States federal, state, local or foreign law of the ownership of common stock. **The discussion is not intended, and should not be construed, as legal or professional tax advice and does not exhaust all possible tax considerations.**

### **Marshall Islands Tax Consequences**

We are incorporated in the Marshall Islands. Under current Marshall Islands law, we are not subject to tax on income or capital gains, and no Marshall Islands withholding tax will be imposed upon payments of dividends by us to our stockholders provided such stockholders are not residents of the Marshall Islands. Holders of our common stock who are not residents of, domiciled in, or carrying on any commercial activity in the Marshall Islands will not be subject to Marshall Islands tax on the sale or other disposition of our common stock.

### **United States Federal Income Tax Consequences**

The following are the material United States federal income tax consequences to us of our activities and to U.S. Holders and Non-U.S. Holders, each as defined below, of the ownership and disposition of our common stock. The following discussion of United States federal income tax matters is based on the United States Internal Revenue Code of 1986, as amended, or the Code, judicial decisions, administrative pronouncements, and existing and proposed regulations issued by the United States Department of the Treasury, all of which are subject to change, possibly with retroactive effect. This discussion below is based, in part, upon Treasury Regulations promulgated under Section 883 of the Code, and in part, on the description of our business as described in “About Our Company” above and assumes that we conduct our business as described in that section.

**TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, HOLDERS OF OUR COMMON STOCK ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS ANNUAL REPORT IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE**

**IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS BEING USED IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE ISSUERS OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.**

### **Taxation of Operating Income: In General**

Unless exempt from United States federal income taxation under the rules discussed below, a foreign corporation is subject to United States federal income taxation in respect of any income that is derived from the use of vessels, from the hiring or leasing of vessels for use on a time, voyage or bareboat charter basis, from the participation in a shipping pool, partnership, strategic alliance, joint operating agreement, code sharing arrangements or other joint venture it directly or indirectly owns or participates in that generates such income, or from the performance of services directly related to those uses, which we refer to as “shipping income,” to the extent that the shipping income is derived from sources within the United States. For these purposes, 50% of shipping income that is attributable to transportation that begins or ends, but that does not both begin and end, in the United States, exclusive of certain U.S. territories and possessions, constitutes income from sources within the United States, which we refer to as “U.S.-Source Gross Transportation Income” or “USSGTI.”

Shipping income attributable to transportation that both begins and ends in the United States is considered to be 100% from sources within the United States. U.S. law prohibits us from engaging in transportation that produces income considered to be 100% from sources within the United States.

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

In the absence of exemption from tax under Section 883, our USSGTI would be subject to a 4% tax imposed without allowance for deductions as described below.

### **Exemption of Operating Income from United States Federal Income Taxation**

Under Section 883 of the Code, we will be exempt from United States federal income taxation on our U.S.-source shipping income if:

we are organized in a foreign country (our “country of organization”) that grants an “equivalent exemption” to corporations organized in the United States;

we satisfy one of the following ownership tests (discussed in more detail below): (1) more than 50% of the value of our stock is owned, directly or indirectly, by “qualified shareholders,” which includes persons (i) who are “residents” of our country of organization or of another foreign country that grants an “equivalent exemption” to corporations organized in the United States, and (ii) who comply with certain documentation requirements, which we refer to as the “Qualified Shareholder Ownership Test,” or (2) our stock is primarily and regularly traded on one or more established securities markets in our country of organization, in another country that grants an “equivalent exemption” to United States corporations, or in the United States, which we refer to as the “Publicly-Traded Test;” and we are not considered “closely held,” which we refer to as the “Closely-Held Test;” and

we meet certain substantiation, reporting and other requirements.

The Republic of the Marshall Islands, the jurisdiction where we and our ship-owning subsidiaries are incorporated, grants “equivalent exemptions” to United States corporations. Therefore, we should meet the first requirement for the Section 883 exemption. Additionally, we intend to comply with the substantiation, reporting and other requirements that are applicable under Section 883 of the Code. As a result, qualification for the Section 883 exemption will turn primarily on our ability to satisfy the second requirement enumerated above.

Since the 2007 tax year, we have claimed the benefits of the Section 883 tax exemption for our ship-owning subsidiaries on the basis of the Publicly-Traded Test. For 2015 and subsequent tax years, we anticipate that we will need to satisfy the Publicly-Traded Test in order to qualify for benefits under Section 883. While we expect to satisfy the Publicly-Traded Test for such years, there can be no assurance in this regard. Our ability to satisfy the Publicly-Traded Test is discussed below.

The regulations provide, in pertinent part, that the stock of a foreign corporation will be considered to be “primarily traded” on an established securities market in a country if the number of shares of each class of stock that are traded

during the tax year on all established securities markets in that country exceeds the number of shares in each such class that are traded during that year on established securities markets in any other single country. Our common stock, our sole class of issued and outstanding stock, is “primarily traded” on the OTCQB.

Under the regulations, our stock will be considered to be “regularly traded” if one or more classes of our stock representing 50% or more of our outstanding shares, by total combined voting power of all classes of stock entitled to vote and by total combined value of all classes of stock, are listed on one or more established securities markets, which we refer to as the “listing threshold.” Our common stock, our sole class of issued and outstanding stock, is listed on the OTCQB, and accordingly, we will satisfy this listing requirement.

The regulations further require that with respect to each class of stock relied upon to meet the listing requirement: (i) such class of the stock is traded on the market, other than in minimal quantities, on at least 60 days during the tax year or 1/6 of the days in a short tax year; and (ii) the aggregate number of shares of such class of stock traded on such market is at least 10% of the average number of shares of such class of stock outstanding during such year or as appropriately adjusted in the case of a short tax year. We believe we will satisfy the trading frequency and trading volume tests. Even if this were not the case, the regulations provide that the trading frequency and trading volume tests will be deemed satisfied by a class of stock if, as we expect to be the case with our common stock, such class of stock is traded on an established market in the United States, and such class of stock is regularly quoted by dealers making a market in such stock. While we anticipate that we will satisfy the trading frequency and trading volume tests, satisfaction of these requirements is outside of our control and hence, no assurances can be provided that we will satisfy the Publicly-Traded Test each year.



In addition, even if the “primarily traded” and “regularly traded” portions of the Publicly-Traded Test described above are satisfied, the Closely-Held Test provides, in pertinent part, that a class of stock will not be considered to be “regularly traded” on an established securities market for any tax year in which 50% or more of the vote and value of the outstanding shares of such class of stock are owned, actually or constructively under specified stock attribution rules, on more than half the days during the tax year by persons who each own directly or indirectly 5% or more of the vote and value of such class of stock, who we refer to as “5% Shareholders.” For purposes of being able to determine our 5% Shareholders under the Closely-Held Test, the regulations permit us to rely on Schedule 13G and Schedule 13D filings with the Securities and Exchange Commission. The regulations further provide that an investment company that is registered under the Investment Company Act of 1940, as amended, will not be treated as a 5% Shareholder for purposes of the Closely-Held Test.

In the event the Closely-Held Test is triggered, the regulations provide that the Closely-Held Test will nevertheless not apply if we can establish that among the closely-held group of 5% Shareholders, sufficient shares are owned by those of our 5% Shareholders that are considered to be “qualified shareholders” (within the meaning of the regulations) to preclude non-qualified 5% Shareholders in the closely-held group from owning 50% or more of the value of such class of stock for more than half of the days during the tax year, which we refer to as the exception to the Closely-Held Test. Establishing such qualification and ownership by our direct and indirect 5% Shareholders will depend on their meeting the requirements of one of the qualified shareholder tests set out under the regulations applicable to 5% Shareholders and compliance with certain ownership certification procedures by each intermediary or other person in the chain of ownership between us and such qualified 5% Shareholders. Further, the regulations require, and we must certify, that no person in the chain of qualified ownership of shares relied on by us to qualify for exemption holds those shares in bearer form.

As of the date of this Registration Statement there are no 5% shareholders who, collectively, own 50% of more of our stock and we do not expect to have any such shareholders in the foreseeable future. Accordingly, as long we comply with substantiation, reporting and other requirements, we should not be prevented by the Closely-Held Test from meeting the Publicly-Traded test. However, the ability to avoid application of the Closely-Held Test is outside our control, and, as a result, there can be no assurance regarding whether we will satisfy the Publicly-Traded Test for any year. For this and other reasons, there can be no assurance that we or any of our subsidiaries will qualify for the benefits of Section 883 of the Code for any year.

### **Taxation in Absence of Exemption**

To the extent the benefits of Section 883 are unavailable, our USSGTI, to the extent not considered to be “effectively connected” with the conduct of a U.S. trade or business, as described below, would be subject to a 4% tax imposed by Section 887 of the Code on a gross basis, without the benefit of deductions, otherwise referred to as the “4% Tax.” Since under the sourcing rules described above, no more than 50% of our shipping income would be treated as being derived from U.S. sources, the maximum effective rate of U.S. federal income tax on our shipping income would never exceed 2% under the 4% gross basis tax regime.

To the extent the benefits of the Section 883 exemption are unavailable, and our USSGTI is considered to be “effectively connected” with the conduct of a U.S. trade or business, as described below, any such “effectively connected” U.S.-source shipping income, net of applicable deductions, would be subject to the U.S. federal corporate income tax currently imposed at rates of up to 35%. In addition, we may be subject to the 30% “branch profits” taxes on earnings effectively connected with the conduct of such trade or business, as determined after allowance for certain adjustments, and on certain interest paid or deemed paid attributable to the conduct of a U.S. trade or business.

Our U.S.-source shipping income would be considered “effectively connected” with the conduct of a U.S. trade or business only if:

We have, or are considered to have, a fixed place of business in the United States involved in the earning of shipping income; and

substantially all of our U.S.-source shipping income is attributable to regularly scheduled transportation, such as the operation of a vessel that follows a published schedule with repeated sailings at regular intervals between the same points for voyages that begin or end in the United States or, in the case of income from the leasing of a vessel, is attributable to a fixed place of business in the United States.

We do not have a fixed place of business in the United States, and we do not intend to have, or permit circumstances that would result in having, any vessel operating to the United States on a regularly scheduled basis. Based on the foregoing and on the expected mode of our shipping operations and other activities, we believe that none of our U.S.-source shipping income will be “effectively connected” with the conduct of a U.S. trade or business.

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

If we qualify for the Section 883 exemption, then gain from the sale of any vessel may be exempt from tax under Section 883. Even if such gain is not exempt from tax under Section 883, we will not be subject to United States federal income taxation with respect to gain realized on a sale of a vessel, assuming that we are not, and have never been, engaged in a U.S. trade or business. Under certain circumstances, if we are so engaged, gain on the sale of vessels could be subject to U.S. federal income tax.

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

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

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

*Distributions.* Subject to the discussion of passive foreign investment companies (or “PFICs”) below, any distributions made by us with respect to our common stock will generally be taxable as dividend income to the extent of our current or accumulated earnings and profits, as determined under United States federal income tax principles. Distributions in excess of our earnings and profits will be treated first as a nontaxable return of capital to the extent of the U.S. Holder’s tax basis in his or her common stock on a dollar-for-dollar basis and thereafter as capital gain. Because we are not a United States corporation, U.S. Holders that are corporations will not be entitled to claim a dividends received deduction with respect to any distributions they receive from us. Dividends paid with respect to our common stock will generally be treated as passive category income or, in the case of certain types of U.S. Holders, general category income for purposes of computing allowable foreign tax credits for United States foreign tax credit purposes.

Dividends paid on our common stock to a U.S. Holder who is an individual, trust or estate, which we refer to as a “U.S. Individual Holder,” will generally be treated as “qualified dividend income” that is taxable to such a U.S. Individual Holder at preferential tax rates provided that (1) we are not a passive foreign investment company for the tax year during which the dividend is paid or the immediately preceding tax year (which we do not believe we are, have been or will be), (2) our common stock is readily tradable on an established securities market in the United States (such as

the OTCQB), and (3) the U.S. Individual Holder has owned the common stock for more than 60 days in the 121-day period beginning 60 days before the date on which the common stock becomes ex-dividend. There is no assurance that any dividends paid on our common stock will be eligible for these preferential rates in the hands of a U.S. Individual Holder. Any distributions treated as dividends paid by us that are not eligible for these preferential rates will be taxed as ordinary income to a U.S. Individual Holder. Dividends paid by us to a U.S. Individual Holder are subject to the Net Investment Income Tax (generally, a tax of 3.8% on dividends, interest, and other investment income) provided that the U.S. Individual Holder's "modified adjusted income" exceeds a designated threshold. Each U.S. Individual Holder should consult his or her own tax advisor to determine the applicability of the Net Investment Income Tax.

Special rules may apply to any "extraordinary dividend" generally, a dividend in an amount which is equal to or exceeds ten percent of a stockholder's adjusted basis (or fair market value in certain circumstances) in a share of our stock paid by us. If we pay an "extraordinary dividend" on our stock that is treated as "qualified dividend income," then any loss derived by a U.S. Individual Holder from the sale or exchange of such stock will be treated as long-term capital loss to the extent of such dividend.

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

*Passive Foreign Investment Company Status and Significant Tax Consequences.* Special United States federal income tax rules apply to a U.S. Holder that holds stock in a foreign corporation classified as a passive foreign investment company for United States federal income tax purposes. In general, we will be treated as a passive foreign investment company with respect to a U.S. Holder if, for any tax year in which such holder held our common stock, either:

at least 75% of our gross income for such tax year consists of passive income (e.g., dividends, interest, capital gains and rents derived other than in the active conduct of a rental business); or

at least 50% of the average value of the assets held by the corporation during such tax year produce, or are held for the production of, passive income.

For purposes of determining whether we are a passive foreign investment company, we will be treated as earning and owning our proportionate share of the income and assets, respectively, of any of our subsidiary corporations in which we own at least 25% of the value of the subsidiary's stock. Income earned, or deemed earned, by us in connection with the performance of services would not constitute passive income. By contrast, rental income would generally constitute "passive income" unless we were treated under specific rules as deriving our rental income in the active conduct of a U.S. trade or business. We may own, directly or indirectly, interests in other entities that are passive foreign investment companies, or subsidiary PFICs. If we are a passive foreign investment company, each U.S. Holder will be treated as owning its pro rata share by value of the stock of any such subsidiary PFICs.

Based on the rules governing PFICs and our current operations and future projections, we do not believe that we are, nor do we expect to become, a passive foreign investment company with respect to any tax year. Under IRS regulations the rental income that we derive from our shipping operations is not passive income if we regularly and directly perform active and substantial marketing, remarketing, management and operational functions with respect to the leasing of our vessels, which we do. Under a safe harbor rule contained in IRS regulations (applicable, among other circumstances, to vessels that are located outside the United States for more than 50% of the time during any taxable year, as our vessels are), the rental income we derive from our shipping operations is not passive income as long as our "active leasing expenses" (as defined in the regulations) equal or exceed 10% of our "adjusted leasing profit" (also as defined in the regulations). We believe that we met this safe harbor test during 2015 and we have no reason to believe that we will not meet it in future years. Accordingly, under the current IRS rules defining passive income, as applied to the conduct of our business, we do not believe that we are or will become a PFIC.

Nonetheless, the law governing the characterization of the income of companies like us is somewhat unsettled: for example, in a 2009 decision involving the deductibility of commissions (but not involving the PFIC rules), a U.S. appeals court held that the right of a customer to direct the destination and itinerary of a voyage that was otherwise under the operational control of the vessel's owner required that the charter income earned by the owner be characterized as rental income rather than income from the provision of services (a position which the Internal Revenue Service does not agree with). We believe that, whether or not this decision is correct, subsequent developments in the law specifically applicable to PFICs renders it irrelevant in determining our status as a PFIC. However, to date no court has held that this decision is irrelevant to determining the character of income for purposes

of the PFIC rules.

We therefore expect to conduct our affairs in a manner that, under IRS regulations, prevents us from being classified as a PFIC with respect to any tax year. It should be noted, however, that such classification depends on the facts as they exist in each year and we cannot assure you that the nature of our operations will not change in the future in a manner that would result in our being classified as a PFIC. Accordingly, we describe below the tax consequences to a U.S. Holder of our being classified as a PFIC.

If we are determined to be a PFIC for any tax year (or portion thereof) that is included in the holding period of a U.S. Holder of our common stock, and the U.S. Holder did not make a timely qualified electing fund (“QEF”) election for our first tax year as a PFIC in which the U.S. Holder held (or was deemed to hold) common stock, as described below, such holder generally will be subject to special rules with respect to:

any gain recognized by the U.S. Holder on the sale or other disposition of its common stock; and

any “excess distribution” made to the U.S. Holder (generally, any distributions to such U.S. Holder during a tax year of the U.S. Holder that are greater than 125% of the average annual distributions received by such U.S. Holder in respect of the common stock during the three preceding tax years of such U.S. Holder or, if shorter, such U.S. Holder’s holding period for the common stock).

Under these rules,

the U.S. Holder’s gain or excess distribution will be allocated ratably over the U.S. Holder’s holding period for the common stock;

the amount allocated to the U.S. Holder’s current tax year and any tax years in the U.S. Holder’s holding period before the first day of our first tax year in which we are a PFIC, will be taxable as ordinary income;

the amount allocated to other tax years (or portions thereof) of the U.S. Holder and included in its holding period will be taxed at the highest tax rate in effect for that year and applicable to the U.S. Holder; and

the interest charge generally applicable to underpayments of tax will be imposed in respect of the tax attributable to each such other tax year of the U.S. Holder.

In general, if we are determined to be a PFIC, a U.S. Holder will avoid the PFIC tax consequences described above in respect to our common stock by making a timely QEF election to include in income its pro rata share of our net capital gains (as long-term capital gain) and other earnings and profits (as ordinary income), on a current basis, in each case whether or not distributed, in the tax year of the U.S. Holder in which or with which our tax year ends. A U.S. Holder may make a separate election to defer the payment of taxes on undistributed income inclusions under the QEF rules, but if deferred, any such taxes will be subject to an interest charge.

Although a determination as to our PFIC status will be made annually, an initial determination that our company is a PFIC will generally apply for subsequent years to a U.S. Holder who held our common stock while we were a PFIC, whether or not we meet the test for PFIC status in those subsequent years. A U.S. Holder who makes the QEF election discussed above for our first tax year as a PFIC in which the U.S. Holder owns (or is deemed to own) our common stock, however, will not be subject to the PFIC tax and interest charge rules discussed above in respect to such shares. In addition, such U.S. Holder will not be subject to the QEF inclusion regime with respect to such shares for any tax year of ours that ends within or with a tax year of the U.S. Holder and in which we are not a PFIC. On the other hand, if the QEF election is not effective for each of our tax years in which we are a PFIC, and the U.S. Holder owns (or is deemed to hold) our common stock, the PFIC rules discussed below will continue to apply to such shares unless the holder makes a purging election, as described below, and pays the tax and interest charge with respect to the gain inherent in such shares attributable to the pre-QEF election period.

If a U.S. Holder has made a QEF election with respect to our common stock, and the special tax and interest charge rules do not apply to such shares (because of a timely QEF election for our first tax year as a PFIC in which the U.S. Holder owns (or is deemed to own) such shares or a purge of the PFIC taint pursuant to a purging election, as described below), any gain recognized on the sale of our common stock generally will be taxable as capital gain, and no interest charge will be imposed. As discussed above, U.S. Holders of a QEF are currently taxed on their pro rata shares of its earnings and profits, whether or not distributed. In such case, a subsequent distribution of such earnings and profits that were previously included in income generally should not be taxable as a dividend to such U.S. Holders. The tax basis of a U.S. Holder's shares in a QEF will be increased by amounts that are included in income, and decreased by amounts distributed but not taxed as dividends, under the above rules. Similar basis adjustments apply to property if by reason of holding such property the U.S. Holder is treated under the applicable attribution rules as owning shares in a QEF.

The QEF election is made on a shareholder-by-shareholder basis and, once made, can be revoked only with the consent of the IRS. A U.S. Holder generally makes a QEF election by attaching a completed IRS Form 8621 (Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund), including the information provided in a PFIC annual information statement, to a timely filed U.S. federal income tax return for the tax year to which the election relates. Retroactive QEF elections generally may be made only by filing a protective statement with such return and if certain other conditions are met or with the consent of the IRS. U.S. Holders should consult with their tax advisors regarding the availability and tax consequences of a retroactive QEF election under their particular circumstances. In order to comply with the requirements of a QEF election, a U.S. Holder must receive a PFIC annual information statement from us. If we determine we are a PFIC for any tax year, we will endeavor to provide to a U.S. Holder such information as the IRS may require, including a PFIC annual information statement, in

order to enable the U.S. Holder to make and maintain a QEF election. However, there is no assurance that we will have timely knowledge of our status as a PFIC in the future or of the required information to be provided.

If a U.S. Holder, at the close of its tax year, owns shares in a PFIC that are treated as “marketable stock,” the U.S. Holder may make a mark-to-market election with respect to such shares for such tax year. If the U.S. Holder makes a valid mark-to-market election for the first tax year of the U.S. Holder in which the U.S. Holder owns (or is deemed to hold) common stock in us and for which we are determined to be a PFIC, such holder generally will not be subject to the PFIC rules described above in respect to its common stock. Instead, in general, the U.S. Holder will include as ordinary income each year the excess, if any, of the fair market value of its common stock at the end of its tax year over the adjusted basis in its common stock. The U.S. Holder also will be allowed to take an ordinary loss in respect of the excess, if any, of the adjusted basis of its common stock over the fair market value of its common stock at the end of its tax year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). The U.S. Holder’s basis in its common stock will be adjusted to reflect any such income or loss amounts, and any further gain recognized on a sale or other taxable disposition of the common stock will be treated as ordinary income. The mark-to-market election is available only if our common stock is treated as marketable stock. If our common stock is listed on the OTCQB and is regularly traded on such market in accordance with applicable Treasury Regulations, our common stock will be treated as “marketable stock” for this purpose. U.S. Holders are advised to consult with their tax advisors regarding the availability and tax consequences of a mark-to-market election in respect to our common stock under their particular circumstances.



If we are a PFIC and, at any time, have a foreign subsidiary that is classified as a PFIC, U.S. Holders generally would be deemed to own a portion of the shares of such lower-tier PFIC, and generally could incur liability for the deferred tax and interest charge described above if we receive a distribution from, or dispose of all or part of our interest in, the lower-tier PFIC or the U.S. Holders otherwise were deemed to have disposed of an interest in the lower-tier PFIC. We will endeavor to cause any lower-tier PFIC to provide to a U.S. Holder the information that may be required to make or maintain a QEF election with respect to the lower-tier PFIC. However, there is no assurance that we will have timely knowledge of the status of any such lower-tier PFIC. In addition, we may not hold a controlling interest in any such lower-tier PFIC and thus there can be no assurance we will be able to cause the lower-tier PFIC to provide the required information. U.S. Holders are advised to consult with their tax advisors regarding the tax issues raised by lower-tier PFICs.

A U.S. Holder that owns (or is deemed to own) shares in a PFIC during any tax year of the U.S. Holder, may have to file an IRS Form 8621 (whether or not a QEF or mark-to-market election is made) and such other information as may be required by the U.S. Treasury Department.

The rules dealing with PFICs and with the QEF and mark-to-market elections are very complex and are affected by various factors in addition to those described above. Accordingly, U.S. Holders are advised to consult with their tax advisors concerning the application of the PFIC rules (and the QEF and mark-to-market elections) to our common stock under their particular circumstances.

#### **United States Federal Income Taxation of “Non-U.S. Holders”**

A beneficial owner of common stock that is not a U.S. Holder is referred to herein as a “Non-U.S. Holder.”

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

*Sale, Exchange or Other Disposition of Common Stock.* Non-U.S. Holders generally will not be subject to United States federal income tax or withholding tax on any gain realized upon the sale, exchange or other disposition of our common stock, unless:

the gain is effectively connected with the Non-U.S. Holder's conduct of a trade or business in the United States. If the Non-U.S. Holder is entitled to the benefits of an income tax treaty with respect to that gain, that gain is taxable only if it is attributable to a permanent establishment maintained by the Non-U.S. Holder in the United States; or

the Non-U.S. Holder is an individual who is present in the United States for 183 days or more during the tax year of disposition and other conditions are met.

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

### **Backup Withholding and Information Reporting**

In general, dividend payments, or other taxable distributions, made within the United States to you will be subject to information reporting requirements. Such payments will also be subject to backup withholding tax if you are a non-corporate U.S. Holder and you:

fail to provide an accurate taxpayer identification number;

are notified by the Internal Revenue Service that you have failed to report all interest or dividends required to be shown on your federal income tax returns; or

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

Non-U.S. Holders may be required to establish their exemption from information reporting and backup withholding by certifying their status on Internal Revenue Service Form W-8BEN, W-8ECI or W-8IMY, as applicable.

If you sell your stock to or through a United States office or broker, the payment of the proceeds is subject to both United States backup withholding and information reporting unless you certify that you are a non-U.S. person, under penalties of perjury, or you otherwise establish an exemption. If you sell your stock through a non-United States office of a non-United States broker and the sales proceeds are paid to you outside the United States, then information reporting and backup withholding generally will not apply to that payment. However, United States information reporting requirements, but not backup withholding, will apply to a payment of sales proceeds, even if that payment is made to you outside the United States, if you sell your stock through a non-United States office of a broker that is a United States person or has some other contacts with the United States.

Backup withholding tax is not an additional tax. Rather, you generally may obtain a refund of any amounts withheld under backup withholding rules that exceed your income tax liability by filing a refund claim with the Internal Revenue Service.

We encourage each stockholder to consult with his, her or its own tax advisor as to particular tax consequences to it of holding and disposing of our shares, including the applicability of any state, local or foreign tax laws and any proposed changes in applicable law.

#### **F. Dividends and paying agents**

Not applicable.

#### **G. Statement by experts**

Not applicable.

#### **H. Documents on display**

This annual report and the exhibits thereto and any other document we file pursuant to the Exchange Act may be inspected without charge and copied at prescribed rates at the following Securities and Exchange Commission public

reference rooms: 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the Securities and Exchange Commission's public reference room in Washington, D.C. by calling the Securities and Exchange Commission at 1-800-SEC-0330 or by visiting the Securities and Exchange Commission's website at <http://www.sec.gov>, and may obtain copies of our filings from the public reference room by calling 1-800-SEC-0330. The Exchange Act file number for our Securities and Exchange Commission filings is 000-49760.

The Securities and Exchange Commission maintains a website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the Securities and Exchange Commission using its EDGAR (Electronic Data Gathering, Analysis, and Retrieval) system.

We will also provide without charge to each person, including any beneficial owner, upon written or oral request of that person, a copy of any and all of the information that has been incorporated by reference in this annual report. Please direct such requests to Dimitris Papadopoulos, Chief Financial Officer, FreeSeas Inc., 6, Loukianou Street, 10675, Athens, Greece and our telephone number is +30-210-729-7284.

#### **I.Subsidiary Information**

Not applicable.

#### **Item 11. Quantitative and Qualitative Disclosure About Market Risk**

##### **Interest Rate Fluctuation**

The international drybulk industry is a capital-intensive industry, requiring significant amounts of investment. Much of this investment is provided in the form of long-term debt. Our debt usually contains interest rates that fluctuate with LIBOR. Increasing interest rates could adversely impact future earnings. The Company was party of two interest rate swap agreements which were fully unwound on February 3, 2014.

Our interest expense is affected by changes in the general level of interest rates. The only loan with NBG on M/V Free Neptune matured on December 16, 2016.

Please see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Long Term Debt” for a full description of the loan.

### **Interest Rate Risk**

We are exposed to interest rate risk associated with our variable rate borrowings, and our objective is to manage the impact of such fluctuations on earnings and cash flows of our borrowings. In this respect, we use interest rate swaps to manage net exposure to interest rate fluctuations related to our borrowings and to lower our overall borrowing costs. The Company was party of two interest rate swap agreements which were fully unwound on February 3, 2014.

Our derivative financial instruments are valued using pricing models that are used to value similar instruments by market participants. Where possible, we verify the values produced by our pricing models to market prices. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit spreads, measures of volatility and correlations of such inputs. Model inputs can generally be verified and do not involve significant management judgment. Such instruments are typically classified within Level 2 of the fair value hierarchy.

### **Foreign Exchange Rate Risk**

We generate all of our revenues in U.S. dollars, but incur a portion of our expenses in currencies other than U.S. dollars. For accounting purposes, expenses incurred in Euros are converted into U.S. dollars at the exchange rate prevailing on the date of each transaction. At December 31, 2016, 2015 and 2014, approximately 4%, 4% and 18%, respectively, of our outstanding accounts payable was denominated in currencies other than the U.S. dollar (mainly in the Euro). As an indication of the extent of our sensitivity to foreign exchange rate changes, an increase of an additional 10% in the value of other currencies against the dollar would have decreased our net income and cash flows in 2016 by approximately \$101 based upon the accounts payable we had denominated in currencies other than the U.S. dollar as of December 31, 2016.

### **Credit Risk**

Financial instruments, which potentially subject us to significant concentrations of credit risk, consist principally of cash and cash equivalents, trade accounts receivable, insurance claims and derivative contracts (interest rate swaps). We place our cash and cash equivalents, consisting mostly of deposits, with high credit qualified financial institutions.

We monitor the credit risk regarding charterer's turnover in order to review its reliance on individual charterers. We do not obtain rights to collateral to reduce its credit risk. We are exposed to credit risk in the event of non-performance by counter parties to derivative instruments; however, we limit our exposure by diversifying among counter parties with high credit ratings. In addition, the counterparty to the derivative financial instrument is a major financial institution in order to manage exposure to non-performance counterparties.

### **Charter Market Risk**

Our revenues, earnings and profitability are affected by the prevailing charter market rates. During 2016, the BDI remained volatile. In 2016, the BDI reached a high of 1,257 and a low of 290. Furthermore, charter rates have been particularly volatile during the first six months of 2017. In the first six months of 2017, the BDI reached a high of 1,338 and a low of 685. Such chartering market volatility is expected to adversely impact our financial performance for the relevant quarter including its net income and cash flow.

### **Item 12. Description of Securities Other than Equity Securities**

Not applicable.

## **PART II**

### **Item 13. Defaults, Dividend Arrearages and Delinquencies**

Please see “Item 5. Operating and Financial Review and Prospects - Recent Developments” and “- Long-Term Debt” for a full description of loan defaults.

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

Except as described elsewhere in this document, there have been no changes to the instruments defining the rights of the holders of any class of registered securities, and the rights of holders of the registered securities have not been altered by the issuance or modification of any other class of securities in 2016 (see “Item 10. Additional Information — B. Memorandum and Articles of Incorporation”) for a description of this plan. There are no restrictions on working capital and no removal or substitution of assets securing any class of our registered securities.

### **Item 15. Controls and Procedures.**

#### **Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) as of December 31, 2016. Disclosure controls and procedures are defined under SEC rules as controls and other procedures that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within required time periods. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention of overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Based on our evaluation, our chief executive officer and our chief financial officer have concluded that our disclosure controls and procedures were not effective as of December 31, 2016 due to our inability to file this annual report on Form 20-F within the SEC deadline of four months after our year end (subject to an allowable extension of 15 days).

### **Management's Annual Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as required under applicable United States securities regulatory requirements. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, the company's chief executive and chief financial officers and effected by the company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. A system of internal controls can provide only reasonable, not absolute, assurance that the objectives of the control system are met, no matter how well the system is conceived or operated. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.



Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2016. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control – Integrated Framework (2013). Based on that evaluation under this framework, our management concluded that as of December 31, 2016, our internal control over financial reporting was effective.

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

This annual report does not include an attestation report by our independent registered public accounting firm regarding internal control over financial reporting. As we are neither a large accelerated filer nor an accelerated filer, our management’s report was not subject to attestation by our registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit us to provide only management’s report in this annual report.

#### **Changes to Internal Controls and Procedures for Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during the year ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### **Item 16. [Reserved]**

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

Our board has determined that Mr. Dimitris Papadopoulos qualifies as an “audit committee financial expert” as defined by rules of the Securities and Exchange Commission. For a brief listing of Mr. Papadopoulos’ relevant experience, see Item 6.A. “Directors, Senior Management and Employees - Directors and Senior Management.”

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

We have adopted a code of ethics that applies to our chief executive officer and all senior financial officers of our company, including the chief financial officer, chief accounting officer or controller, or persons performing similar functions. Our code of ethics has been filed as an exhibit to this annual report and is available on the Corporate

Governance section of our website at [www.free seas.gr](http://www.free seas.gr). We will also provide a paper copy of our Code of Business Conduct and Ethics free of charge upon written request of a shareholder. Shareholders may direct their requests to the attention of Dimitris Papadopoulos, Chief Financial Officer.

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

### **Independent Public Accountants Fees**

The aggregate fees billed for the last two fiscal years for professional services rendered by our auditor are as follows:

	2016	2015
Audit fees (1)	\$ 40	\$ 90
Audit-related fees	—	—
Tax fees	—	—
Other fees	—	—
Total	\$ 40	\$ 90

(1) Audit fees represent fees for professional services related to the audit of our financial statements for the years ended December 31, 2016 and 2015.

### **Audit Committee Pre-Approved Policies and Procedures**

Our audit committee pre-approved all audit, audit-related and non-audit services not prohibited by law to be performed by our independent auditors and associated fees prior to the engagement of the independent auditor with respect to such services.

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

Not applicable.

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

There were no purchases of our common shares made by us or on our behalf or by any affiliated purchaser during the fiscal year ended December 31, 2016.

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

Effective from June 8, 2017, we engaged Fruci & Associates II, PLLC ("Fruci") as our independent registered public accounting firm. We also dismissed RBSM LLP ("RBSM") on the same date. The decision was not made due to any disagreements with RBSM. The change of our independent registered public accounting firm was approved by our board on June 8, 2017.

RBSM's audit reports on our consolidated financial statements as of December 31, 2015 and 2014 and for each of the years ended December 31, 2015, 2014 and 2013 did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles.

During each of the years ended December 31, 2015, 2014 and 2013 and the subsequent interim period through June 8, 2017, there were (i) no disagreements between us and RBSM on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, any of which, if not resolved to RBSM's satisfaction, would have caused RBSM to make reference thereto in their reports, and (ii) no "reportable events" requiring disclosure pursuant to Item 16F(a)(1)(v) of the instructions to Form 20-F in connection with our annual report on Form 20-F.

We provided RBSM with a copy of the disclosures under this Item 16F and requested from RBSM a letter addressed to the Securities and Exchange Commission indicating whether it agrees with such disclosures. A copy of RBSM's letter, when received, will be filed by amendment as Exhibit 16.1.

During each of the years ended December 31, 2016, 2015, 2014 and the subsequent interim period through June 8, 2017, neither we nor anyone on behalf of us has consulted with Fruci regarding (i) the application of accounting

principles to a specific transaction, either completed or proposed, or the type of audit opinion that might be rendered on our consolidated financial statements, and neither a written report nor oral advice was provided to us that Fruci concluded was an important factor considered by us in reaching a decision as to any accounting, auditing, or financial reporting issue, (ii) any matter that was the subject of a disagreement pursuant to Item 16F(a)(1)(iv) of the instructions to Form 20-F, or (iii) any reportable event pursuant to Item 16F(a)(1)(v) of the instructions to Form 20-F.

**Item 16G. Corporate Governance.**

Not applicable.

**Item 16H. Mine Safety Disclosure.**

Not applicable.

**PART III****Item 17. Financial Statements.**

Not applicable.

**Item 18. Financial Statements**

See Financial Statements attached hereto as pages F-1 to F-37

**Item 19. Exhibits**

<b>Exhibit No.:</b>	<b>Exhibit Description</b>	<b>Where Filed</b>
1.1	<u>Amended and Restated Articles of Incorporation of FreeSeas Inc. (formerly known as Adventure Holdings S.A.)</u>	Exhibit 3.1 to Registrant's Registration Statement on Form F-1 (File No. 333-124825) filed on May 11, 2005 and incorporated herein by reference
1.2	<u>Amended and Restated By-Laws of FreeSeas Inc. (formerly known as Adventure Holdings S.A.)</u>	Exhibit 3.2 to Registrant's Registration Statement on Form F-1 (File No. 333-124825) filed on May 11, 2005 and incorporated herein by reference
1.3	<u>First Amendment to the Amended and Restated Bylaws of FreeSeas Inc.</u>	Exhibit 3.3 to Amendment No. 1 to Registrant's Registration Statement on Form F-1 (File No. 333-124825) filed on October 15, 2007 and incorporated herein by reference
1.4	<u>First Amendment to the Amended and Restated Articles of Incorporation of FreeSeas Inc.</u>	Exhibit 99.3 to Registrant's Form 6-K filed on October 22, 2009 and incorporated herein by reference
1.5	<u>Amendment to the Amended and Restated Articles of Incorporation of FreeSeas Inc.</u>	Exhibit 1.5 to Registrant's Annual Report on Form 20-F for the year ended December 31, 2010 and incorporated herein by reference
1.6	<u>Certificate of Amendment to the Amended and Restated Articles of Incorporation, as filed with the Registrar of Corporations of the Marshall Islands</u>	Exhibit 3.01 to Registrant's Form 6-K filed on February 14, 2013 and incorporated herein by reference

on February 12, 2013

- 1.7 Certificate of Amendment to the Amended and Restated Articles of Incorporation, as filed with the Registrar of Corporations of the Marshall Islands on November 26, 2013 Exhibit 3.01 to Registrant's Form 6-K, as filed on December 2, 2013 and incorporated herein by reference.
- 1.8 Form of Certificate of Designation, Rights and Preferences of the Series D Convertible Preferred Stock Exhibit 3.08 to Amendment No. 1 to Registrant's Form F-1 (File. No. 333-195166), filed on May 1, 2014 and incorporated herein by reference.
- 1.9 Certificate of Amendment to the Amended and Restated Articles of Incorporation, as filed with the Registrar of Corporations of the Marshall Islands on May 5, 2015. Exhibit 3.01 to Registrant's Form 6-K, as filed on May 8, 2015 and incorporated herein by reference.
- 1.10 Certificate of Amendment to the Amended and Restated Articles of Incorporation, as filed with the Registrar of Corporations of the Marshall Islands on June 19, 2015. Exhibit 3.01 to Registrant's Form 6-K, as filed on June 25, 2015 and incorporated herein by reference.
- 1.11 Certificate of Amendment to the Amended and Restated Articles of Incorporation, as filed with the Registrar of Corporations of the Marshall Islands on January 8, 2016. Exhibit 3.01 to Registrant's Form 6-K, as filed on January 14, 2016 and incorporated herein by reference.

Exhibit No.:	Exhibit Description	Where Filed
1.12	<u>Certificate of Amendment to the Amended and Restated Articles of Incorporation, as filed with the Registrar of Corporations of the Marshall Islands on January 8, 2016.</u>	Exhibit 3.01 to Registrant's Form 6-K, as filed on April 13, 2016 and incorporated herein by reference.
1.13	<u>Certificate of Amendment to the Amended and Restated Articles of Incorporation, as filed with the Registrar of Corporations of the Marshall Islands on January 8, 2016.</u>	Exhibit 3.01 to Registrant's Form 6-K, as filed on February 6, 2017 and incorporated herein by reference.
2.1	<u>Specimen Common Stock Certificate</u>	Exhibit 4.1 to Amendment No. 1 to Registrant's Registration Statement on Form F-1 (File No. 333-124825) filed on July 22, 2005 and incorporated herein by reference
2.2	<u>Shareholder Rights Agreement entered into effective as of January 14, 2009 by and between FreeSeas Inc. and American Stock Transfer &amp; Trust Company, LLC</u>	Exhibit 2.9 to Registrant's Annual Report on Form 20-F for the year ended December 31, 2008 and incorporated herein by reference
4.1	<u>Amended and Restated Services Agreement dated October 1, 2008 between FreeSeas Inc. and Free Bulkers S.A.</u>	Exhibit 4.61 to Registrant's Annual Report on Form 20-F for the year ended December 31, 2008 and incorporated herein by reference
4.2	<u>Supplemental Agreement dated June 8, 2011 between FreeSeas, Inc. and Free Bulkers S.A.</u>	Exhibit 4.12 to Registrant's amended Annual Report on Form 20-F/A for the year ended December 31, 2011 and incorporated herein by reference
4.3	<u>Addendum No. 1 dated September 17, 2009 to the Amended and Restated Services Agreement dated October 1, 2008 by and between FreeSeas Inc. and Free Bulkers S.A.</u>	Exhibit 99.12 to Registrant's 6-K filed on October 22, 2009 and incorporated herein by reference
4.4	<u>Form of Standard Ship Management Agreement by and between Free Bulkers S.A. and each of Adventure Five S.A. through Adventure Twelve S.A.</u>	Exhibit 99.13 to Registrant's 6-K filed on October 22, 2009 and incorporated herein by reference
4.5	<u>Form of Addendum No. 2 to BIMCO Management Agreement by and between Free Bulkers S.A. and each of Adventure Two S.A. and Adventure Three S.A. and Form of Addendum No. 1 to BIMCO Management Agreement by and between Free Bulkers S.A. and each of Adventure Five S.A. through Adventure Twelve S.A.</u>	Exhibit 99.14 to Registrant's 6-K filed on October 22, 2009 and incorporated herein by reference
4.6		

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| <u>Loan Agreement dated December 15, 2009 among Adventure Nine, Adventure Twelve and First Business Bank</u> | Exhibit 4.60 to Registrant's Annual Report on Form 20-F for the year ended December 31, 2009 and incorporated herein by reference |
| 4.7 <u>First Priority Mortgage on the M/V <i>Free Impala</i> in favor of First Business Bank</u>             | Exhibit 4.61 to Registrant's Annual Report on Form 20-F for the year ended December 31, 2009 and incorporated herein by reference |
| 4.8 <u>First Preferred Mortgage on the M/V <i>Free Neptune</i> in favor of First Business Bank</u>           | Exhibit 4.62 to Registrant's Annual Report on Form 20-F for the year ended December 31, 2009 and incorporated herein by reference |
| 4.9 <u>Deed of Covenants dated December 16, 2009 between Adventure Nine and First Business Bank</u>          | Exhibit 4.63 to Registrant's Annual Report on Form 20-F for the year ended December 31, 2009 and incorporated herein by reference |



Exhibit No.:	Exhibit Description	Where Filed
4.10	<u>First Supplemental Agreement dated January 27, 2012 among FBB – First Business Bank S.A., Adventure Nine S.A., Adventure Twelve S.A., FreeSeas Inc. and Free Bulkens S.A.</u>	Filed as Exhibit 4.30 to Registrant’s Annual Report on Form 20-F for the year ended December 31, 2011 filed on May 7, 2012 and incorporated herein by reference
4.11	<u>Form of Series C Warrant</u>	Exhibit 4.03 to Amendment No. 1 to Registrant’s Form F-1 (File. No. 333-195166), filed on May 1, 2014 and incorporated herein by reference.
4.12	<u>Securities Purchase Agreement, dated June 13, 2015, by and between the Company and Casern Holdings Ltd.</u>	Exhibit 99.1 to Registrant's Form 6-K, as filed on June 8, 2015 and incorporated herein by reference.
4.13	<u>Form of Convertible Note, dated June 13, 2015, issued to Casern Holdings Ltd.</u>	Exhibit 99.2 to Registrant's Form 6-K, as filed on June 8, 2015 and incorporated herein by reference.
4.14	<u>Form of Securities Purchase Agreement, dated July 13, 2015, by and between the Company and AMVS Value Fund Ltd.</u>	Exhibit 99.1 to Registrant's Form 6-K, as filed on July 15, 2015 and incorporated herein by reference.
4.15	<u>Form of Convertible Note, dated July 13, 2015, issued to AMVS Value Fund Ltd.</u>	Exhibit 99.2 to Registrant's Form 6-K, as filed on July 15, 2015 and incorporated herein by reference.
4.16	<u>Form of Registration Rights Agreement, dated July 13, 2015, by and between the Company and AMVS Value Fund Ltd.</u>	Exhibit 99.3 to Registrant's Form 6-K, as filed on July 15, 2015 and incorporated herein by reference.
4.17	<u>Form of Securities Purchase Agreement, dated September 2, 2015, by and between the Company and Casern Holdings Ltd.</u>	Exhibit 99.1 to Registrant's Form 6-K, as filed on September 8, 2015 and incorporated herein by reference.
4.18	<u>Form of Convertible Note, dated September 2, 2015, issued to Casern Holdings Ltd.</u>	Exhibit 99.2 to Registrant's Form 6-K, as filed on September 8, 2015 and incorporated herein by reference.
4.19	<u>Form of Registration Rights Agreement, dated September 2, 2015, by and between the Company and Casern Holdings Ltd.</u>	Exhibit 99.3 to Registrant's Form 6-K, as filed on September 8, 2015 and incorporated herein by reference.
4.20	<u>Form of Securities Purchase Agreement, dated October 26, 2015, by and between the Company and ALSA Holdings Ltd.</u>	Exhibit 99.1 to Registrant's Form 6-K, as filed on October 29, 2015 and incorporated herein by reference.
4.21	<u>Form of Convertible Note, dated October 26, 2015, issued to ALSA Holdings Ltd.</u>	Exhibit 99.2 to Registrant's Form 6-K, as filed on October 29, 2015 and incorporated herein by

reference.

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| 4.22 | <u>Form of Securities Purchase Agreement, dated December 8, 2015, by and between the Company and MTR3S Holding Ltd.</u>   | Exhibit 99.1 to Registrant's Form 6-K, as filed on December 11, 2015 and incorporated herein by reference. |
| 4.23 | <u>Form of Convertible Note, dated December 8, 2015, issued to MTR3S Holding Ltd.</u>                                     | Exhibit 99.2 to Registrant's Form 6-K, as filed on December 11, 2015 and incorporated herein by reference. |
| 4.24 | <u>Form of Securities Purchase Agreement, dated January 6, 2016, by and between the Company and Alpha Capital Anstalt</u> | Exhibit 99.1 to Registrant's Form 6-K, as filed on January 19, 2016 and incorporated herein by reference.  |

Exhibit No.:	Exhibit Description	Where Filed
4.25	<u>Form of Convertible Note, dated January 6, 2016, issued to Alpha Capital Anstalt</u>	Exhibit 99.2 to Registrant's Form 6-K, as filed on January 19, 2016 and incorporated herein by reference.
4.26	<u>Form of Securities Purchase Agreement, dated March 1, 2016, by and between the Company and MTR3S Holding Ltd.</u>	Exhibit 99.1 to Registrant's Form 6-K, as filed on March 4, 2016 and incorporated herein by reference.
4.27	<u>Form of Convertible Note, dated March 1, 2016, issued to MTR3S Holding Ltd.</u>	Exhibit 99.2 to Registrant's Form 6-K, as filed on March 4, 2016 and incorporated herein by reference.
4.28	<u>Debt Settlement Agreement and Release, dated May 10, 2016, by and between FreeSeas Inc. and M.I.E. Company Ltd.</u>	Filed herewith.
4.29	<u>Form of Convertible Note, dated May 10, 2016, issued to M.I.E. Company Ltd.</u>	Filed herewith.
4.30	<u>Securities Purchase Agreement, dated May 25, 2016, by and between FreeSeas Inc. and Crown Bridge Partners, LLC</u>	Filed herewith.
4.31	<u>Form of Convertible Note, dated May 25, 2016, issued to Crown Bridge Partners, LLC</u>	Filed herewith.
4.32	<u>Debt Settlement Agreement and Release, dated June 27, 2016, by and between FreeSeas Inc. and E. Stavropoulos &amp; Co O.E. "Hydra Travel"</u>	Filed herewith.
4.33	<u>Form of Convertible Note, dated June 27, 2016, issued to E. Stavropoulos &amp; Co O.E. "Hydra Travel"</u>	Filed herewith.
4.34	<u>Debt Settlement Agreement and Release, dated June 27, 2016, by and between FreeSeas Inc. and Marine Plus S.A.</u>	Filed herewith.
4.35	<u>Form of Convertible Note, dated June 27, 2016, issued to Marine Plus S.A.</u>	Filed herewith.
4.36	<u>Debt Settlement Agreement and Release, dated June 27, 2016, by and between FreeSeas Inc. and Medpool Ltd.</u>	Filed herewith.
4.37	<u>Form of Convertible Note, dated June 27, 2016, issued to Medpool Ltd.</u>	Filed herewith.

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- 4.38 Debt Settlement Agreement, dated July 11, 2016, by and between FreeSeas Inc. and Sichenzia Ross Friedman Ference LLP Filed herewith.
- 4.39 Form of Convertible Note, dated July 11, 2016, issued to Sichenzia Ross Friedman Ference LLP Filed herewith.
- 4.40 Debt Settlement Agreement and Release, dated August 16, 2016, by and between FreeSeas Inc. and Anyland Travel Ltd. Filed herewith.
- 4.41 Form of Convertible Note, dated August 16, 2016, issued to Anyland Travel Ltd. Filed herewith.

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Exhibit No.:	Exhibit Description	Where Filed
4.42	<u>Debt Settlement Agreement and Release, dated August 16, 2016, by and between FreeSeas Inc. and M. Dalakos – I. Fassolis – N. Theofanopoulos &amp; Partners Law Firm</u>	Filed herewith.
4.43	<u>Form of Convertible Note, dated August 16, 2016, issued to M. Dalakos – I. Fassolis – N. Theofanopoulos &amp; Partners Law Firm</u>	Filed herewith.
4.44	<u>Securities Purchase Agreement, dated August 16, 2016, by and between FreeSeas Inc. and YES Properties, Inc.</u>	Filed herewith.
4.45	<u>Form of Convertible Note, dated August 16, 2016, issued to YES Properties, Inc.</u>	Filed herewith.
4.46	<u>Securities Purchase Agreement, dated November 21, 2016, by and between FreeSeas Inc. and Crede CG III, Ltd.</u>	Filed herewith.
4.47	<u>Form of Convertible Note, dated November 21, 2016, issued to Crede CG III, Ltd.</u>	Filed herewith.
4.48	<u>Securities Purchase Agreement, dated November 21, 2016, by and between FreeSeas Inc. and APG Capital Holdings, LLC</u>	Filed herewith.
4.49	<u>Form of Convertible Note, dated November 21, 2016, issued to APG Capital Holdings, LLC</u>	Filed herewith.
4.50	<u>Securities Purchase Agreement, dated November 30, 2016, by and between FreeSeas Inc. and Adar Bays, LLC</u>	Filed herewith.
4.51	<u>Form of Convertible Note, dated November 30, 2016, issued to Adar Bays, LLC</u>	Filed herewith.
4.52	<u>Securities Purchase Agreement, dated December 30, 2016, by and between FreeSeas Inc. and MTR3S Holding Ltd.</u>	Filed herewith.
4.53	<u>Form of Convertible Note, dated December 30, 2016, issued to MTR3S Holdings Ltd.</u>	Filed herewith.
4.54	<u>Form of Convertible Note, dated January 17, 2017, issued to LG Capital Funding, LLC</u>	Filed herewith.
4.55	<u>Securities Purchase Agreement, dated January 18, 2017, by and between FreeSeas Inc. and LG Capital Funding, LLC</u>	Filed herewith.
4.56	<u>Form of Convertible Note, dated January 18, 2017, issued to LG Capital Funding, LLC</u>	Filed herewith.

4.57 Securities Purchase Agreement, dated February 13, 2017, by and between FreeSeas Inc. and Power Up Lending Group Ltd. Filed herewith.

4.58 Form of Convertible Note, dated February 13, 2017, issued to Power Up Lending Group Ltd. Filed herewith.

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Exhibit No.:	Exhibit Description	Where Filed
4.59	<u>Securities Purchase Agreement, dated February 16, 2017, by and between FreeSeas Inc. and Crown Bridge Partners, LLC</u>	Filed herewith.
4.60	<u>Form of Convertible Note, dated February 16, 2017, issued to Crown Bridge Partners, LLC</u>	Filed herewith.
4.61	<u>Securities Purchase Agreement, dated February 22, 2017, by and between FreeSeas Inc. and APG Capital Holdings, LLC</u>	Filed herewith.
4.62	<u>Form of Convertible Note, dated February 22, 2017, issued to APG Capital Holdings, LLC</u>	Filed herewith.
4.63	<u>Form of Convertible Note, dated February 22, 2017, issued to APG Capital Holdings, LLC</u>	Filed herewith.
4.64	<u>Securities Purchase Agreement, dated February 24, 2017, by and between FreeSeas Inc. and Oakmore Opportunity Fund I, LP</u>	Filed herewith.
4.65	<u>Form of Convertible Note, dated February 24, 2017, issued to Oakmore Opportunity Fund I, LP</u>	Filed herewith.
4.66	<u>Form of Convertible Note, dated March 20, 2017, issued to LG Capital Funding, LLC</u>	Filed herewith.
4.67	<u>Form of Convertible Note, dated March 20, 2017, issued to LG Capital Funding, LLC</u>	Filed herewith.
4.68	<u>Securities Purchase Agreement, dated March 28, 2017, by and between FreeSeas Inc. and Cerebus Finance Group, Ltd.</u>	Filed herewith.
4.69	<u>Form of Convertible Note, dated March 28, 2017, issued to Cerebus Finance Group Ltd.</u>	Filed herewith.
4.70	<u>Securities Purchase Agreement, dated April 7, 2017, by and between FreeSeas Inc. and GS Capital Partners, LLC</u>	Filed herewith.
4.71	<u>Form of Convertible Note, dated April 7, 2017, issued to GS Capital Partners, LLC</u>	Filed herewith.
4.72	<u>Securities Purchase Agreement, dated July 21, 2017, by and between FreeSeas Inc. and LG Capital Funding, LLC</u>	Filed herewith.
4.73	<u>Form of Convertible Note, dated July 21, 2017, issued to LG Capital Funding, LLC</u>	Filed herewith.

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|------|---|--------------------|
| 4.74 | <u>Form of Convertible Note, dated July 21, 2017, issued to LG Capital Funding, LLC</u>                               | Filed<br>herewith. |
| 4.75 | <u>Securities Purchase Agreement, dated July 24, 2017, by and between FreeSeas Inc. and Adar Bays, LLC</u>            | Filed<br>herewith. |
| 4.76 | <u>Form of Convertible Note, dated July 24, 2017, issued to Adar Bays, LLC</u>  | Filed<br>herewith. |
| 4.77 | <u>Securities Purchase Agreement, dated August 17, 2017, by and between FreeSeas Inc. and LG Capital Funding, LLC</u> | Filed<br>herewith. |
| 4.78 | <u>Form of Convertible Note, dated August 17, 2017, issued to LG Capital Funding, LLC</u>                             | Filed<br>herewith. |
| 4.79 | <u>Form of Convertible Note, dated August 17, 2017, issued to LG Capital Funding, LLC</u>                             | Filed<br>herewith. |

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<b>Exhibit No.:</b>	<b>Exhibit Description</b>	<b>Where Filed</b>
8.1	<u>Subsidiaries of the Registrant</u>	Filed herewith
12.1	<u>Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended</u>	Filed herewith
12.2	<u>Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended</u>	Filed herewith
13.1	<u>Certification of the Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>	Filed herewith
13.2	<u>Certification of the Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>	Filed herewith
16.1	Letter from RBSM LLP	To be filed by amendment
101 INS	XBRL Instance Document	Submitted herewith
101 SCH	XBRL Taxonomy Extension Schema Document	Submitted herewith
101 CAL	XBRL Taxonomy Calculation Linkbase Document	Submitted herewith
101 LAB	XBRL Taxonomy Labels Linkbase Document	Submitted herewith
101 PRE	XBRL Taxonomy Presentation Linkbase Document	Submitted herewith
101 DEF	XBRL Taxonomy Extension Definition Linkbase Document	Submitted herewith

**SIGNATURES**

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

**FREESEAS INC.**

Dated: August 17, 2017 By: */s/ DIMITRIS PAPADOPOULOS*

Dimitris Papadopoulos  
Chief Financial Officer

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<u>Consolidated Statements of Operations for the Years Ended December 31, 2016, 2015 and 2014</u>	F-4
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## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of FreeSeas Inc.

We have audited the accompanying consolidated balance sheets of FreeSeas Inc. (“the Company”) as of December 31, 2016 and 2015, and the related consolidated statements of operations, changes in shareholders’ equity (deficit), and cash flows for each of the three years ended December 31, 2016. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. We were not engaged to perform an audit of the Company’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FreeSeas Inc. as of December 31, 2016 and 2015, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the financial statements, the Company has been unable to obtain ongoing sources of revenue sufficient to cover cost of operations and scheduled debt repayments. Additionally, the Company has not made scheduled payments and is in violation of debt covenants associated with its bank loan, and per the loan agreement, this violation may result in acceleration of outstanding indebtedness, which would require the Company to obtain significant additional financing in order to meet obligations under the loan agreement. These factors raise substantial doubt about its ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Fruci & Associates II, PLLC  
Spokane, Washington  
August 17, 2017

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**FREESEAS INC.****CONSOLIDATED BALANCE SHEETS**

(All amounts in thousands of United States Dollars, except for share and per share data)

	Notes	December 31, 2016	December 31, 2015
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents		\$ 52	\$ 20
Trade receivables, net of provision of \$3,073 and \$3,263 for 2016 and 2015, respectively.		149	206
Due from related party	4	-	-
Inventories		235	476
Deferred charges - current portion		1	8
Prepayments and other		158	515
Guarantee Deposit		189	164
Other Current Assets		25	25
Total current assets		809	1,413
Vessels, net	5	2,122	10,305
Leased vessel, net	6	-	7,000
Total non-current assets		2,122	17,305
Total assets		\$ 2,931	\$ 18,718
<b>LIABILITIES AND SHAREHOLDERS' (DEFICIT) EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Accounts payable		\$ 8,127	\$ 7,715
Convertible notes, net	9	1,558	930
Accrued liabilities	7	7,134	5,946
Due to related party		2,107	713
Put option liability	6	-	2,575
Bank loans - current portion	10	17,598	17,598
Total current liabilities		36,524	35,478
Total liabilities		36,524	35,478
Commitments and Contingencies	11	-	-

SHAREHOLDERS' (DEFICIT) EQUITY:

Preferred Stock, \$0.001 par value; 5,000,000 shares authorized, Series D			
Convertible Preferred Stock, \$0.001 par value, 250,000 shares designated, 8,160 issued and outstanding at December 31, 2016 and December 31, 2015.	13,15	-	-
Common stock, \$0.001 par value; 10,000,000,000 shares authorized, 168,212 and 4 shares issued and outstanding at December 31, 2016 and December 31, 2015, respectively.	13,15	-	-
Additional paid-in capital		224,792	221,114
Accumulated deficit		(258,385 )	(237,874 )
Total shareholders' (deficit) equity		(33,593 )	(16,760 )
Total liabilities and shareholders' (deficit) equity		\$ 2,931	\$ 18,718

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

**FREESEAS INC.****CONSOLIDATED STATEMENTS OF OPERATIONS**

(All amounts in thousands of United States Dollars, except for share and per share data)

	Years Ended December 31,		
	2016	2015	2014
OPERATING REVENUES	\$ 506	\$ 2,304	\$ 3,773
OPERATING EXPENSES:			
Voyage expenses	(609 )	(1,831 )	(829 )
Commissions	(18 )	(174 )	(274 )
Vessel operating expenses	(2,183 )	(4,967 )	(16,131 )
Depreciation expense (Note 5)	(1,939 )	(3,585 )	(5,320 )
Management and other fees to a related party (Note 4)	(702 )	(1,070 )	(1,605 )
General and administrative expenses	(3,049 )	(4,252 )	(4,104 )
Provision and write-offs of insurance claims and bad debts	1,185	525	(872 )
Loss on sale of vessels (Note 5)	(277 )	(7,620 )	(1,098 )
Loss on commitment and contingency (Note 6)	-	(2,000 )	-
Contractual derivative obligation (Note 6)	(5,442 )	(3,300 )	-
Bareboat Hire	-	(493 )	-
Vessels impairment charge (Notes 5)	(4,286 )	(18,891 )	-
Loss from operations	(16,814)	(45,354 )	(26,460)
OTHER INCOME (EXPENSE):			
Interest and finance costs	(3,632 )	(5,026 )	(2,342 )
Loss on derivative instruments (Note 8)	-	-	(21 )
Loss on settlement of liability through stock issuance (Note 15)	-	-	-
Gain on settlement of payable	(37 )	313	-
Other income/ (expense) (Note 15)	(28 )	177	78
Gain on debt extinguishment	-	-	16,057
Loss due to capital lease write-off (Note 6)	-	(3,058 )	-
Other income (expense)	(3,697 )	(7,595 )	13,772
Net loss	\$(20,511)	\$(52,949 )	\$(12,688)
Basic loss per share	\$(850 )	\$(111,139)	\$(55,758)
Diluted loss per share	\$(850 )	\$(111,139)	\$(55,758)
Basic weighted average number of shares	24,140	476	228
Diluted weighted average number of shares	24,140	476	228



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

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## FREESEAS INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)

(All amounts in thousands of United States Dollars, except for share data)

	Preferred Shares (Note15)	Preferred Shares \$	Common Shares (Note15)	Common Shares \$	Additional Paid-in Capital	Accumulated deficit	Total Shareholders' Equity (Deficit)
<b>Balance December 31, 2013</b>	<b>56,000</b>	-	<b>100</b>	-	<b>185,032</b>	<b>(172,239 )</b>	<b>12,793</b>
Net loss	-	-	-	-	-	(12,688 )	(12,688 )
Stock compensation expense	-	-	-	-	637	-	637
Cashless warrants exercised	-	-	-	-	-	-	-
Beneficial conversion feature	-	-	-	-	164	-	164
Common stock issued for convertible notes	-	-	288	-	128	-	128
Series D Preferred stock issued for cash	250,000	-	-	-	23,969	-	23,969
Series D Preferred stock converted into common stock	(241,840 )	-	-	-	-	-	-
Series C Preferred stock converted into common stock	(56,000 )	-	-	-	-	-	-
<b>Balance December 31, 2014</b>	<b>8,160</b>	-	<b>388</b>	-	<b>209,930</b>	<b>(184,927 )</b>	<b>25,004</b>
Net loss	-	-	-	-	-	(52,949 )	(52,949 )
Stock compensation expense	-	-	-	-	898	-	898
Cashless warrants exercised	-	-	120	-	-	-	-
Stock issued for settlement of liability	-	-	-	-	1,004	-	1,004
Common stock issued for convertible notes	-	-	120	-	9,282	-	9,282
<b>Balance December 31, 2015</b>	<b>8,160</b>	\$ -	<b>628</b>	\$ -	<b>\$ 221,114</b>	<b>\$ (237,874 )</b>	<b>\$ (16,760 )</b>
Net loss	-	-	-	-	-	(20,511 )	(20,511 )
Stock compensation expense	-	-	-	-	206	-	206
Cashless warrants exercised	-	-	23,020	-	214	-	214
Stock issued for Management	-	-	-	-	287	-	287
Common stock issued for convertible notes	-	-	144,564	-	2,971	-	2,971
<b>Balance December 31, 2016</b>	<b>8,160</b>	\$ -	<b>168,212</b>	\$ -	<b>\$ 224,792</b>	<b>\$ (258,385 )</b>	<b>\$ (33,593 )</b>

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

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**FREESEAS INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(All amounts in tables in thousands of United States Dollars)

	Years Ended		
	December 31, 2016	December 31, 2015	December 31, 2014
<b>Cash Flows from Operating Activities:</b>			
Net loss	\$(20,511)	\$(52,949)	\$(12,688)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation expense (Note 5)	1,939	3,585	5,320
Loss on sale of vessel	277	7,620	1,098
Amortization of debt discount	1,550	3,515	40
Gain on debt extinguishment principal			(15,000)
Gain on debt extinguishment - accrued interest			(449)
Gain on debt extinguishment - accrued fees			(1,409)
Loss on debt extinguishment - deferred finance costs			801
Gain on settlement of payable	(37)	(313)	-
Shares issued to settle fees owed to the Manager	287	-	-
Amortization of deferred financing fees	6	8	226
Amortization of deferred dry-docking and special survey costs			167
Stock-based compensation charge (Note 14)	206	898	638
Loss on write off of capital lease	-	3,057	-
Loss on commitment and contingency (Note 6)	-	2,000	-
Change in fair value of derivatives (Note 8)	-	-	(200)
Vessel impairment loss (Note 5)	4,286	18,891	-
<b>Changes in:</b>			
-Trade receivables	57	388	724
-Insurance claims	-	-	186
-Due from related party	-	433	734
-Inventories	241	(310)	(134)
-Prepayments and other	357	174	150
-Accounts payable	199	1,184	(1,362)
-Accrued liabilities	1,188	1,357	1,515
-Unearned revenue	-	(52)	52
-Due to related party	1,107	713	-
-Guarantee Deposits	(25)	(164)	-
<b>Net Cash used in Operating Activities</b>	<b>(8,873)</b>	<b>(9,965)</b>	<b>(19,593)</b>
<b>Cash flows from Financing Activities:</b>			
Proceeds from convertible notes	1,533	6,489	304
Write-off of lease advance payments	7,000	-	-
Payments on capital lease	(1,300)	-	-
Repayment of bank loans	-	-	(27,089)
Issuance of convertible preferred stock for cash, net (Note 15)			23,970

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Net Cash provided by Financing Activities	7,233	6,489	(2,815 )
Cash flows from Investing Activities:			
-Proceeds from sale of vessels, net	1,672	3,451	14,872
Net Cash provided by Investing Activities	1,672	3,451	14,872
Net increase (decrease) in cash and cash equivalents	32	(25 )	(7,536 )
Cash and cash equivalents, beginning of year	20	45	7,581
Cash and cash equivalents, end of year	\$52	\$ 20	\$ 45
Supplemental Cash Flow Information:			
Cash paid for interest	\$-	\$ -	\$ 960
Non-Cash Operating Activities:			
Shares issued to settle fees owed to the Manager	\$287	\$ -	\$ -
Notes converted to common stock	\$2,971	\$ 5,389	\$ 129
Beneficial Conversion feature	\$-	\$ -	\$ 164
Bareboat Charter Lease	\$-	\$ (8,400 )	\$ 12,250
Security deposit for charter terms	\$-	\$ -	\$ 3,750
Convertible notes issued in settlement of accounts payable	\$526	\$ -	\$ -
Cashless warrants exercised	\$214	\$ -	\$ -
Adjustments for settlement of put option liability	\$2,075	\$ -	\$ -
Stock issued in settlement of liabilities	\$-	\$ 1,004	\$ -

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

**FREESEAS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in thousands of United States Dollars, except for share and per share data)

**1. Basis of Presentation and General Information**

The accompanying consolidated financial statements include the accounts of FreeSeas Inc. and its wholly owned subsidiaries (collectively, the “Company” or “FreeSeas”). FreeSeas, formerly known as Adventure Holdings S.A., was incorporated in the Marshall Islands on April 23, 2004 for the purpose of being the ultimate holding company of ship-owning companies.

We have contracted the management of our fleet to entities beneficially owned (our Managers) by Ion G. Varouxakis, our Chairman, President and Chief Executive Officer. Our Managers provide technical management of our fleet, commercial management of our fleet, financial reporting and accounting services and office space (see Note 4).

Effective January 15, 2016, April 14, 2016 and February 7, 2017 the Company effectuated a 60-to-1, a 200-to-1 and a 5,000-to-1 reverse stock split respectively, on its issued and outstanding common stock (Note 14). All share and per share amounts disclosed in the financial statements give effect to the reverse stock splits retroactively, for all periods presented.

On April 21, 2016, the Company was notified by The NASDAQ Stock Market LLC (“NASDAQ”) that its pending appeal before the NASDAQ Listing Qualifications Hearing Panel had been denied, and that trading in the Company’s common stock was suspended on NASDAQ effective with the open of business on Monday April 25, 2016. On April 25, 2016, the Company’s common stock began trading on the OTCQB market operated by OTC Markets Group Inc. (“OTC Markets”) under the trading symbol “FREEF.” On June 15, 2017, the Company was notified by the OTC Markets that as a result of the Company’s failure to file its annual report on Form 20-F, the Company’s common stock would be removed from the OTCQB market and would be available for quotation on the OTC Pink market operated by the OTC Markets, effective June 16, 2017, under the same trading symbol of “FREEF”.

On May 20, 2015, the M/V Free Hero, 1995-built, 24,318 dwt Handysize dry bulk carrier and the M/V Free Goddess, 1995-built, 22,051 dwt Handysize dry bulk carrier, have been sold for a gross sale price of \$5,500 each, and the Company’s subsidiaries have entered into long-term bareboat agreements for such vessels with purchase options at a daily hire rate of \$1,100 per vessel (not expressed in thousands). The vessels have been renamed to Fiorello and Figaro, respectively (Note 6).

On June 15, 2016, the bareboat hire agreement in connection with the M/V Fiorello was terminated. Subsequent to the termination of the hire, the vessel was sold for a gross sale price of \$1,490 with the sale proceeds being applied towards obligations to the Bareboat Owners of the vessel and trade creditors (Note 6).

On September 26, 2016, the Company sold to unrelated third parties the M/V Free Maverick, a 1998-built, 23,994 dwt Handysize dry bulk carrier for a gross sale price of \$1,925. As a result of the sale the Company recognized a loss of \$277 (Note 5).

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**FREESEAS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in thousands of United States Dollars, except for share and per share data)

As of December 31, 2016, the Company owns one and operates two Handysize dry bulk carriers. As of December 31, 2016, FreeSeas is the owner of the outstanding shares of the following subsidiaries:

Company	% Owned	M/V	Type	Dwt	Year Built/ Expected Year of Delivery	Date of Acquisition	Date of Disposal	Date of Contract/ Bareboat Charter Termination	Date of Initiation of Bareboat Charter
Adventure Two S.A.	100%	Free Destiny	Handysize	25,240	1982	08/04/04	08/27/10	N/A	N/A
Adventure Three S.A.	100%	Free Envoy	Handysize	26,318	1984	09/29/04	05/13/11	N/A	N/A
Adventure Four S.A.	100%	Free Fighter	Handysize	38,905	1982	06/14/05	04/27/07	N/A	N/A
Adventure Five S.A.	100%	Free Goddess	Handysize	22,051	1995	10/30/07	05/20/15	N/A	N/A
Adventure Six S.A.	100%	Free Hero	Handysize	24,318	1995	07/03/07	05/20/15	N/A	N/A
Adventure Seven S.A.	100%	Free Knight	Handysize	24,111	1998	03/19/08	02/18/14	N/A	N/A
Adventure Eight S.A.	100%	Free Jupiter	Handymax	47,777	2002	09/05/07	09/16/14	N/A	N/A
Adventure Nine S.A.	100%	Free Impala	Handysize	24,111	1997	04/02/08	09/24/14	N/A	N/A
Adventure Ten S.A.	100%	Free Lady	Handymax	50,246	2003	07/07/08	11/08/11	N/A	N/A
Adventure Eleven S.A.	100%	Free Maverick	Handysize	23,994	1998	09/01/08	09/26/16	N/A	N/A
Adventure Twelve S.A.	100%	Free Neptune	Handysize	30,838	1996	08/25/09	N/A	N/A	N/A
Largo Al Factotum S.A.	100%	Hull 1	Handysize	33,600	2012	N/A	N/A	04/28/12	N/A
Adventure Fifteen S.A.	100%	Hull 2	Handysize	33,600	2012	N/A	N/A	06/04/12	N/A
	100%	Nemorino	Handymax	47,777	2002	N/A	N/A	09/09/15	09/16/14



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Nemorino Shipping S.A.									
Fiorello Shipping S.A.	100% Fiorello	Handysize	24,318	1995	N/A	N/A	06/15/16	05/20/15	
Figaro Shipping S.A.	100% Figaro	Handysize	22,051	1995	N/A	N/A	N/A	05/20/15	
Standcorp International Limited	51 % N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	

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**FREESEAS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in thousands of United States Dollars, except for share and per share data)

**2. Significant Accounting Policies**

*a) Principles of Consolidation:* The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (or “U.S. GAAP”) and include in each of the three years in the period ended December 31, 2016 the accounts and operating results of the Company and its wholly-owned subsidiaries referred to in Note 1 above. All inter-company balances and transactions have been eliminated upon consolidation. FreeSeas as the holding company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity. Under ASC 810 “Consolidation” a voting interest entity is an entity in which the total equity investment at risk is sufficient to enable the entity to finance itself independently and provides the equity holders with the obligation to absorb losses, the right to receive residual returns and the right to make financial and operating decisions. The holding company consolidates voting interest entities in which it owns all, or at least a majority (generally, greater than 50%) of the voting interest. Variable interest entities (“VIE”) are entities as defined under ASC 810 that in general either do not have equity investors with voting rights or that have equity investors that do not provide sufficient financial resources for the entity to support its activities. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity’s design and purpose and the reporting entity’s power, through voting or similar rights, to direct the activities of the other entity that most significantly impact the other entity’s economic performance. A controlling financial interest in a VIE is present when a company has the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE, or both. Only one reporting entity, known as the primary beneficiary, is expected to be identified as having a controlling financial interest and thus is required to consolidate the VIE. The Company evaluates all arrangements that may include a variable interest in an entity to determine if it may be the primary beneficiary, and would be required to include assets, liabilities and operations of a VIE in its consolidated financial statements. As of December 31, 2016, and 2015, no such interest existed.

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

*c) Concentration of Credit Risk:* Financial instruments, which potentially subject the Company to significant concentrations of credit risk, consist principally of cash and cash equivalents, trade accounts receivable, insurance claims, prepayments and advances, and derivative contracts (interest rate swaps). The Company places its cash and cash equivalents, consisting mostly of deposits, with high credit qualified financial institutions. The Company

monitors the credit risk regarding charterer's turnover in order to review its reliance on individual charterers. The Company does not obtain rights to collateral to reduce its credit risk. The Company is exposed to credit risk in the event of non-performance by counter parties to derivative instruments; however, the Company limits its exposure by diversifying among counter parties with high credit ratings. Credit risk with respect to trade account receivable is considered high due to the fact that the Company's total income is derived from a few charterers. For the year ended December 31, 2016, two charterers individually accounted for more than 10% of the Company's voyage revenues, two charterers individually accounted for more than 10% of the Company's voyage revenues for the year ended December 31, 2015, and two charterers individually accounted for more than 10% of the Company's voyage revenues for the year ended December 31, 2014 as follows:

Charterer	2016	2015	2014
A	73 %	39 %	39 %
B	24 %	31 %	34 %

*d) Foreign Currency Translation:* The functional currency of the Company is the U.S. Dollar because the Company's vessels operate in international shipping markets, and therefore primarily transact business in U.S. Dollars. The Company's accounting records are maintained in U.S. Dollars. Transactions involving other currencies during the year are converted into U.S. Dollars using the exchange rates in effect at the time of the transactions. At the balance sheet date, monetary assets and liabilities, which are denominated in other currencies, are translated into U.S. Dollars at the year-end exchange rates. Resulting gains or losses are included in other income/loss in the accompanying consolidated statements of operations.

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

*f) Trade Receivables, net:* The amount shown as Trade Receivables at each balance sheet date includes receivables from charterers for hire, freight and demurrage billings, net of an allowance for doubtful debts. An estimate is made of the allowance for doubtful debts based on a review of all outstanding amounts at year end, and an allowance is made for any accounts which management believes are not recoverable.

**FREESEAS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in thousands of United States Dollars, except for share and per share data)

*g) Insurance Claims:* Insurance claims comprise claims submitted and/or claims in the process of compilation for submission (claims pending) relating to hull and machinery or protection and indemnity insurance coverage. They are recorded as incurred on the accrual basis and represent the claimable expenses incurred, net of deductibles, the recovery of which is probable under the related insurance policies and the Company can make an estimate of the amount to be reimbursed. Any non-recoverable amounts are included in accrued liabilities and depending on their nature, are classified as operating expenses or voyage expenses in the statements of operations. The classification of insurance claims (if any) into current and non-current assets is based on management's expectations as to their collection dates.

*h) Inventories:* Inventories, which are comprised of bunkers and lubricants remaining on board of the vessels at year end, are valued at the lower of cost, as determined on a first-in, first-out basis, or market.

*i) Vessels' Cost:* Vessels are stated at cost, which consists of the contract purchase price and any material expenses incurred upon acquisition (initial repairs, improvements, delivery expenses and other expenditures to prepare the vessel for her initial voyage). Subsequent expenditures for conversions and major improvements are also capitalized when they appreciably extend the life, increase the earning capacity or improve the efficiency or safety of the vessels. Otherwise, these expenditures are charged to expense as incurred.

*j) Vessels' Depreciation:* The cost of the Company's vessels is depreciated on a straight-line basis over the vessels' remaining economic useful lives from the acquisition date, after considering the estimated residual value (vessel's residual value is equal to the product of its lightweight tonnage and estimated scrap rate). Effective April 1, 2009, and following management's reassessment of the useful lives of the Company's assets, the fleets useful life was increased from 27 to 28 years since the date of initial delivery from the shipyard. Management's estimate was based on the current vessels' operating condition, as well as the conditions prevailing in the market for the same type of vessels.

*k) Vessels held for sale:* It is the Company's policy to dispose of vessels when suitable opportunities arise and not necessarily to keep them until the end of their useful life. The Company classifies assets and disposal groups of assets as being held for sale in accordance with ASC 360, "Property, Plant and Equipment," when the following criteria are met: (i) management possessing the necessary authority has committed to a plan to sell the asset; (ii) the asset is immediately available for sale on an "as is" basis; (iii) an active program to find the buyer and other actions required to execute the plan to sell the asset have been initiated; (iv) the sale of the asset is probable, and transfer of the asset is

expected to qualify for recognition as a completed sale within one year; (v) the asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value and (vi) actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. Long-lived assets or disposal groups classified as held for sale are measured at the lower of their carrying amount or fair value less cost to sell. These assets are not depreciated once they meet the criteria to be held for sale and are classified in current assets on the consolidated balance sheet.

*l) Impairment of Long-lived Assets:* The Company follows the guidance under ASC 360, “Property, Plant and Equipment,” which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The standard requires that, long-lived assets and certain identifiable intangibles held and used or disposed of by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. When the estimate of undiscounted cash flows, excluding interest charges, expected to be generated by the use of the asset is less than its carrying amount, the Company should evaluate the asset for an impairment loss. Measurement of the impairment loss is based on the fair value of the asset which is determined based on management estimates and assumptions and by making use of available market data. The fair values are determined through Level 2 inputs of the fair value hierarchy as defined in ASC 820 “Fair value measurements and disclosures” and are derived principally from or by corroborated or observable market data. Inputs, considered by management in determining the fair value, include independent broker’s valuations, FFA indices, average charter hire rates and other market observable data that allow value to be determined. The Company evaluates the carrying amounts and periods over which long-lived assets are depreciated to determine if events have occurred which would require modification to their carrying values or useful lives. In evaluating useful lives and carrying values of long-lived assets, management reviews certain indicators of potential impairment, such as future undiscounted net operating cash flows, vessel sales and purchases, business plans and overall market conditions. In performing the recoverability tests the Company determines future undiscounted net operating cash flows for each vessel and compares it to the vessel’s carrying value. The future undiscounted net operating cash flows are determined by considering the Company’s alternative courses of action, estimated vessel’s utilization, its scrap value, the charter revenues from existing time charters for the fixed fleet days and an estimated daily time charter equivalent for the unfixed days over the remaining estimated useful life of the vessel, net of vessel operating expenses adjusted for inflation, and cost of scheduled major maintenance. When the Company’s estimate of future undiscounted net operating cash flows for any vessel is lower than the vessel’s carrying value, the carrying value is written down, by recording a charge to operations, to the vessel’s fair market value.

**FREESEAS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in thousands of United States Dollars, except for share and per share data)

As of December 31, 2016, the Company performed an impairment assessment of its long-lived assets by comparing the undiscounted net operating cash flows for each vessel to its respective carrying value. The significant factors and assumptions the Company used in each future undiscounted net operating cash flow analysis included, among others, operating revenues, commissions, off-hire days, dry-docking costs, operating expenses and management fee estimates. Revenue assumptions were based on contracted time charter rates up to the end of life of the current contract of each vessel as well as Forward Freight Agreements (FFAs) and ten-year historical average time charter rates for the remaining life of the vessel after the completion of the current contracts. In addition, the Company used an annual operating expenses escalation factor and an estimate of off hire days. All estimates used and assumptions made were in accordance with the Company's internal budgets and historical experience of the shipping industry. The Company, as a result of the adverse market conditions the dry bulk industry faces and the substantial decline in the vessel market values, recognized an impairment charge of \$4,286 for the M/V Free Neptune during the year ended December 31, 2016, in the accompanying consolidated statement of operations.

*m) Accounting for Special Survey and Dry-docking Costs:* Effective as of January 1, 2014, the Company changed the deferral method of accounting for special survey and dry-docking costs whereby actual costs incurred were deferred and amortized over periods of five and two and a half years, respectively. The Company now follows the direct expense method of accounting for special survey and dry-docking costs whereby costs are expensed in the period incurred for the vessels.

*n) Financing Costs:* Fees incurred for obtaining new loans are deferred and amortized over the loans' respective repayment periods, using the effective interest rate method. These charges are included in the balance sheet line item Deferred Charges. Any unamortized balance of costs relating to loans repaid or refinanced is expensed in the period the repayment or refinancing is made, if the refinancing is deemed to be a debt extinguishment under the provision of ASC 470-50 "Debt: Modifications and Extinguishments."

*o) Unearned Revenue:* Unearned revenue includes cash received prior to the balance sheet date and is related to revenue earned after such date. These amounts are recognized as revenue over the voyage or charter period.

*p) Interest Rate Swaps:* The Company used interest rate swaps to manage net exposure to interest rate changes related to its borrowings. Such swap agreements, designated as "economic hedges" were recorded at fair value with changes in the derivatives' fair value recognized in earnings unless specific hedge accounting criteria were met. During the years

ended December 31, 2014, 2015 and 2016, there was no derivative transaction meeting such hedge accounting criteria; therefore, the change in their fair value was recognized in earnings.

*q) Financial Instruments:* The principal financial assets of the Company consist of cash and cash equivalents, trade receivables (net of allowance), insurance claims, prepayments and advances. The principal financial liabilities of the Company consist of accounts payable, accrued liabilities and long-term debt. The carrying amounts reflected in the accompanying consolidated balance sheets of financial assets and liabilities, approximate their respective fair values.

*r) Fair Value Measurements:* The Company follows the provisions of ASC 820, "Fair Value Measurements and Disclosures" which defines, and provides guidance as to the measurement of fair value. ASC 820 creates a hierarchy of measurement and indicates that, when possible, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value hierarchy gives the highest priority (Level 1) to quoted prices in active markets and the lowest priority (Level 3) to unobservable data, for example, the reporting entity's own data. Under the standard, fair value measurements are separately disclosed by level within the fair value hierarchy. ASC 820 applies when assets or liabilities in the financial statements are to be measured at fair value, but does not require additional use of fair value beyond the requirements in other accounting principles.

*s) Fair value option:* In February, 2007, the FASB issued ASC 825, "Financial Instruments," which permits companies to report certain financial assets and financial liabilities at fair value. ASC 825 was effective for the Company as of January 1, 2008 at which time the Company could elect to apply the standard prospectively and measure certain financial instruments at fair value. The Company evaluated the guidance contained in ASC 825 and elected not to report any existing financial assets or liabilities at fair value that are not already reported at fair value, therefore the adoption of the statement had no impact on its financial position and results of operations. The Company retains the ability to elect the fair value option for certain future assets and liabilities acquired under this pronouncement.

**FREESEAS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in thousands of United States Dollars, except for share and per share data)

*t) Accounting for Revenue and Expenses:* Revenue is recorded when services are rendered, the Company has a signed charter agreement or other evidence of an arrangement, the price is fixed or determinable, and collection is reasonably assured. A voyage charter involves the carriage of a specific amount and type of cargo from specific load port(s) to specific discharge port(s), subject to various cargo handling terms, in return for payment of an agreed upon freight rate per ton of cargo. A time charter involves placing a vessel at the charterers' disposal for a period of time during which the charterer uses the vessel in return for the payment of a specified daily hire rate. Short period charters for less than three months are referred to as spot charters. Time charters extending three months to a year are generally referred to as medium term charters. All other time charters are considered long term. Voyage revenues for the transportation of cargo are recognized ratably over the estimated relative transit time of each voyage. A voyage is deemed to commence when a vessel is available for loading of its next fixed cargo and is deemed to end upon the completion of the discharge of the current cargo. Revenues from time chartering of vessels are accounted for as operating leases and are thus recognized on a straight line basis as the average revenue over the rental periods of such charter agreements, as service is provided. Voyage expenses, primarily consisting of port, canal and bunker expenses that are unique to a particular charter, are paid for by the charterer under time charter arrangements or by the Company under voyage charter arrangements, except for commissions, which are always paid for by the Company, regardless of charter type. All voyage and vessel operating expenses are expensed as incurred, except for commissions. Commissions are deferred over the related voyage charter period to the extent revenue has been deferred since commissions are earned as the Company's revenues are earned. Probable losses on voyages in progress are provided for in full at the time such losses can be estimated.

*u) Profit Sharing Arrangements:* From time to time, the Company has entered into profit sharing arrangements with its charterers, whereby the Company may have received additional income at an agreed percentage of net earnings earned by such charterer, where those earnings are over the base rate of hire and settled periodically during the term of the charter agreement. Revenues generated from the profit sharing arrangements are recorded in the period they are earned.

*v) Repairs and Maintenance:* All repair and maintenance expenses, including major overhauling and underwater inspection expenses, are charged against income as incurred and are included in vessel operating expenses in the accompanying consolidated statements of operations.

*w) Stock-Based Compensation:* Following the provisions of ASC 718, "Compensation- Stock Compensation" the Company recognizes all share-based payments to employees, including grants of employee stock options, in the consolidated statements of operations based on their fair values on the grant date. Compensation cost on stock based



awards with graded vesting is recognized on an accelerated basis as though each separately vesting portion of the award was in substance, a separate award.

*x) Earnings/(Losses) per Share:* Basic earnings/(losses) per share are computed by dividing net income (loss) by the weighted average number of common shares outstanding during the periods presented. Diluted earnings per share reflect the potential dilution that would occur if securities or other contracts to issue common stock were exercised. Dilution has been computed by the treasury stock method whereby all of the Company's dilutive securities (warrants, options and restricted shares) are assumed to be exercised and the proceeds used to repurchase common shares at the weighted average market price of the Company's common stock during the relevant periods. The incremental shares (the difference between the number of shares assumed issued and the number of shares assumed purchased) are included in the denominator of the diluted earnings/(losses) per share computation unless such inclusion would be anti-dilutive.

*y) Segment Reporting:* The Company reports financial information and evaluates its operations by total charter revenues. The Company does not have discrete financial information to evaluate the operating results for each type of charter. Although revenue can be identified for these types of charters, management does not identify expenses, profitability or other financial information for these charters. As a result, management, including the chief operating decision makers, review operating results solely by revenue per day and operating results of the fleet and thus the Company has determined that it operates under one reportable segment. Furthermore, when the Company charters a vessel to a charterer, the charterer is free to trade the vessel worldwide and, as a result, the disclosure of geographic information is impracticable.

*z) Subsequent Events:* The Company evaluates subsequent events or transactions up to the date in which the financial statements are issued according to the requirements of ASC 855.

**FREESEAS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in thousands of United States Dollars, except for share and per share data)

*aa) Convertible Debt Instruments:* The Company evaluates and accounts for conversion options embedded in its convertible instruments in accordance with accounting standards for “Accounting for Derivative Instruments and Hedging Activities.” Accounting standards generally provides three criteria that, if met, require companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments. These three criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur, and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument. Professional standards also provide an exception to this rule when the host instrument is deemed to be conventional as defined under professional standards as “The Meaning of Conventional Convertible Debt Instrument.” The Company accounts for convertible instruments (when it has determined that the embedded conversion options should not be bifurcated from their host instruments) in accordance with professional standards when “Accounting for Convertible Securities with Beneficial Conversion Features,” as those professional standards pertain to “Certain Convertible Instruments.”

Accordingly, the Company records, when necessary, discounts to convertible notes for the intrinsic value of conversion options embedded in debt instruments based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Debt discounts under these arrangements are amortized over the term of the related debt to their earliest date of redemption. The Company also records when necessary deemed dividends for the intrinsic value of conversion options embedded in preferred shares based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note.

ASC 815-40 provides that, among other things, generally, if an event is not within the entity’s control could or require net cash settlement, then the contract shall be classified as an asset or a liability.

*bb) Recent Accounting Pronouncements:*

In May 2014, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers: Topic 606, or ASU 2014-09, to supersede nearly all existing

revenue recognition guidance under GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. Adoption of ASU 2014-09 was initially required for fiscal and interim reporting periods beginning after December 15, 2016 using either of two methods: (i) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09; or (ii) retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined per ASU 2014-09.

In February 2015, the FASB issued new guidance to improve consolidation guidance for legal entities ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis), effective for fiscal years beginning after December 15, 2015 and interim periods within those years and early adoption is permitted. The new standard is intended to improve targeted areas of the consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures. The amendments in the ASU affect the consolidation evaluation for reporting organizations. In addition, the amendments in this ASU simplify and improve current GAAP by reducing the number of consolidation models. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

In January 2015, the FASB issued ASU No. 2015-01 “Income Statement-Extraordinary and Unusual Items: Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items”. The concept of extraordinary items is removed and instead items that are both unusual in nature and infrequently occurring should be presented within income from continuing operations or disclosed in notes to financial statements because those items satisfy the conditions for an item that is unusual in nature or infrequently occurring. The new accounting guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early application is permitted. Companies have the option to apply the amendments of ASU No. 2015-01 either prospectively or retrospectively.

In April 2015, FASB issued ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, to simplify presentation of debt issuance costs by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The ASU does not affect the recognition and measurement guidance for debt issuance costs. For public companies, the ASU is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early application is permitted. This updated guidance is not expected to have a material impact on our results of operations, cash flows or financial condition.

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In August 2015, FASB issued ASU No. 2015-14, Revenue from Contracts with Customers - Deferral of the Effective Date: Topic 606, or ASU 2015-14, that deferred the effective date of ASU 2014-09 by one year. Application of the new revenue standard is permitted for fiscal and interim reporting periods beginning after December 15, 2016 and required for fiscal and interim reporting periods beginning after December 15, 2017. The Company is currently evaluating the impact of the adoption of ASU 2014-09. The Company will be required to make additional disclosures under the new guidance. However, at this time, the Company does not expect adoption of ASU 2014-09 to have a material impact on its consolidated financial statements.

In July 2015, FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory: Topic 330, or ASU 2015-11. Topic 330 previously required an entity to measure inventory at the lower of cost or market. Market could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. ASU 2015-11 requires that inventory measured using either the first-in-first-out (FIFO) or average cost method now be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The Company adopted ASU 2015-11 at the beginning of the first quarter of 2017. Adoption of ASU 2015-11 did not have a material impact on the Company's consolidated financial statements.

In November 2015, FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes: Topic 740, or ASU 2015-17. Current GAAP requires the deferred taxes for each jurisdiction to be presented as a net current asset or liability and net noncurrent asset or liability. This requires a jurisdiction-by-jurisdiction analysis based on the classification of the assets and liabilities to which the underlying temporary differences relate, or, in the case of loss or credit carryforwards, based on the period in which the attribute is expected to be realized. Any valuation allowance is then required to be allocated on a pro rata basis, by jurisdiction, between current and noncurrent deferred tax assets. The new guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. As a result, each jurisdiction will now only have one net noncurrent deferred tax asset or liability. The guidance does not change the existing requirement that only permits offsetting within a jurisdiction. Adoption of ASU 2015-17 did not have a material impact on the Company's consolidated financial statements.

In February 2016, FASB issued ASU No. 2016-02, Leases: Topic 842, or ASU 2016-02, that replaces existing lease guidance. The new standard is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet. Under the new guidance, leases will continue to be classified as either finance or operating, with classification affecting the pattern of expense recognition

in the Consolidated Statements of Operations. Lessor accounting is largely unchanged under ASU 2016-02. Adoption of ASU 2016-02 is required for fiscal reporting periods beginning after December 15, 2018, including interim reporting periods within those fiscal years with early adoption being permitted. The new standard is required to be applied with a modified retrospective approach to each prior reporting period presented with various optional practical expedients. While the Company expects adoption to lead to a material increase in the assets and liabilities recorded on its Consolidated Balance Sheet, the Company is still evaluating the overall impact on its consolidated financial statements.

In August 2016, FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, or ASU 2016-15. The updated guidance clarifies how companies present and classify certain cash receipts and cash payments in the statement of cash flows. Adoption of ASU 2016-15 is required for fiscal reporting periods beginning after December 15, 2017, including interim reporting periods within those fiscal years with early adoption being permitted. The Company does not expect the adoption of ASU 2016-15 to have a material impact on its consolidated financial statements.

In November 2016, FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, or ASU 2016-18, which amends ASC 230 to add or clarify guidance on the classification and presentation of restricted cash in the statement of cash flows. The amended guidance requires that amounts that are deemed to be restricted cash and restricted cash equivalents be included in the cash and cash-equivalent balances in the statement of cash flows. A reconciliation between the consolidated balance sheet and the statement of cash flows must be disclosed when the consolidated balance sheet includes more than one line item for cash, cash equivalents, restricted cash, and restricted cash equivalents. The guidance also requires that changes in restricted cash and restricted cash equivalents that result from transfers between cash, cash equivalents, and restricted cash and restricted cash equivalents should not be presented as cash flow activities in the statement of cash flows. An entity with a material balance of amounts generally described as restricted cash and restricted cash equivalents must disclose information about the nature of the restrictions. Adoption of ASU 2016-18 is required for fiscal reporting periods beginning after December 15, 2017, including interim reporting periods within those fiscal years with early adoption being permitted. The Company does not expect the adoption of ASU 2016-18 to have a material impact on its consolidated financial statements.

Any new accounting standards, not disclosed above, that have been issued or proposed by FASB that do not require adoption until a future date are not expected to have a material impact on the financial statements upon adoption.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in thousands of United States Dollars, except for share and per share data)

**3. Going Concern**

As a result of the historically low charter rates for drybulk vessels which have been affecting the Company for over seven years, and the resulting material adverse impact on the Company's results from operations, the accompanying consolidated financial statements have been prepared on a going concern basis. The Company has incurred net losses of \$20,511, \$52,949 and \$12,688 during the years ended December 31, 2016, 2015 and 2014, respectively. The Company's cash flow projections for 2017, indicate that cash on hand will not be sufficient to cover debt repayments scheduled as of December 31, 2016, and operating expenses and capital expenditure requirements for at least twelve months from the balance sheet date. As of December 31, 2016, and 2015, the Company had working capital deficits of \$35,715 and \$34,065, respectively. All of the above raises substantial doubt regarding the Company's ability to continue as a going concern. Management plans to continue to provide for its capital requirements by issuing additional equity securities and debt in addition to executing their business plan. The Company's ability to continue as a going concern is dependent upon its ability to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal course of business operations when they come due and to generate profitable operations in the future.

On February 22, 2014, the Company and certain of its subsidiaries entered into terms with the National Bank of Greece ("NBG") for settlement of its obligations arising from the loan agreement with NBG. Pursuant to the terms, NBG agreed to accept a cash payment of \$22,000 no later than December 31, 2014, in full and final settlement of all of the Company's obligations to NBG and NBG would forgive the remaining outstanding balance of approximately \$4,700. On September 17, 2014, the Company made a payment of \$2,700 to reduce outstanding indebtedness with NBG. On September 24, 2014, the Company sold the M/V Free Impala, a 1997-built, 24,111 dwt Handysize dry bulk carrier for a gross sale price of \$3,600 and the vessel was delivered to her new owners. Subsequently, the amount of \$3,300 had been used to reduce outstanding indebtedness with NBG, which had a mortgage on the vessel. The agreed settlement of the Company's obligations, arising from the loan agreement with NBG mentioned above, was not realized and negotiations have resumed for a new agreement. On June 18, 2015, the Company received from NBG a reservation of rights letter stating that the Bank may take any actions and may exercise all of their rights and remedies referred in the security documents. In December 2016, the Company received notification from NBG that the Company has not paid the aggregate amount of \$23,956 constituting repayment installments, accrued loan and default interest due on December 16, 2016.

If the Company is not able to reach an agreement with NBG, its standalone lender, this could lead to the acceleration of the outstanding debt under its debt agreement. The Company's failure to satisfy its covenants under its debt agreement and any consequent acceleration of its outstanding indebtedness would have a material adverse effect on

the Company's business operations, financial condition and liquidity.

Generally accepted accounting principles require that long-term debt be classified as a current liability when a covenant violation gives the lender the right to call the debt at the balance sheet date, absent a waiver. As a result of the actual breach existing under the Company's credit facility with NBG (Note 11) acceleration of such debt by its lender could result. Accordingly, as of December 31, 2016, the Company is required to reclassify its long-term debt as current liability on its consolidated balance sheet since the Company has not received waiver in respect to the breach discussed above.

The Company is currently exploring several alternatives aiming to manage its working capital requirements and other commitments, including offerings of securities through structured financing agreements (Note 10), disposition of certain vessels in its current fleet (Note 5) and additional reductions in operating and other costs.

The consolidated financial statements as of December 31, 2016, were prepared assuming that the Company would continue as a going concern despite its significant losses and working capital deficit. Accordingly, the financial statements did not include any adjustments relating to the recoverability and classification of recorded asset amounts, the amounts and classification of liabilities, or any other adjustments that might result in the event the Company is unable to continue as a going concern, except for the classification of all debt as current.

**FREESEAS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in thousands of United States Dollars, except for share and per share data)

**4. Related Party Transactions**

*Managers*

The vessels owned and the vessels sold and leased back by the Company receive management services from the pursuant to ship management agreements between each of the subsidiaries and the Managers.

Each of the Company's subsidiaries pays, as per its management agreement with the Managers, a monthly management fee of \$19 (on the basis that the \$/Euro exchange rate is 1.30 or lower; if on the first business day of each month the \$/Euro exchange rate exceeds 1.30 then the management fee payable will be increased for the month in question, so that the amount payable in \$ will be the equivalent in Euro based on 1.30 \$/Euro exchange rate) plus a fee of \$400 per day (not expressed in thousands) for superintendent attendance and other direct expenses.

The Company also pays Managers a fee equal to 1.25% of the gross freight or hire from the employment of the Company's vessels. In addition, the Company pays a 1% commission on the gross purchase price of any new vessel acquired or the gross sale price of any vessel sold by the Company with the assistance of the Managers. On February 18, 2014 the Company sold the M/V Free Knight, a 1998-built, 24,111 dwt Handysize dry bulk carrier for a gross sale price of \$3,600 and the vessel was delivered to her new owners. In this respect, the Company paid the Managers \$36 relating to the sale of the M/V Free Knight during the year ended December 31, 2014.

On September 16, 2014, the Company sold the M/V Free Jupiter a 2002-built, 47,777 dwt Handymax dry bulk carrier for a gross sale price of \$12,250 and subsequently entered into a long term bareboat charter with the vessel's new owners. In this respect, the Company paid the Managers \$122 relating to the sale of the M/V Free Jupiter during the year ended December 31, 2014. The vessel has been renamed to Nemorino and chartered by the Company for seven years at a rate of \$5,325 per day on bareboat charter terms typical for this type of transaction which grant the Company the full commercial utilization of the vessel against payment of the charter rate to its owners. On September 9, 2015, a settlement agreement was executed by the Company and the owners of M/V Nemorino with regards to disputes that arose in connection with the bareboat charter dated September 11, 2014. According to the terms of the settlement agreement, both the Company and the owners of M/V Nemorino released each other from any claim, discontinued the arbitration proceedings and agreed that the Company is entitled to receive, upon sale of the M/V



Nemorino by its owners to a buyer acting in cooperation or associated with the Company, 20% of any net sale proceeds above \$7,000, such milestone amount to be reduced by any net profits resulting from any operations of the vessel prior to a sale.

On September 24, 2014, the Company sold the M/V Free Impala, a 1997-built, 24,111 dwt Handysize dry bulk carrier for a gross sale price of \$3,600 and the vessel was delivered to her new owners. Substantially all the proceeds have been used to reduce outstanding indebtedness with NBG, which had a mortgage on the vessel. In this respect, the Company paid the Managers \$36 relating to the sale of the M/V Free Impala during the year ended December 31, 2014.

On September 26, 2016, the Company sold to unrelated third parties the M/V Free Maverick, a 1998-built, 23,994 dwt Handysize dry bulk carrier for a gross sale price of \$1,925. As a result of the sale the Company recognized a loss of \$277 (Note 5). In this respect, the Company paid the Managers \$19 relating to the sale of the M/V Free Maverick during the year ended December 31, 2016.

In addition, the Company has incurred commission expenses relating to its commercial agreement with the Managers amounting to \$35, and \$36 for the year ended December 31, 2016, 2015 and 2014, respectively, included in "Commissions" in the accompanying consolidated statements of operations.

On May 20, 2015, the M/V Free Hero, 1995-built, 24,318 dwt Handysize dry bulk carrier and the M/V Free Goddess, 1995-built, 22,051 dwt Handysize dry bulk carrier, were sold for a gross sale price of \$5,500 each, and the Company's subsidiaries have entered into long-term bareboat agreements for such vessels with purchase options at a daily hire rate of \$1,100 per vessel. The vessels have been renamed to Fiorello and Figaro , respectively.

On June 15, 2016, the bareboat hire agreement in connection with the M/V Fiorello was terminated. Subsequent to the termination of the hire, the vessel was sold for a gross sale price of \$1,490 with the sale proceeds being applied towards obligations to the Bareboat Owners of the vessel and trade creditors (Note 6).

On March 14, 2016, the Company, pursuant to the unanimous written consent of the Board of Directors, issued 10 common shares to Free Bulkers S.A., one of the Managers, for settling \$250, part of unpaid amount due in connection with services provided to the Company by Free Bulkers. The common shares issued were valued at the consolidated closing bid price of the common stock at the day of the issuance.

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The Company also pays, as per its services agreement with the Managers, a monthly fee of \$136 up to May 31, 2017 and \$50 commencing on June 1, 2017 (on the basis that the \$/Euro exchange rate is 1.35 or lower; if on the last business day of each month the \$/Euro exchange rate exceeds 1.35 then the service fee payable will be adjusted for the following month in question, so that the amount payable in dollars will be the equivalent in Euro based on 1.35 \$/Euro exchange rate) as compensation for services related to accounting, financial reporting, implementation of Sarbanes-Oxley internal control over financial reporting procedures and general administrative and management services plus expenses. The Manager is entitled to a termination fee if the agreement is terminated upon a “change of control” as defined in its services agreement with the Manager. The termination fee as of December 31, 2016, would be approximately \$59,959.

Fees and expenses charged by the Managers are included in the Company’s consolidated financial statements in “Management and other fees to a related party,” “General and administrative expenses,” “Operating expenses,” and “Gain on sale of vessel”. The total amounts charged for the year ended December 31, 2016, 2015, and 2014 amounted to \$2,344 (\$702 of management fees, \$1,635 of services fees, \$0 of superintendent fees and \$7 for other expenses), \$2,800 (\$1,070 of management fees, \$1,635 of services fees, \$88 of superintendent fees and \$7 for other expenses) and \$3,528 (\$1,605 of management fees, \$1,650 of services fees, \$265 of superintendent fees and \$8 for other expenses), respectively.

The balance due from the Managers as of December 31, 2016 and December 31, 2015 was \$nil. The amount paid to the Manager for office space during the year ended December 31, 2016, 2015 and 2014 was \$139, \$140 and \$148, respectively, and is included in “General and administrative expenses” in the consolidated statements of operations. The balance due to the Managers as December 31, 2016 and December 31, 2015 was \$2,107 and \$713, respectively, and is included in the “Management and other fees to a related party” in the consolidated statements of operations.

**Other Related Parties**

The Company, through the Manager uses from time to time a ship-broking firm associated with family members of the Company’s Chairman, Chief Executive Officer and President for certain of the charters of the Company’s fleet. During the years ended December 31, 2016, 2015 and 2014, such ship-broking firm charged the Company commissions of \$nil, \$ nil and \$6, respectively, which are included in “Commissions” in the accompanying consolidated statements of operations.

**5. Vessels, net**

	Vessels Cost	Accumulated Depreciation	Net Book Value
December 31, 2013	\$ 105,008	\$ (33,174 )	\$ 71,834
Depreciation	-	(4,896 )	(4,896 )
Disposal of vessels	(29,180 )	12,726	(16,454 )
Leased vessel	12,250	(424 )	11,826
December 31, 2014	\$ 88,078	\$ (25,768 )	\$ 62,310
Depreciation	-	(3,585 )	(3,585 )
Disposal of vessels	(42,674 )	13,145	(29,529 )
Leased vessels	7,000	-	7,000
Vessel impairment charge	(18,891 )	-	(18,891 )
December 31, 2015	\$ 33,513	\$ (16,208 )	\$ 17,305
Depreciation	-	(1,939 )	(1,939 )
Disposal of vessels	(18,915 )	16,956	(1,959 )
Leased vessels	(7,000 )	-	(7,000 )
Vessel impairment charge	(4,286 )	-	(4,286 )
December 31, 2016	\$ 3,312	\$ (1,191 )	\$ 2,121

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(All amounts in thousands of United States Dollars, except for share and per share data)

***Vessels disposed during the year ended December 31, 2014.***

On February 18, 2014, the Company sold the M/V *Free Knight*, a 1998-built, 24,111 dwt Handysize dry bulk carrier for a gross sale price of \$3,600 and the vessel was delivered to her new owners. The Company recognized an impairment charge of \$23,978 in the consolidated statement of operations for the year ended December 31, 2013. On September 16, 2014, the Company sold the M/V *Free Jupiter* a 2002-built, 47,777 dwt Handymax dry bulk carrier for a gross sale price of \$12,250 and subsequently entered into a long term bareboat charter with the vessel's new owners. On September 24, 2014, the Company sold the M/V *Free Impala*, a 1997-built, 24,111 dwt Handysize dry bulk carrier for a gross sale price of \$3,600 and the vessel was delivered to her new owners. From the sale proceeds \$3,300 was paid to NBG reducing the outstanding balance of the NBG loan facility (Note 11).

As of December 31, 2014, the Company performed an impairment assessment of its long-lived assets by comparing the undiscounted net operating cash flows for each vessel to its respective carrying value. The Company's assessment concluded that no impairment existed as of December 31, 2014, as the vessels' future undiscounted net operating cash flows exceeded their carrying value by \$11,179. If the Company were to utilize the most recent five-year historical average rates, three-year historical average rates or one-year historical average rates, would recognize an impairment loss of \$17,982 (using the most recent five-year historical average rates) and \$27,077 (using the most recent three year or one-year historical average rates).

***Vessels disposed during the year ended December 31, 2015.***

On May 20, 2015, the M/V *Free Hero*, 1995-built, 24,318 dwt Handysize dry bulk carrier and the M/V *Free Goddess*, 1995-built, 22,051 dwt Handysize dry bulk carrier, have been sold for a gross sale price of \$5,500 each, and the Company's subsidiaries have entered into long-term bareboat agreements for such vessels with purchase options at a daily hire rate of \$1,100 per vessel. The vessels have been renamed to M/V *Fiorello* and M/V *Figaro*, respectively (Note 6). As a result of the sale of the M/V *Free Hero* and the M/V *Free Goddess* the Company recognized a gain of \$950 and a loss of \$8,571 in the accompanying consolidated statement of operations for the year ended December 31, 2015, respectively.

As of December 31, 2015, the Company performed an impairment assessment of its long-lived assets (M/V *Free Maverick* and M/V *Free Neptune*) by comparing the undiscounted net operating cash flows for each vessel to its respective carrying value. The significant factors and assumptions the Company used in each future undiscounted net operating cash flow analysis included, among others, operating revenues, commissions, off-hire days, dry-docking costs, operating expenses and management fee estimates. Revenue assumptions were based on contracted time charter rates up to the end of life of the current contract of each vessel as well as the ten-year historical average time charter rates for the remaining life of the vessel after the completion of the current contracts. In addition, the Company used an annual operating expenses escalation factor and an estimate of off hire days. All estimates used and assumptions made were in accordance with the Company's internal budgets and historical experience of the shipping industry. The Company, as a result of the unprecedented adverse market conditions the dry bulk industry faced and the substantial decline in the vessel market values, concluded to recognize an impairment charge of \$18,891 for the M/V *Free Maverick* during the year ended December 31, 2015, in the accompanying consolidated statement of operations.

***Vessels disposed during the year ended December 31, 2016.***

On September 26, 2016, the Company sold to unrelated third parties the M/V *Free Maverick*, a 1998-built, 23,994 dwt Handysize dry bulk carrier for a gross sale price of \$1,925. As a result of the sale the Company recognized a loss of \$277. In this respect, the Company paid the Managers \$19 relating to the sale of the M/V *Free Maverick* during the year ended December 31, 2016.

As of December 31, 2016, the Company performed an impairment assessment of its long-lived asset M/V *Free Neptune* by comparing the undiscounted net operating cash flows for the vessel to its respective carrying value. The significant factors and assumptions the Company used in each future undiscounted net operating cash flow analysis included, among others, operating revenues, commissions, off-hire days, dry-docking costs, operating expenses and management fee estimates. Revenue assumptions were based on contracted time charter rates up to the end of life of the current contract of each vessel as well as the ten-year historical average time charter rates for the remaining life of the vessel after the completion of the current contracts. In addition, the Company used an annual operating expenses escalation factor and an estimate of off hire days. All estimates used and assumptions made were in accordance with the Company's internal budgets and historical experience of the shipping industry. The Company, as a result of the adverse market conditions the dry bulk industry faces and the substantial decline in the vessel market values, recognized an impairment charge of \$4,286 for the M/V *Free Neptune* during the year ended December 31, 2016, in the accompanying consolidated statement of operations.

**FREESEAS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in thousands of United States Dollars, except for share and per share data)

**6. Options Advance Payments- Purchase of Leased Vessels**

On May 20, 2015, the M/V Free Hero, (1995-built, 24,318 dwt) and the M/V Free Goddess, (1995-built, 22,051 dwt) both Handysize dry bulk carriers, were sold for a gross sale price of \$5,500 each payable in tranches, with certain conditions precedent, and a seller's credit of \$4,500 per vessel. An amount of \$725 of the sales price remains payable by the new owners. The vessels have been renamed M/V Fiorello and M/V Figaro, respectively. Concurrently, two of the Company's subsidiaries entered five-year bareboat charter agreements with the new owners of these two vessels at a daily hire rate of \$1,100 per vessel (not expressed in thousands) with purchase options at any time up to May 20, 2020. The sellers' credit of \$ 9,000 in the aggregate was agreed to be an Options Advance Payment of \$ 4,500 per vessel to be netted against any of the Company's options' purchase prices under the bareboat charter agreement and any rightful claim of the owners in case of default or breach by the Company of the bareboat agreements' terms. On November 22, 2015, the owners of these two vessels exercised their put-option rights, pursuant to the terms of the bareboat charters. Consequently, the Company recognized, as a contractual obligation, an expense of additional \$3,300 as part of the put-option price. As of December 31, 2015, the Company was in default as regards the execution of such put- option as well as the charter hire payments due to the Owners for November and December 2015. Additionally, in accordance with U.S. GAAP, the Company, as of December 31, 2015, recognized a contingency loss of \$2,000 on the repurchase commitment in the Options Advance Payment.

On March 1, 2016, the Company received default notices from Fiorello Norge AS and Figaro Norge AS, owners of the M/V Fiorello and M/V Figaro, respectively, for the non-execution of the put option and the charter hires due in November, December 2015 and January, February 2016 under bareboat charters dated May 20, 2015. The Company started negotiations with the owners in order to find an amicable solution.

On June 15, 2016, the bareboat hire agreement in connection with the M/V Fiorello was terminated. Subsequent to the termination of the hire, the vessel was sold for a gross sale price of \$1,490 with the sale proceeds being applied towards obligations to the bareboat Owners of the vessel and trade creditors.

The Company, as of December 31, 2016, recognized, as a contractual derivative obligation, an expense of \$5,442 being the remaining balance of the carrying value of \$3,500 for the vessel Figaro, plus \$1,942 being expense realized for the sale of the M/V Fiorello and its bare boat charter termination on June 15, 2016.

The following table summarizes the bareboat charter obligation in connection with the M/V Figaro as of December 31, 2016:

Year	Annual Operating Lease Payments
2017	\$ 402
2018	402
2019	402
2020	154
Total	\$ 1,360

## 7. Accrued Liabilities

As of December 31, 2016, the amount of \$7,134 in the consolidated balance sheet, includes the NBG loan accrued interest of \$6,358 (Note 11). The balance amount of \$776 relates to operating accruals.

## 8. Financial Instruments and Fair Value Measurements

The Company is exposed to interest rate fluctuations associated with its variable rate borrowings and its objective is to manage the impact of such fluctuations on earnings and cash flows of its borrowings. In this respect, the Company partially uses interest rate swaps to manage net exposure to interest rate fluctuations related to its borrowings. : The Company follows the provisions of ASC 820, “Fair Value Measurements and Disclosures” which defines, and provides guidance as to the hierarchy measurement of fair value.

The Company was party of two interest rate swap agreements which were fully unwound on February 3, 2014. The total of the change in fair value and settlements for the year ended December 31, 2016, 2015 and 2014 aggregate to losses of \$nil, \$nil, and \$21, respectively, which is separately reflected in “Loss on derivative instruments” in the accompanying consolidated statements of operations.

**FREESEAS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in thousands of United States Dollars, except for share and per share data)

***Tabular Disclosure of Derivatives Location***

Derivatives are recorded in the balance sheet on a net basis by counterparty when a legal right of setoff exists. The following tables present information with respect to the fair values of derivatives reflected in the balance sheet on a gross basis by transaction. The tables also present information with respect to gains and losses on derivative positions reflected in the Statement of Operations.

**Fair Value of Derivative Instruments**

Derivative	Balance Sheet Location	Asset Derivatives		Liability Derivatives	
		December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
		Fair Value	Fair Value	Fair Value	Fair Value
Derivatives not designated as hedging instruments					
Interest rate swaps	Derivative financial instruments - current portion	\$ —	\$ —	\$ —	\$ —
	Derivative financial instruments - net of current portion	—	—	—	—
	Total derivatives	\$ —	\$ —	\$ —	\$ —

**The Effect of Derivative Instruments on the Statement of Operations for the Years Ended December 31, 2016, 2015 and 2014****Derivatives Not Designated as Hedging Instruments**



Derivative	Loss Recognized on Derivative Location	Amount	
		2015	2014
Interest rate swaps	Loss on derivative instruments	\$ -	\$ 21
Total		\$ -	\$ 21

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

**Cash and cash equivalents, restricted cash, accounts receivable and accounts payable:** The carrying values reported in the consolidated balance sheets for those financial instruments are reasonable estimates of their fair values due to their short-term nature.

**Long-term debt:** The fair values of long-term bank loans approximate the recorded values due to the variable interest rates payable.

**Derivative financial instruments:** The fair values of the Company's derivative financial instruments equate to the amount that would be paid or received by the Company if the agreements were cancelled at the reporting date, taking into account current market data per instrument and the Company's or counterparty's creditworthiness, as appropriate.

The guidance for fair value measurements applies to all assets and liabilities that are being measured and reported on a fair value basis.

**FREESEAS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in thousands of United States Dollars, except for share and per share data)

This statement enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The statement requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted market prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Unobservable inputs that are not corroborated by market data and that are significant to the fair value of the assets or liabilities.

The Company's derivative financial instruments are valued using pricing models that are used to value similar instruments by market participants. Where possible, the Company verifies the values produced by its pricing models to market prices. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit spreads, measures of volatility and correlations of such inputs. The Company's derivatives trade in liquid markets, and as such, model inputs can generally be verified and do not involve significant management judgment. Such instruments are typically classified within Level 2 of the fair value hierarchy. The following table summarizes the valuation of liabilities measured at fair value on a recurring basis as of the valuation date:

		<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Recurring measurements:	2016			

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Interest rate swap contracts	\$	—	\$	—	\$	—	\$	—
Total	\$	—	\$	—	\$	—	\$	—

As of December 31, 2016, the Company’s vessel was classified as “held and used”.

### 9. Convertible Notes Payable

On July 17, 2015, the Company sold to Black Mountain Equities Inc., (“Black Mountain”) an 8% interest bearing convertible note subject to the restrictions of Rule 144 promulgated under the 1933 Act, which contained a 10% OID, for \$110 due in twelve months. One hundred eighty days following the date of this note, the holder has the right to convert all or any part of the outstanding and unpaid principal amount and accrued interest of the note into Company’s common stock, provided that such conversion does not cause it to own more than 4.99% of the common stock of the Company, into shares of Common Stock. The conversion price is the lesser of (i) \$825,000 and (ii) and 65% of the lowest VWAP for the 20 trading days prior to the date of conversion. At any time prior to the maturity date, the Company shall have the option, upon ten business days’ notice to the holder, to pre-pay the entire remaining outstanding principal amount of this note in cash, provided that the Company shall pay the holder one hundred twenty percent (120%) of the principal plus interest outstanding in repayment hereof. On February 22, 2016, upon full conversion of the Black Mountain Equities Inc. convertible promissory note dated July 17, 2015, plus accrued interest, the Company has issued in aggregate 3 shares of common stock to the note holder.

On July 17, 2015, the Company sold to Gemini Master Fund Ltd., (“Gemini”) an 8% interest bearing convertible note subject to the restrictions of Rule 144 promulgated under the 1933 Act, which contained a 10% OID, for \$165 due in twelve months. One hundred eighty days following the date of this note, the holder has the right to convert all or any part of the outstanding and unpaid principal amount and accrued interest of the note into Company’s common stock, provided that such conversion does not cause it to own more than 4.99% of the common stock of the Company, into shares of Common Stock. The conversion price is the lesser of (i) \$825,000 and (ii) and 65% of the lowest VWAP for the 20 trading days prior to the date of conversion. At any time prior to the maturity date, the Company shall have the option, upon ten business days’ notice to the holder, to pre-pay the entire remaining outstanding principal amount of this note in cash, provided that the Company shall pay the holder 120% of the principal plus interest outstanding in repayment hereof. On March 8, 2016, upon full conversion of the Gemini Master Fund Ltd convertible promissory note dated July 17, 2015, plus accrued interest, the Company has issued in aggregate 7 shares of common stock to the note holder.

**FREESEAS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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On July 27, 2015, the Company sold to VIS VIRES GROUP, INC. (“VIS VIRES”) an 8% interest bearing convertible note for \$154 due in nine months subject to the restrictions of Rule 144 promulgated under the 1933 Act. One hundred eighty days following the date of this note, the holder has the right to convert all or any part of the outstanding and unpaid principal amount and accrued interest of the note into Company’s common stock, provided that such conversion does not cause it to own more than 4.99% of the common stock of the Company, into shares of Common Stock. The conversion price is the 65% of the average of the lowest five trading prices of the Company’s common stock on any trading day during the ten trading days prior to the conversion. Upon written notice, during the first six months the Company may prepay the note with amounts ranging from 110% of principal plus interest (during days 1-30) to 135% of principal plus interest (during days 121-180). On February 18, 2016, upon full conversion of the Vis Vires Group, Inc. convertible promissory note dated July 27, 2015, plus accrued interest, the Company has issued in aggregate 3 shares of common stock to the note holder.

On September 4, 2015, the Company sold to Service Trading Company, LLC, (“Service Trading Co.”) an 8% interest bearing convertible note subject to the restrictions of Rule 144 promulgated under the 1933 Act, which contained an 8% OID, for \$37.8 due in twelve months. One hundred eighty days following the date of this note, the holder has the right to convert all or any part of the outstanding and unpaid principal amount and accrued interest of the note into Company’s common stock, provided that such conversion does not cause it to own more than 4.99% of the common stock of the Company, into shares of Common Stock. The conversion price equals 65% of the lowest trading price of the Common Stock for the twenty prior trading days including the day upon which a Notice of Conversion is received by the Company. Upon written notice, during the first six months the Company may prepay the note with amounts ranging from 118% of principal plus interest (during days 1-30) to 148% of principal plus interest (during days 151-180). On July 13, 2016, upon full conversion of the Service Trading Company convertible promissory note dated September 4, 2015, plus accrued interest, the Company has issued in aggregate 203 shares of common stock to the note holder.

On September 15, 2015, the Company sold to Mordechai Vizel, a non-U.S. investor, a \$75 convertible promissory note, which matures a year from issuance and accrues interest at the rate of 8% per annum. The investor is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 4.99% of the common stock of the Company, into shares of Common Stock. The conversion price is the lower of (i) \$432,000 and (ii) 60% of the lowest daily VWAP on any trading day during the twenty-one consecutive trading days prior to conversion. Upon prior notice, the Company may prepay the investor in cash, for 127.5% of any outstanding principal and interest remaining on the note. On January 13, 2016, upon full conversion of the \$75 Mordechai Vizel convertible promissory note dated September 15, 2015, plus accrued interest, the Company has issued in aggregate 1 share of common stock to the note holder.

On October 7, 2015, the Company sold to SICHENZIA ROSS FRIEDMAN FERENGE LLP, a \$92 convertible promissory note in connection with a debt settlement agreement entered into, of the same aggregate amount of outstanding invoices, which matures a year from issuance and accrues interest at the rate of 8% per annum. The investor, subject to the restrictions of Rule 144 promulgated under the 1933 Act, is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 4.99% of the common stock of the Company, into shares of Common Stock. The conversion price is the lower of (i) \$271,200 and (ii) 60% of the lowest daily VWAP on any trading day during the twenty-one consecutive trading days prior to conversion. Upon prior notice, the Company may prepay the investor in cash, for 127.5% of any outstanding principal and interest remaining on the note. On June 27, 2016, upon full conversion of the \$92 SICHENZIA ROSS FRIEDMAN FERENGE convertible promissory note dated October 7, 2015, plus accrued interest, the Company has issued in aggregate 326 shares of common stock to the note holder.

On October 26, 2015, the Company sold to ALSA HOLDINGS INC., a non-U.S. investor (“Alsa”), a \$500 convertible promissory note, which matures a year from issuance and accrues interest at the rate of 8% per annum. The investor is subject to the restrictions of Regulation S promulgated under the 1933 Act, and is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 4.99% of the common stock of the Company, into shares of Common Stock. The conversion price is the lower of (i) \$139,650 and (ii) 60% of the lowest daily VWAP on any trading day during the twenty-one consecutive trading days prior to conversion. Upon prior notice, the Company may prepay the investor in cash, for 127.5% of any outstanding principal and interest remaining on the note. On February 4, 2016, upon full conversion of the ALSA Holdings Inc. convertible promissory note, dated October 26, 2015, plus accrued interest, the Company has issued in aggregate 2 shares of common stock to the note holder.

On December 8, 2015, the Company sold to MTR3S HOLDING LTD., a non-U.S. investor (“MTR3S”), a \$600 convertible promissory note, which matures a year from issuance and accrues interest at the rate of 8% per annum. The investor is subject to the restrictions of Regulation S promulgated under the 1933 Act, and is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 4.99% of the common stock of the Company, into shares of Common Stock. The conversion price is the lower of (i) \$59,850 and (ii) 60% of the lowest daily VWAP on any trading day during the twenty-one consecutive trading days prior to conversion. Upon prior notice, the Company may prepay the investor in cash, for 127.5% of any outstanding principal and interest remaining on the note. On March 8, 2016, upon full conversion of the MTR3S Holding Ltd. promissory note dated December 8, 2015, plus accrued interest, the Company has issued in aggregate 26 shares of common stock to the note holder.

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On January 6, 2016, the Company sold to Alpha Capital Anstalt, an accredited investor, a \$250 convertible promissory note, which matures a year from issuance and accrues interest at the rate of 8% per annum. The investor is subject to the restrictions of Rule 144 promulgated under the 1933 Act, and is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 4.99% of the common stock of the Company, into shares of Common Stock. The conversion price is 60% of the lowest daily VWAP on any trading day during the twenty-one consecutive trading days prior to conversion. Upon prior notice, the Company may prepay the Investor in cash, for 127.5% of any outstanding principal and interest remaining on the note.

On January 19, 2016, the Company sold to Mordechai Vizel, a non-U.S. investor, a \$112 convertible promissory note, which contained a 12% OID, which matures a year from issuance and accrues interest at the rate of 8% per annum. The investor is subject to the restrictions of Regulation S promulgated under the 1933 Act, and is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 4.99% of the common stock of the Company, into shares of Common Stock. The conversion price is the lower of (i) \$1,440,000 and (ii) 60% of the lowest daily VWAP on any trading day during the twenty-one consecutive trading days prior to conversion. Upon prior notice, the Company may prepay the investor in cash, for 127.5% of any outstanding principal and interest remaining on the note. On April 11, 2016, upon full conversion of the \$112 convertible promissory to Mordechai Vizel, dated January 19, 2016, plus accrued interest, the Company has issued in aggregate 13 shares of common stock to the note holder.

On January 19, 2016, the Company sold to Intermodal Shipbrokers Co., a non-U.S. creditor, an \$84 convertible promissory note in connection with a debt settlement agreement entered into, of the same aggregate amount of outstanding invoice, which matures a year from issuance and accrues interest at the rate of 8% per annum. The note holder is subject to the restrictions of Regulation S promulgated under the 1933 Act, and is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 4.99% of the common stock of the Company, into shares of Common Stock. The conversion price is the lowest daily VWAP on any trading day during the twenty-one consecutive trading days prior to conversion. Upon prior notice, the Company may prepay the investor in cash, for 127.5% of any outstanding principal and interest remaining on the note. On May 6, 2016, upon full conversion of the \$84 convertible promissory note in connection with a debt settlement agreement entered into with Intermodal Shipbrokers Co, plus accrued interest, the Company has issued in aggregate 14 shares of common stock to the note holder.

On March 1, 2016, the Company sold to MTR3S Holding Ltd., a non-U.S. person, a \$500 convertible promissory note, which matures a year from issuance and accrues interest at the rate of 8% per annum. The investor is subject to the restrictions of Regulation S promulgated under the 1933 Act, and is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 4.99% of the common stock of the Company, into shares of Common Stock. The conversion price is the lesser of (i) \$199,500 and (ii) 60% of the lowest daily VWAP on any trading day during the twenty-one consecutive trading days prior to conversion, provided, however, that the total number of shares of Common Stock issuable upon conversion of the note shall not exceed 225,225. Upon prior notice, the Company may prepay the Investor in cash, for 127.5% of any outstanding principal and interest remaining on the note. On August 18, 2016, upon full conversion of the \$500 convertible promissory note to MTR3S Holding, plus accrued interest, the Company has issued in aggregate 3,129 shares of common stock to the note holder.

On April 21, 2016, the Company sold to LG Capital Funding, LLC, an accredited investor, a \$50 convertible promissory note, which matures a year from issuance and accrues interest at the rate of 8% per annum. The investor subject to the restrictions of Rule 144 promulgated under the 1933 Act, is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 9.9% of the common stock of the Company, into shares of Common Stock. The conversion price is 65% of the lowest trading price of the Common Stock as reported by the Trading Market on which the Company's shares are traded, for the twenty prior trading days. Upon written notice, during the first six months the Company may prepay the note with amounts ranging from 118% of principal plus interest (during days 1-30) to 148% of principal plus interest (during days 151-180). On December 28, 2016, upon full conversion of the \$50 convertible promissory note to LG Capital Funding, plus accrued interest, the Company has issued in aggregate 32,915 shares of common stock to the note holder.

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On May 4, 2016, the Company sold to APG Capital Holdings, LLC, a \$32 convertible promissory note, which contained a 12% OID and matures a year from issuance and accrues interest at the rate of 12% per annum. The investor subject to the restrictions of Rule 144 promulgated under the 1933 Act, is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 4.99% of the common stock of the Company, into shares of Common Stock. The conversion price is 65% of the lowest trading price of the Common Stock as reported by the Trading Market on which the Company's shares are traded, for the twenty prior trading days. Upon written notice, during the first six months the Company may prepay the note to 150% of principal plus interest. On November 11, 2016, upon full conversion of the \$32 convertible promissory note to APG Capital Holdings, plus accrued interest, the Company has issued in aggregate 25,269 shares of common stock to the note holder.

On May 9, 2016, the Company issued to Sichenzia Ross Friedman Ference LLP, a \$137 convertible promissory note in connection with a debt settlement agreement entered into, of the same aggregate amount of outstanding invoices, which note matures a year from issuance and accrues interest at the rate of 8% per annum. The holder, subject to the restrictions of Rule 144 promulgated under the 1933 Act, is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 4.99% of the common stock of the Company, into shares of Common Stock. The conversion price is the lower of (i) \$3,000 and (ii) 60% of the lowest daily VWAP on any trading day during the twenty-one consecutive trading days prior to conversion. Upon prior notice, the Company may prepay the holder in cash, for 127.5% of any outstanding principal and interest remaining on the note. (See Note 18).

On May 10, 2016, the Company sold to Mordechai Vizel., a non-U.S. person, a \$112 convertible promissory note, which matures a year from issuance and accrues interest at the rate of 8% per annum. The investor is subject to the restrictions of Regulation S promulgated under the 1933 Act, and is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 4.99% of the common stock of the Company, into shares of Common Stock. The conversion price is the lesser of (i) \$7,650 and (ii) 60% of the lowest daily VWAP on any trading day during the twenty-one consecutive trading days prior to conversion. Upon prior notice, the Company may prepay the Investor in cash, for 127.5% of any outstanding principal and interest remaining on the note.

On May 10, 2016, the Company sold to M.I.E. Co Ltd., a non-U.S. creditor, an \$59 convertible promissory note in connection with a debt settlement agreement entered into, of the same aggregate amount of outstanding invoices, which matures a year from issuance and accrues interest at the rate of 8% per annum. The note holder is subject to the



restrictions of Regulation S promulgated under the 1933 Act, and is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 4.99% of the common stock of the Company, into shares of Common Stock. The conversion price is the lowest daily VWAP on any trading day during the twenty-one consecutive trading days prior to conversion. Upon prior notice, the Company may prepay the investor in cash, for 127.5% of any outstanding principal and interest remaining on the note. On September 19, 2016, upon full conversion of the \$59 convertible promissory note in connection with a debt settlement agreement entered into with M.I.E. Co Ltd., plus accrued interest, the Company has issued in aggregate 1,716 shares of common stock to the note holder.

On May 25, 2016, the Company sold to CROWN BRIDGE PARTNERS, LLC, a \$55 convertible promissory note, which contained a \$5 OID and matures a year from issuance and accrues interest at the rate of 6% per annum. The investor subject to the restrictions of Rule 144 promulgated under the 1933 Act, is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 4.99% of the common stock of the Company, into shares of Common Stock. The conversion price is 60% of the lowest trading price of the Common Stock as reported by the Trading Market on which the Company's shares are traded, for the twenty prior trading days. Upon written notice, during the first six months the Company may prepay the note with amounts ranging from 120% of principal plus interest (during days 1-60) to 145% of principal plus interest (during days 121-180).

On June 27, 2016, the Company sold to E. STAVROPOULOS & CO O.E. "Hydra Travel", a non-U.S. creditor, a \$80 convertible promissory note in connection with a debt settlement agreement entered into, of the same aggregate amount of outstanding invoices, which matures a year from issuance and accrues interest at the rate of 8% per annum. The note holder is subject to the restrictions of Regulation S promulgated under the 1933 Act, and is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 4.99% of the common stock of the Company, into shares of Common Stock. The conversion price is the lowest daily VWAP on any trading day during the twenty-one consecutive trading days prior to conversion. Upon prior notice, the Company may prepay the investor in cash, for 127.5% of any outstanding principal and interest remaining on the note. On September 20, 2016, upon full conversion of the \$80 convertible promissory note in connection with a debt settlement agreement entered into with E. STAVROPOULOS & CO O.E. "Hydra Travel", plus accrued interest, the Company has issued in aggregate 2,891 shares of common stock to the note holder.

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On June 27, 2016, the Company sold to MARINE PLUS S.A., a non-U.S. creditor, a \$60 convertible promissory note in connection with a debt settlement agreement entered into, of the same aggregate amount of outstanding invoices, which matures a year from issuance and accrues interest at the rate of 8% per annum. The note holder is subject to the restrictions of Regulation S promulgated under the 1933 Act, and is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 4.99% of the common stock of the Company, into shares of Common Stock. The conversion price is the lowest daily VWAP on any trading day during the twenty-one consecutive trading days prior to conversion. Upon prior notice, the Company may prepay the investor in cash, for 127.5% of any outstanding principal and interest remaining on the note.

On June 27, 2016, the Company sold to MEDPOOL LTD, a non-U.S. creditor, a \$80 convertible promissory note in connection with a debt settlement agreement entered into, of the same aggregate amount of outstanding invoices, which matures a year from issuance and accrues interest at the rate of 8% per annum. The note holder is subject to the restrictions of Regulation S promulgated under the 1933 Act, and is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 4.99% of the common stock of the Company, into shares of Common Stock. The conversion price is the lowest daily VWAP on any trading day during the twenty-one consecutive trading days prior to conversion. Upon prior notice, the Company may prepay the investor in cash, for 127.5% of any outstanding principal and interest remaining on the note. On December 29, 2016, upon full conversion of the \$80 convertible promissory note in connection with a debt settlement agreement entered into with MEDPOOL LTD, plus accrued interest, the Company has issued in aggregate 10,146 shares of common stock to the note holder.

On July 11, 2016, the Company issued to Sichenzia Ross Ference Kesner LLP, a \$100 convertible promissory note in connection with a debt settlement agreement entered into, of the same aggregate amount of outstanding invoices, which note matures a year from issuance and accrues interest at the rate of 8% per annum. The holder, subject to the restrictions of Rule 144 promulgated under the 1933 Act, is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 4.99% of the common stock of the Company, into shares of Common Stock. The conversion price is the lower of (i) \$100 and (ii) 60% of the lowest daily VWAP on any trading day during the twenty-one consecutive trading days prior to conversion. Upon prior notice, the Company may prepay the holder in cash, for 127.5% of any outstanding principal and interest remaining on the note.

On August 16, 2016, the Company sold to ANYLAND TRAVEL LTD, a non-U.S. creditor, a \$30 convertible promissory note in connection with a debt settlement agreement entered into, of the same aggregate amount of outstanding invoices, which matures a year from issuance and accrues interest at the rate of 8% per annum. The note holder is subject to the restrictions of Regulation S promulgated under the 1933 Act, and is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 4.99% of the common stock of the Company, into shares of Common Stock. The conversion price is the lowest daily VWAP on any trading day during the twenty-one consecutive trading days prior to conversion. Upon prior notice, the Company may prepay the investor in cash, for 127.5% of any outstanding principal and interest remaining on the note. (Please see note 18)

On August 16, 2016, the Company sold to M. DALAKOS – I. FASSOLIS – N. THEOFANOPOULOS & PARTNERS LAW FIRM, a non-U.S. creditor, a \$108 convertible promissory note in connection with a debt settlement agreement entered into, of the same aggregate amount of outstanding invoices, which matures a year from issuance and accrues interest at the rate of 8% per annum. The note holder is subject to the restrictions of Regulation S promulgated under the 1933 Act, and is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 4.99% of the common stock of the Company, into shares of Common Stock. The conversion price is the lower of (i) \$232.5 and (ii) 75% of the lowest daily VWAP on any trading day during the twenty-one consecutive trading days prior to conversion. Upon prior notice, the Company may prepay the holder in cash, for 127.5% of any outstanding principal and interest remaining on the note.

On August 16, 2016, the Company sold to YES Properties Inc., a non-U.S. investor, a \$35 convertible promissory note which matures a year from issuance and accrues interest at the rate of 8% per annum. The investor is subject to the restrictions of Regulation S promulgated under the 1933 Act, and is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 9.9% of the common stock of the Company, into shares of Common Stock. The conversion price is 60% of the lowest trading price of the Common Stock as reported by the Trading Market on which the Company's shares are traded, for the fifteen prior trading days. Upon written notice, during the first 39 days the Company may prepay the note to 125% of principal plus interest.

**FREESEAS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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On November 21, 2016, the Company sold to APG Capital Holdings, LLC, a \$32 convertible promissory note, which contained a 12% OID and matures a year from issuance and accrues interest at the rate of 12% per annum. The investor subject to the restrictions of Rule 144 promulgated under the 1933 Act, is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 9.9% of the common stock of the Company, into shares of Common Stock. The conversion price is 65% of the lowest trading price of the Common Stock as reported by the Trading Market on which the Company's shares are traded, for the twenty prior trading days. Upon written notice, during the first six months the Company may prepay the note to 150% of principal plus interest.

On November 21, 2016, the Company sold to Crede CG III, Ltd, a \$50 convertible promissory note, which matures a year from issuance and accrues interest at the rate of 8% per annum. The investor subject to the restrictions of Rule 144 promulgated under the 1933 Act, is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 9.9% of the common stock of the Company, into shares of Common Stock. The conversion price is 65% of the lowest trading price of the Common Stock as reported by the Trading Market on which the Company's shares are traded, for the twenty prior trading days. Upon written notice, during the first six months the Company may prepay the note with amounts ranging from 118% of principal plus interest (during days 1-30) to 148% of principal plus interest (during days 151-180).

On November 30, 2016, the Company sold to, ADAR BAYS, LLC four 8% convertible notes of the Company, in the aggregate principal amount of \$100 (with the First Note being in the amount of \$25 and each of the following notes being in the amount of \$25, which mature a year from issuance. The Company may reject the closing of the back-end financing by giving the buyer written notice at least 30 days prior to the 6-month anniversary of the First Note of its intent to reject the funding of the Back-End Notes. In such case the Buyer Notes and the Back-End Notes shall be terminated. The investor subject to the restrictions of Rule 144 promulgated under the 1933 Act, is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 9.9% of the common stock of the Company, into shares of Common Stock. The conversion price is 58% of the lowest trading price of the Common Stock as reported by the Trading Market on which the Company's shares are traded, for the twenty prior trading days. Upon written notice, during the first six months the Company may prepay the note with amounts ranging from 118% of principal plus interest (during days 1-30) to 148% of principal plus interest (during days 151-180).

On December 30, 2016, the Company sold to MTR3S Holding Ltd., a non-U.S. person, a \$100 convertible promissory note, which matures a year from issuance and accrues interest at the rate of 8% per annum. The investor is subject to the restrictions of Regulation S promulgated under the 1933 Act, and is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 4.99% of the common stock of the Company, into shares of Common Stock. The conversion price is the lesser of (i) \$199,500 and (ii) 60% of the lowest daily VWAP on any trading day during the twenty-one consecutive trading days prior to conversion, provided, however, that the total number of shares of Common Stock issuable upon conversion of the note shall not exceed 225,225. Upon prior notice, the Company may prepay the Investor in cash, for 127.5% of any outstanding principal and interest remaining on the note.

During the year ended December 31, 2016, the Company has fully converted convertible debt and related accrued interest amounting to \$2,018 by issuing to note holders of fully convertible debt 76,664 shares of common stock in the aggregate.

As of December 31, 2016, pursuant to the issued convertible notes during the year, the Company has received the aggregate amount of \$3,828.

In connection with the issuance of convertible instruments, the Company has recorded a debt discount in additional paid in capital related to the beneficial conversion feature amounting to \$1,135 and amortization of \$796 which is included in "other expense" in the accompanying consolidated statements of operations. As of December 31, 2016, the net balance outstanding amounted to \$1,558 net of remaining unamortized debt discount of \$339.

**FREESEAS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in thousands of United States Dollars, except for share and per share data)

**10. Bank Loan – current portion**

As of December 31, 2014, the Company's bank debt is as follows:

	NBG	Credit Suisse
December 31, 2013	\$23,237	\$36,450
Additions	\$-	\$-
Payments	\$(5,639)	\$(21,450)
Debt forgiveness	\$-	\$(15,000)
December 31, 2014	\$17,598	\$-

As of December 31, 2015 and 2016, the Company's bank debt is as follows:

	NBG
December 31, 2014	\$17,598
Additions	\$-
Payments	\$-
December 31, 2015	\$17,598
Additions	\$-
Payments	\$-
December 31, 2016	\$17,598

The remaining repayment terms of the loan outstanding as of December 31, 2016, is as follows:

Lender	Vessel	Remaining Repayment Terms
National Bank of Greece	M/V Free Neptune	The loan matured on December 16, 2016.

The indicated vessel in the above table is pledged as collateral for the respective loan.

The Company's credit facility with NBG bears interest at LIBOR plus a margin of 4%, and is secured by mortgage on the financed vessel (M/V *Free Neptune*) and assignments of vessel's earnings and insurance coverage proceeds. It also includes affirmative and negative financial covenants of the borrower, including maintenance of operating accounts, average cash balances to be maintained with the lending bank and minimum ratios for the fair value of the collateral vessel compared to the outstanding loan balance. The borrower is restricted under its respective loan agreement from incurring additional indebtedness, changing the vessel's flag without the lender's consent or distributing earnings.

The weighted average interest rate for the year ended December 31, 2016 and 2015 was 4% and 4%, respectively. Interest expense incurred under the above loan agreements amounted to \$1,467, \$1,237 and \$1,655 for the years ended December 31, 2016, 2015 and 2014, respectively, and is included in "Interest and Finance Costs" in the accompanying consolidated statements of operations.

#### *Credit Suisse Facility*

Following the term sheet on January 30, 2014, the Company and certain of its subsidiaries entered into an agreement with Credit Suisse, on May 28, 2014, whereby the Company agreed to pay to Credit Suisse approximately \$22,636 from the offering proceeds (Note 16) to eliminate all of its debt obligations owed to Credit Suisse, amounting to \$37,636 as of that date, and be discharged and released from any and all payment obligations (actual and contingent) owed and payable by the Company in respect of all amounts of principal, interest thereon, fees, costs and expenses under the credit Facility Agreement and Master Swap Agreement, both dated December 24, 2007 (as amended and/or supplemented and/or restated from time to time). Under the terms of this agreement Credit Suisse undertook, upon receipt of such payment, to cancel all the remaining debt of \$15,000 owed by the Company and to release (i) any and all liens it has on the assets of the Company and (ii) all corporate guarantees received from the Company's subsidiaries.

**FREESEAS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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On May 30, 2014, the Company paid the amount of \$22,636 to Credit Suisse, as per the agreement above and received the relative Waiver of Debt and Deed of Release and Reassignment, which included the release of all first preferred mortgages, general assignments of collateral and charter assignments (relating to its vessels M/V Free Jupiter, M/V Free Hero and M/V Free Goddess) together with each vessel's release and reassignment of insurance, as well as the release of all first priority account pledges and guarantee agreements executed by its subsidiaries owning these vessels.

*NBG Facility*

On February 22, 2014, the Company and certain of its subsidiaries entered into terms with the National Bank of Greece ("NBG") for settlement of its obligations arising from the loan agreement with NBG. Pursuant to the terms, NBG agreed to accept a cash payment of \$22,000 no later than December 31, 2014, in full and final settlement of all of the Company's obligations to NBG and NBG would forgive the remaining outstanding balance of approximately \$4,700. On September 17, 2014, the Company made a payment of \$2,700 to reduce outstanding indebtedness with NBG. On September 24, 2014, the Company sold the M/V Free Impala, a 1997-built, 24,111 dwt Handysize dry bulk carrier for a gross sale price of \$3,600 and the vessel was delivered to her new owners. Subsequently, the amount of \$3,300 had been used to reduce outstanding indebtedness with NBG, which had a mortgage on the vessel. The agreed settlement of the Company's obligations, arising from the loan agreement with NBG mentioned above, was not realized and negotiations have resumed for a new agreement. On June 18, 2015, the Company received from NBG a reservation of rights letter stating that the Bank may take any actions and may exercise all of their rights and remedies referred in the security documents. In December 2016, the Company received notification from NBG that the Company has not paid the aggregate amount of \$23,956 constituting repayment installments, accrued loan and default interest due on December 16, 2016. The Company is currently in negotiations with the Bank to find an amicable solution for full and final settlement of all its obligations to the Bank.

*Loan Covenants*

As of December 31, 2015, and December 31, 2016, the Company was in breach of certain of its financial covenants for its loan agreement with NBG, including the loan-to-value ratio, interest cover ratio, minimum liquidity requirements and leverage ratio. Thus, in accordance with guidance related to classification of obligations that are callable by the creditor, the Company has classified all of the related long-term debt amounting to \$17,598 as current



at December 31, 2016.

*NBG loan agreement:*

Average corporate liquidity: the Company is required to maintain an average corporate liquidity of at least \$3,000;

Leverage ratio: the corporate guarantor's leverage ratio shall not at any time exceed 55%;

Ratio of EBITDA to net interest expense shall not be less than 3; and

Value to loan ratio: the fair market value of the financed vessels shall be at least (a) 115% for the period July 1, 2010 to June 30, 2011 and (b) 125% thereafter.

The covenants described above are tested annually on December 31st.

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**FREESEAS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in thousands of United States Dollars, except for share and per share data)

**11. Commitments and Contingencies**

The following table summarizes our contractually committed obligations and their maturity dates as of December 31, 2016:

(Dollars in thousands)	Payments Due by Period						More than 5 years
	Total	Less					
		than 1 year	2-year	3-year	4-year	5-year	
	(U.S. dollars in thousands)						
Services fees to the Manager*	4,031	1,031	600	600	600	600	600
Management fees to the Managers	3,319	455	455	455	455	455	1,044
Hire on Leased Vessel	1,360	402	402	402	154	-	-
Total obligations	\$8,710	\$1,888	\$1,457	\$1,457	\$1,209	\$1,055	\$1,644

\*As of June 1, 2017, the services fees were reduced to \$50 per month from \$136.

The above table does not include our share of the monthly rental expenses for our offices of Euro 1.5 (in thousands) compared to Euro 8.7 (in thousands).

**Claims**

Various claims, suits, and complaints, including those involving government regulations and product liability, arise in the ordinary course of the shipping business. In addition, losses may arise from disputes with charterers, agents,

insurance and other claims with suppliers relating to the operations of the Company's vessels. Currently, management is not aware of any such claims or contingent liabilities, which should be disclosed, or for which a provision should be established in the accompanying consolidated financial statements. The Company is a member of a protection and indemnity association, or P&I Club that is a member of the International Group of P&I Clubs, which covers its third party liabilities in connection with its shipping activities. A member of a P&I Club that is a member of the International Group is typically subject to possible supplemental amounts or calls, payable to its P&I Club based on its claim records as well as the claim records of all other members of the individual associations, and members of the International Group. Although there is no cap on its liability exposure under this arrangement, historically supplemental calls have ranged from 25%-40% of the Company's annual insurance premiums, and in no year have exceeded \$1 million. The Company accrues for the cost of environmental liabilities when management becomes aware that a liability is probable and is able to reasonably estimate the probable exposure. Currently, management is not aware of any such claims or contingent liabilities, which should be disclosed, or for which a provision should be established in the accompanying consolidated financial statements. The Company's protection and indemnity (P&I) insurance coverage for pollution is \$1 billion per vessel.

The M/V *Free Goddess* was hijacked by Somali pirates on February 7, 2012 while transiting the Indian Ocean eastbound. On October 11, 2012, we announced that all 21 crew members of the M/V *Free Goddess* were reported safe and well after the vessel's release by the pirates. At the time of the hijacking the vessel was on time charter in laden condition. Since the release from the pirates, the ex M/V *Free Goddess*, renamed to M/V *Figaro*, has been laying at the port of Salalah, Oman, undertaking repairs funded mostly by insurers. The repairs of the vessel were completed, and notice of readiness was tendered to her Charterers for the resumption of the voyage. The Charterers repudiated the Charter and the Company accepted Charterers' repudiation and terminated the fixture. Cargo interests commenced proceedings before the local Omani Courts under the Bills of Lading for delivery of the cargo in Oman, which were rejected at the first instance and were appealed by Cargo interests. The appeal by Cargo interests was rejected by the Court. Concurrently with the above proceedings, Cargo interests have obtained favorable arbitration decisions and a UK High Court order against the former owner Adventure Five S.A. to deliver the cargo at the port of Salalah, Oman. Griffin Underwriting, The Kidnap and Ransom insurers of the M/V *Free Goddess*, have commenced action before the High Court in the UK against Adventure Five, Free Bulkers S.A. and the Company's CEO alleging damages. Those proceedings have been frozen by mutual agreement between the parties pending the conclusion of the ongoing settlement negotiations. The Company, as the Bareboat Charterers of the M/V *Figaro*, has been exploring all options for a pragmatic and commercial resolution of the complex situation arising from the involvement of many parties with conflicting interests in this lengthy dispute.

The outstanding balance of the Company's claims as of December 31, 2016, stands at \$nil related to Company's insurance claims for vessel incidents arising in the ordinary course of business.

**FREESEAS INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in thousands of United States Dollars, except for share and per share data)

**12. Loss per Share and Series A, B & C Warrants**

The computation of basic earnings/loss per share is based on the weighted average number of common shares outstanding during the period, as adjusted to reflect the 60-to-1 reverse stock split, the 200-to-1 reverse stock split and the 5,000-to-1 reverse stock split, effective on January 15, 2016, April 14, 2016 and February 7, 2017, respectively, on its issued and outstanding common stock.

The computation of the dilutive common shares outstanding does not include the 0.001454 Series C Warrants (adjusted to reflect the three reverse splits) outstanding as of December 31, 2016, as the average stock price during the year ended December 31, 2016 was less than their exercise price, thus resulting in an antidilutive effect.

Presented below is a table reflecting the activity in the Series A Warrants, Series B Warrants and Series C Warrants from January 1, 2014 through December 31, 2016:

	Series A Warrants	Series B Warrants	Series C Warrants	Total
January 1, 2014	0.000222	0.000112	-	0.000334
Series C warrants issued with \$25,000 offering			0.002046	0.002046
Warrants cashless exercised	-	(0.000068)	(0.000446)	(0.000514)
December 31, 2014	0.000222	0.000044	0.0016	0.001866
Warrants cashless exercised	(0.000222)	(0.000044)	(0.000012)	(0.000278)
December 31, 2015	-	-	0.001588	0.001588
Warrants cashless exercised	-	-	(0.000134)	(0.000134)
December 31, 2016	-	-	0.001454	0.001454

During the year ended December 31, 2016, pursuant to the cashless exercise formula set forth in the Series A, B & C warrants, the Company has issued to warrant holders 23,020 shares of common stock in the aggregate. As of July 24, 2017, there are only 0.001454 Series Type C warrants outstanding with an exercise price of \$31,950,000.

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The components of the denominator for the calculation of basic loss per share and diluted loss per share for the years ended December 31, 2016, 2015 and 2014, respectively, are as follows:

	<b>For the year ended December 31, 2016</b>	<b>For the year ended December 31, 2015</b>	<b>For the year ended December 31, 2014</b>
Numerator			
Net loss - basic and diluted	\$ (20,511	) \$ (52,949	) \$ (12,688 )
Basic earnings per share denominator:			
Weighted average common shares outstanding	24,140	-	-
Diluted earnings per share denominator:			
Weighted average common shares outstanding	24,140	-	-
Dilutive common shares:			
Options	-	-	-
Warrants	-	-	-
Restricted shares	-	-	-
Dilutive effect	-	-	-
Weighted average common shares - diluted	24,140	476	228
Basic loss per common share	\$ (850	) \$ (111,139	) \$ (55,758 )
Diluted loss per common share	\$ (850	) \$ (111,139	) \$ (55,758 )

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**FREESEAS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**13. Reverse Stock Splits**

Effective January 15, 2016, April 14, 2016 and February 7, 2017, the Company effectuated a 60-to-1 reverse stock split, a 200-to-1 reverse stock split and a 5,000-to-1 reverse stock split, respectively, on its issued and outstanding common stock. The reverse stock splits did not affect any shareholder's ownership percentage of the Company's common shares, except to the limited extent that the reverse stock splits resulted in any shareholder owning a fractional share. Fractional shares of common stock were rounded up to the nearest whole share.

**14. Equity Incentive Plan**

On July 30, 2014, the Company's Board of Directors approved the Company's 2014 Equity Incentive Plan (the "2014 Plan"). Under the terms of the 2014 Plan, the Company may issue (1) stock options (incentive and non-statutory), (2) restricted stock, (3) stock appreciation rights, or SARs, (4) restricted stock units, or RSUs, (5) other stock-based awards, and (6) cash-based awards. The Board determines the exercise price, vesting and expiration period of the grants under the 2014 Plan. However, the exercise price of an incentive stock option may not be less than 110% of fair value of the common stock at the date of the grant for a 10% or more shareholder and 100% of fair value for a grantee who is not a 10% shareholder. The fair value of the common stock is determined based on quoted market price or in absence of such quoted market price, by the Board in good faith. Additionally, the vesting period of the grants under the 2014 Plan may not be more than five years and expiration period not more than ten years.

On November 12, 2015, pursuant to the unanimous written consent of the Company's Compensation Committee, as a result of the Company's ongoing liquidity issues, the non-executive Board members agreed to accept a reduction in payment for the outstanding Board fees as well as to reduce the ongoing fee to the non-executive board members; upon the Company's next capital raise, each non-executive Board member will be paid \$15 in settlement of the outstanding Board fees; effective with the fourth quarter of 2015, the fee to be paid to each non-executive Board member has been reduced to \$3 per quarter.

Pursuant to the plan, there are no shares of the Company's common stock available for grant as of December 31, 2016.

For the year ended December 31, 2016, the total recognized stock based compensation expense in relation to the common shares granted on November 10, 2014 and November 17, 2015, is \$206. The cost has been fully recognized.

## **15. Shareholders' Equity**

On January 13, 2015, the Company received a letter from NASDAQ notifying that it was provided an additional 180 calendar day period, or until July 13, 2015, to regain compliance with the minimum \$1 bid price per share requirement. The Company's eligibility for the additional period was based on meeting the continued listing requirement for market value of publicly held shares and all other applicable requirements for initial listing on the NASDAQ Capital Market with the exception of the bid price requirement, and the Company's written notice of its intention to cure the deficiency during the second compliance period by effecting a reverse stock split, if necessary. If at any time during this additional time period the closing bid price of the Company's common stock is at least \$1 per share for a minimum of 10 consecutive business days, NASDAQ will provide written confirmation of compliance and this matter will be closed. If compliance cannot be demonstrated by July 13, 2015, NASDAQ will provide written notification that the Company's common stock will be delisted. At that time, the Company may appeal NASDAQ's determination to a Hearings Panel (the "Panel"). If the Company appeals, it will be asked to provide a plan to regain compliance to the Panel.

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On July 13, 2015, NASDAQ notified the Company that it had regained compliance with Listing Rule 5550(a)(2), which requires a minimum bid price of \$1.00 for continued listing on the NASDAQ Stock Market and that the matter was closed.

On September 18, 2015, the Company received from The NASDAQ Stock Market a letter, dated September 14, 2015, stating that, for the previous 30 consecutive business days, the bid price of the Company's common stock closed below the minimum \$1.00 per share. This is a requirement for continued listing on the NASDAQ Capital Market pursuant to NASDAQ Marketplace Rule 5550(a)(2) (the "Minimum Bid Price Rule"). The NASDAQ letter has no immediate effect on the listing of the Company's common stock, which will continue to trade on the NASDAQ Capital Market under the symbol "FREE". In accordance with NASDAQ Marketplace Rule 5810(c)(3)(A), the Company has a grace period of 180 calendar days, which expires on March 14, 2016 (the "Compliance Period"), to regain compliance with the "Minimum Bid Price Rule", by maintaining a closing bid price of at least \$1.00 per share for a minimum of ten consecutive business days during the Compliance Period. In the event the Company does not regain compliance, the Company may be eligible for an additional grace period of 180 calendar days if it satisfies the continued listing requirement for market value of publicly held shares and all other initial listing standards (with the exception of the Bid Price Rule) for listing on the NASDAQ Capital Market, and submits a timely notification to NASDAQ of its intention to cure the deficiency during the second compliance period, by effecting a reverse stock split of the shares of its Common Stock, if necessary. If the Company meets these requirements, the NASDAQ will inform the Company that it has been granted an additional 180 calendar days. However, if it appears to NASDAQ's Staff that the Company will not be able to cure the deficiency, or if the Company is otherwise not eligible, the NASDAQ will provide notice that its securities will be subject to delisting. At that time, the Company may also appeal NASDAQ's delisting determination to a NASDAQ Hearings Panel. The Company intends to evaluate available options to resolve the deficiency and regain compliance with the Minimum Bid Price Rule.

Effective January 15, 2016, the Company effectuated a 60-to-1 reverse stock split on its issued and outstanding common stock (Note 14).

On March 2, 2016, the Company received notice from the Staff indicating that unless the Company timely requests a hearing before the Panel, its securities would be subject to delisting from The NASDAQ Capital Market based upon its non-compliance with the minimum bid price requirement, as set forth in NASDAQ Listing Rule 5550(a)(2), and concerns raised by the Staff, pursuant to the Staff's discretionary authority under NASDAQ Listing Rule 5101, regarding the Company's ability to remedy the bid price deficiency in light of dilution that may occur from financing transactions. The Company requested a hearing before the Panel, at which hearing it presented its plan to regain and



sustain compliance with the bid price requirement and otherwise address the Staff's concerns in connection therewith. The Company's request for a hearing stayed any delisting action and the Company's common stock continued to trade on The NASDAQ Capital Market pending the issuance of the Panel's decision following the hearing.

At the Special Meeting of the Company's shareholders held on April 8, 2016, the shareholders approved the following three proposals:

1) granted discretionary authority to the Company's board of directors to first, (A) amend the Amended and Restated Articles of Incorporation of the Company to effect one or more consolidations of the issued and outstanding shares of common stock, pursuant to which the shares of common stock would be combined and reclassified into one share of common stock at a ratio within the range from 1-for-2 up to 1-for-200 (the "Reverse Stock Split") and (B) determine whether to arrange for the disposition of fractional interests by shareholder entitled thereto, to pay in cash the fair value of fractions of a share of common stock as of the time when those entitled to receive such fractions are determined, or to entitle shareholder to receive from the Company's transfer agent, in lieu of any fractional share, the number of shares of common stock rounded up to the next whole number, provided that, (X) that the Company shall not effect Reverse Stock Splits that, in the aggregate, exceeds 1-for-200, and (Y) any Reverse Stock Split is completed no later than the first anniversary of the date of the special meeting;

2) ratified the potential issuance of more than 20% of the Company's issued and outstanding common stock at a price that is less than the greater of book or market value in accordance with (i) a securities purchase agreement between the Company and MTR3S Holding Ltd., dated March 1, 2016; (ii) a debt settlement agreement and release between the Company and Intermodal Shipbrokers Co., dated January 19, 2016; (iii) a securities purchase agreement between the Company and Mordechai Vizel, dated January 19, 2016; (iv) a securities purchase agreement between the Company and Alpha Capital Anstalt, dated January 6, 2016; (v) a debt settlement agreement between the Company and Sichenzia Ross Friedman Ference LLP, dated October 7, 2015; and (vi) a securities purchase agreement between the Company and Service Trading Company, LLC, dated August 20, 2015; and

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3) approved the potential issuance of more than 20% of the Company's issued and outstanding common stock at a price that is less than the greater of book or market value in accordance with the following potential future transactions: (i) one or multiple purchase agreements for the sale of common stock or securities convertible into common stock up to \$2 million for working capital at a discount to the market price of up to 50%, to be entered into within 180 days of the Special Meeting, (ii) one or multiple debt settlement agreements for the sale of common stock or securities convertible into common stock of up to \$6 million for the settlement of trade or bank debt at a discount to the market price of up to 50%, to be entered into within 180 days of the Special Meeting, and (iii) a purchase agreement for the sale of common stock or securities convertible into common stock up to \$15 million for asset acquisitions at a discount to the market price of up to 65%, to be entered into within 180 days of the Special Meeting.

Effective April 14, 2016, the Company effectuated a 200-to-1 reverse stock split on its issued and outstanding common stock (Note 14).

On April 21, 2016, the Company was notified by The NASDAQ Stock Market LLC ("NASDAQ") that its pending appeal before the NASDAQ Listing Qualifications Hearing Panel had been denied, and that trading in the Company's common stock was suspended on NASDAQ effective with the open of business on Monday April 25, 2016. The Company has been approved for trading on the OTCQB® Venture Market, operated by OTC Markets Group Inc., and its common stock began trading on OTCQB effective April 25, 2016 under its current trading symbol "FREEF."

On August 30, 2016, the Company received a letter from OTCQB that the Company's (FREEF) bid price closed below \$0.01 for more than 30 consecutive calendar days and no longer meets the Standards for Continued Eligibility for OTCQB as per the OTCQB Standards, section 2.3(2). To remain eligible for trading on the OTCQB marketplace, the Company must have proprietary priced quotations published by a Market Maker in OTC Link with a minimum closing bid price of \$0.01 per share on at least one of the prior thirty consecutive calendar days. In the event that the minimum closing bid price for the Company's common stock falls below \$0.01 per share, a grace period of 180 calendar days to regain compliance shall begin, during which the minimum closing bid price for the Company's common stock must be \$0.01 or greater for ten consecutive trading days; Pursuant to these OTCQB Standards, the Company has been granted a period of 180 calendar days in which to regain compliance with Section 2.3.(2). The grace period expires February 26, 2017 and at that time if the Company's bid price has not closed at or above \$0.01 for any ten consecutive trading days then the security will be removed from the OTCQB. (please see Note 18)

On March 15, 2017, the Company has received a note from OTCQB that the Company has cured its previous bid price deficiency.

At the Annual Meeting of the Company's shareholders held on December 22, 2016, the shareholders approved the following:

(i) elected Mr. Dimitris Papadopoulos to the Board of Directors for a three year term; (ii) ratified the appointment of RBSM LLP, as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2016; (iii) granted discretionary authority to the Company's board of directors to (A) amend the Amended and Restated Articles of Incorporation of the Corporation to effect one or more consolidations of the issued and outstanding shares of common stock, pursuant to which the shares of common stock would be combined and reclassified into one share of common stock at a ratio within the range from 1-for-2 up to 1-for-10,000 (the "Reverse Stock Split") and (B) determine whether to arrange for the disposition of fractional interests by shareholder entitled thereto, to pay in cash the fair value of fractions of a share of common stock as of the time when those entitled to receive such fractions are determined, or to entitle shareholder to receive from the Corporation's transfer agent, in lieu of any fractional share, the number of shares of common stock rounded up to the next whole number, provided that, (X) that the Corporation shall not effect Reverse Stock Splits that, in the aggregate, exceeds 1-for-10,000, and (Y) any Reverse Stock Split is completed no later than the first anniversary of the date of the Annual Meeting; and (iv) approved an amendment to the Amended and Restated Articles of Incorporation of the Company to increase the Company's authorized shares of common stock from 750,000,000 to 10,000,000,000.

Following the Annual Meeting of the Company's shareholders, on December 22, 2016, the Company increased its authorized shares of common stock from 750,000,000 to 10,000,000,000.

As of December 31, 2016, pursuant to the full conversion of the convertible notes (Note 9), the Company has issued to note holders of fully convertible debt 76,664 shares of common stock in the aggregate.

As of December 31, 2016, pursuant to the cashless exercise formula set forth in the Series A, B & C warrants, the Company has issued to warrant holders 23,020 shares of common stock in the aggregate (Note 12).

8,160 shares of Series D Preferred Stock are outstanding as of December 31, 2016.

### ***Common Stock Dividends***

During the year ended December 31, 2016, 2015 and 2014, the Company did not declare or pay any dividends.

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**FREESEAS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in thousands of United States Dollars, except for share and per share data)

**16. Taxes**

Under the laws of the Countries of the Company and its subsidiaries incorporation and/or vessels' registration, the Company is not subject to tax on international shipping income; however, they are subject to registration and tonnage taxes, which have been included in Vessel operating expenses in the accompanying consolidated statements of operations. Pursuant to the Internal Revenue Code of the United States (the "Code"), U.S. source income from the international operations of ships is generally exempt from U.S. tax if the company operating the ships meets both of the following requirements, (a) the Company is organized in a foreign country that grants an equivalent exemption to corporations organized in the United States, and (b) either (i) more than 50% of the value of the Company's stock is owned, directly or indirectly, by individuals who are "residents" of the Company's country of organization or of another foreign country that grants an "equivalent exemption" to corporations organized in the United States (the "50% Ownership Test") or (ii) the Company's stock is "primarily and regularly traded on an established securities market" in its country of organization, in another country that grants an "equivalent exemption" to United States corporations, or in the United States (the "Publicly-Traded Test").

To complete the exemption process, the Company's ship owning subsidiaries must file a U.S. tax return, state the basis of their exemption and obtain and retain documentation attesting to the basis of their exemptions. The Company's subsidiaries completed the filing process for 2014 on or prior to the applicable tax filing deadline. All the Company's ship-operating subsidiaries currently satisfy the Publicly-Traded Test based on the trading volume and the widely-held ownership of the Company's shares, but no assurance can be given that this will remain so in the future, since continued compliance with this rule is subject to factors outside the Company's control. Based on its U.S. source Shipping Income for 2014, 2015 and 2016, the Company would be subject to U.S. federal income tax of approximately \$23 \$5 and \$nil, respectively, in the absence of an exemption under Section 883.

**17. Subsequent Events**

On January 20, 2017, the Company sold to LG CAPITAL FUNDING, LLC, a \$45 convertible promissory note, which matures a year from issuance and accrues interest at the rate of 8% per annum. The investor subject to the restrictions of Rule 144 promulgated under the 1933 Act, is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 9.9% of the common stock of the Company, into shares of Common Stock. The conversion price is 65% of the lowest trading price of the Common Stock as reported by the Trading Market on which the Company's shares are traded, for the twenty prior trading days. Upon written notice, during the first six months the Company may prepay

the note with amounts ranging from 118% of principal plus interest (during days 1-30) to 148% of principal plus interest (during days 151-180).

On January and March 20, 2017, debt purchase agreements were executed between LG Capital Funding, LLC, a US investor, the buyer and M. DALAKOS – I. FASSOLIS – N. THEOFANOPOULOS & PARTNERS LAW FIRM, a non-US creditor, the seller of the \$108 Reg. S convertible promissory note plus accrued interest, issued on August 16, 2016. Two replacement notes were issued on January and March 20, 2017, respectively, aggregating the total amount of the convertible promissory note outstanding plus accrued interest.

Effective February 7, 2017, the Company effectuated a five thousand to-one reverse stock split on its issued and outstanding common stock.

On February 9 2017, the Company's Board of Directors agreed the reduction of the five-member Board to a three-member Board. Thus, Mr. Galinas and Mr. Panagiotopoulos resigned and they nominated Mr. Dimitrios Filippas to fill their vacancy. Mr. Dimitrios Filippas, currently serving as deputy Chief Financial Officer of the Company, accepted the nomination and elected as member of the Board and Treasurer.

On February 13, 2017, the Company sold to POWER UP LENDING GROUP LTD., a \$93 12% interest bearing convertible note due in nine months subject to the restrictions of Rule 144 promulgated under the 1933 Act. One hundred eighty days following the date of this note, the holder has the right to convert all or any part of the outstanding and unpaid principal amount and accrued interest of the note into Company's common stock, provided that such conversion does not cause it to own more than 4.99% of the common stock of the Company, into shares of Common Stock. The conversion price is the 58% of the average of the lowest three trading prices of the Company's common stock on any trading day during the ten trading days prior to the conversion. Upon written notice, during the first six months the Company may prepay the note with amounts ranging from 115% of principal plus interest (during days 1-30) to 140% of principal plus interest (during days 151-180).

**FREESEAS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in thousands of United States Dollars, except for share and per share data)

On February 16, 2017, the Company sold to CROWN BRIDGE PARTNERS, LLC, a \$45 convertible promissory note, which contained a \$5 original issue discount (OID) and matures a year from issuance and accrues interest at the rate of 6% per annum. The investor subject to the restrictions of Rule 144 promulgated under the 1933 Act, is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 4.99% of the common stock of the Company, into shares of Common Stock. The conversion price is 60% of the lowest trading price of the Common Stock as reported by the Trading Market on which the Company's shares are traded, for the twenty prior trading days. Upon written notice, during the first six months the Company may prepay the note with amounts ranging from 120% of principal plus interest (during days 1-60) to 145% of principal plus interest (during days 121-180).

On February 16, 2017, upon full conversion of the \$30 convertible promissory note in connection with a debt settlement agreement entered into with ANYLAND TRAVEL LTD, plus accrued interest, the Company has issued in aggregate 17,242 shares of common stock to the note holder.

On February 17, 2017, the Company issued to Brighton Capital Ltd., a \$68 convertible promissory note in connection with a debt settlement agreement entered into, of the same amount of outstanding invoice, which note matures a year from issuance and accrues interest at the rate of 8% per annum. The holder, subject to the restrictions of Rule 144 promulgated under the 1933 Act, is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 4.99% of the common stock of the Company, into shares of Common Stock. The conversion price is the lower of (i) \$0.02 and (ii) 65% of the lowest daily VWAP on any trading day during the twenty-one consecutive trading days prior to conversion. Upon prior notice, the Company may prepay the holder in cash, for 127.5% of any outstanding principal and interest remaining on the note.

On February 22, 2017, a debt purchase agreement was executed between APG Capital Holdings, LLC, a US investor, the buyer and Marine Plus S.A a non-US creditor, the seller of the outstanding \$45 convertible promissory note issued on June 27, 2016. A replacement note was issued for the amount of the outstanding convertible promissory note.

On February 22, 2017, the Company sold to APG Capital Holdings, LLC, a \$37 convertible promissory note, which contained a \$3.6 original issue discount (OID) and matures a year from issuance and accrues interest at the rate of 10% per annum. The investor subject to the restrictions of Rule 144 promulgated under the 1933 Act, is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 9.9% of the common stock of the Company, into shares of Common Stock. The conversion price is 46% of the lowest trading price of the Common Stock as reported by the Trading Market on which the Company's shares are traded, for the twenty prior trading days. Upon written notice,

during the first six months the Company may prepay the note to 150% of principal plus interest.

On February 24, 2017, the Company sold to OAKMORE OPPORUTNITY FUND I, LP, a \$50 convertible promissory note, which matures a year from issuance and accrues interest at the rate of 8% per annum. The investor is subject to the restrictions of Rule 144 promulgated under the 1933 Act, and is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 4.99% of the common stock of the Company, into shares of Common Stock. The conversion price is the 60% of the lowest daily VWAP on any trading day during the twenty-one consecutive trading days prior to conversion. Upon prior notice, the Company may prepay the investor in cash, for 127.5% of any outstanding principal and interest remaining on the note.

On March 14, 2017, the Company issued to SICHENZIA ROSS FERENGE KESNER LLP, a \$47 convertible promissory note in connection with a debt settlement agreement entered into, of the same aggregate amount of outstanding invoices, which note matures a year from issuance and accrues interest at the rate of 8% per annum. The holder, subject to the restrictions of Rule 144 promulgated under the 1933 Act, is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 4.99% of the common stock of the Company, into shares of Common Stock. The conversion price is the lower of (i) \$0.06 and (ii) 60% of the lowest daily VWAP on any trading day during the twenty-one consecutive trading days prior to conversion. Upon prior notice, the Company may prepay the holder in cash, for 127.5% of any outstanding principal and interest remaining on the note.



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(All amounts in thousands of United States Dollars, except for share and per share data)

On March 15, 2017, the Company sold to MARINE PLUS S.A., a non-U.S. investor, an \$72 convertible promissory note in connection with a debt settlement agreement entered into, of the same aggregate amount of outstanding invoices, which matures a year from issuance and accrues interest at the rate of 8% per annum. The note holder is subject to the restrictions of Regulation S promulgated under the 1933 Act, and is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 4.99% of the common stock of the Company, into shares of Common Stock. The conversion price is the lower of (i) \$0.403 (as adjusted for stock splits, stock dividends, stock combinations or other similar transactions) and (ii) the lowest daily VWAP on any trading day during the twenty-one consecutive trading days prior to conversion. Upon prior notice, the Company may prepay the investor in cash, for 127.5% of any outstanding principal and interest remaining on the note.

On March 15, 2017, a debt purchase agreement was executed between Yoshar Trading LLC, a US investor, the buyer and YES Properties Inc the seller of the \$35 convertible promissory note, issued on August 16, 2016. The purchase price for the note was the Buyer's payment of \$40 to the seller.

On March 20, 2017, the Company sold to LG CAPITAL FUNDING, LLC, a \$45 convertible promissory note, which matures a year from issuance and accrues interest at the rate of 8% per annum. The investor subject to the restrictions of Rule 144 promulgated under the 1933 Act, is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 9.9% of the common stock of the Company, into shares of Common Stock. The conversion price is 65% of the lowest trading price of the Common Stock as reported by the Trading Market on which the Company's shares are traded, for the twenty prior trading days. Upon written notice, during the first six months the Company may prepay the note with amounts ranging from 118% of principal plus interest (during days 1-30) to 148% of principal plus interest (during days 151-180).

On March 22, 2017, the Company sold to E. STAVROPOULOS & CO O.E. "Hydra Travel", a non-U.S. investor, a \$22 convertible promissory note in connection with a debt settlement agreement entered into, of the same aggregate amount of outstanding invoices, which matures a year from issuance and accrues interest at the rate of 8% per annum. The note holder is subject to the restrictions of Regulation S promulgated under the 1933 Act, and is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 4.99% of the common stock of the Company, into shares of Common Stock. The conversion price is the lower of (i) \$0.2394 (as adjusted for stock splits, stock dividends, stock combinations or other similar transactions) and (ii) the lowest daily VWAP on any trading day during the twenty-one consecutive trading days prior to conversion. Upon prior notice, the Company may prepay the investor in cash, for 127.5% of any outstanding principal and interest remaining on the note.

On March 28, 2017, the Company sold to CERBERUS FINANCE GROUP LTD, a non-U.S. investor, a \$25 convertible promissory note which matures a year from issuance and accrues interest at the rate of 8% per annum. The investor is subject to the restrictions of Regulation S promulgated under the 1933 Act, and is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 9.9% of the common stock of the Company, into shares of Common Stock. The conversion price is 60% of the lowest trading price of the Common Stock as reported by the Trading Market on which the Company's shares are traded, for the fifteen prior trading days. Upon written notice, during the first 39 days the Company may prepay the investor in cash, for 125% of any outstanding principal and interest remaining on the note.

On April 6, 2017, upon full conversion of the \$137 convertible promissory note to SICHENZIA ROSS FERENGE KESNER LLP, dated May 9, 2016, plus accrued interest, the Company has issued in aggregate 4,109,800 shares of common stock to the note holder.

On April 7, 2017, the Company sold to GS Capital Partners, a \$30 convertible promissory note, which matures a year from issuance and accrues interest at the rate of 10% per annum. The investor subject to the restrictions of Rule 144 promulgated under the 1933 Act, is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 9.9% of the common stock of the Company, into shares of Common Stock. The conversion price is 60% of the lowest trading price of the Common Stock as reported by the Trading Market on which the Company's shares are traded, for the twenty prior trading days. Upon written notice, during the first six months the Company may prepay the note at 150% of principal plus interest.

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On May 23, 2017, the Company received a letter from OTCQB that the Company's (FREEF) bid price closed below \$0.01 for more than 30 consecutive calendar days and no longer meets the Standards for Continued Eligibility for OTCQB as per the OTCQB Standards, section 2.3(2). To remain eligible for trading on the OTCQB marketplace, the Company must have proprietary priced quotations published by a Market Maker in OTC Link with a minimum closing bid price of \$0.01 per share on at least one of the prior thirty consecutive calendar days. As per the OTCQB Standards, section 4.1, in the event that the minimum closing bid price for the Company's common stock falls below \$0.01 per share, a grace period of 90 calendar days to regain compliance shall begin, during which the minimum closing bid price for the Company's common stock must be \$0.01 or greater for ten consecutive trading days; Pursuant to these OTCQB Standards, the Company has been granted a period of 90 calendar days in which to regain compliance with Section 4.1. The grace period expires August 21, 2017 and at that time if the Company's bid price has not closed at or above \$0.01 for any ten consecutive trading days then the Company will be removed from the OTCQB. In addition, in the event that the Company's closing bid price falls below \$0.001 at any time for five consecutive trading days, the Company will be immediately removed from OTCQB.

On June 1, 2017, the Company entered into a management services agreement with Prodigy Inc., a Manager, for the provision of financial services, including all of our accounting, financial reporting and internal controls, and other back-office services, as well as the provision of use of space for the Company's offices at 6, Loukianou St. Athens Greece. Our Chairman, Chief Executive Officer and President, Ion G. Varouxakis, is shareholder of Prodigy Inc.

On June 15, 2017, the Company was notified by the OTC Markets that as a result of the Company's failure to file its annual report on Form 20-F, the Company's common stock would be removed from the OTCQB market and would be available for quotation on the OTC Pink market operated by the OTC Markets, effective June 16, 2017, under the same trading symbol of "FREEF".

On July 21, 2017, the Company sold to L.G. CAPITAL FUNDING, LLC two 8% convertible notes of the Company, in the aggregate principal amount of \$79 (each Note being in the amount of \$39.5) which mature a year from issuance. The second such Note is initially paid by a same amount and maturity note collateralized by liquid assets of equal value, it is not repayable, except that if the first Note is redeemed within 6 months from issuance then the second note and its collateral note are automatically cancelled, and it can only be converted when the collateral is liquidated by the Company. The investor subject to the restrictions of Rule 144 promulgated under the 1933 Act, is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 9.9% of the common stock of the Company, into shares of Common Stock. The conversion price for both Notes is 65% of the lowest trading price of the Common Stock as reported by the Trading Market on which the Company's shares are traded, for the twenty prior trading days.

On July 24, 2017, the Company sold to, ADAR BAYS, LLC a 8% convertible note of the Company in the principal amount of \$39.5 which matures a year from issuance paid for by a same amount and maturity note collateralized by liquid assets of equal value, it is not repayable, and it can only be converted when the collateral is liquidated by the Company. The investor subject to the restrictions of Rule 144 promulgated under the 1933 Act, is entitled at any time after 6 months from issuance to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 9.9% of the common stock of the Company, into shares of Common Stock. The conversion price for both Notes is 65% of the lowest trading price of the Common Stock as reported by the Trading Market on which the Company's shares are traded, for the twenty prior trading days.

On August 17, 2017, the Company sold to L.G. CAPITAL FUNDING, LLC two 8% convertible notes of the Company, in the aggregate principal amount of \$75 (each Note being in the amount of \$37.5) which mature a year from issuance. The second such Note is initially paid by a same amount and maturity note collateralized by liquid assets of equal value, it is not repayable, except that if the first Note is redeemed within 6 months from issuance then the second note and its collateral note are automatically cancelled, and it can only be converted when the collateral is liquidated by the Company. The investor subject to the restrictions of Rule 144 promulgated under the 1933 Act, is entitled at any time to convert into common stock any portion of the outstanding and unpaid principal and accrued interest, provided that such conversion does not cause it to own more than 9.9% of the common stock of the Company, into shares of Common Stock. The conversion price for both Notes is 65% of the lowest trading price of the Common Stock as reported by the Trading Market on which the Company's shares are traded, for the twenty prior trading days.