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NORDIC AMERICAN TANKER SHIPPING LTD  
Form 20-F  
June 30, 2006

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, 2005

OR

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

Commission file number 1-13944

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

Date of event requiring this shell company report. None

NORDIC AMERICAN TANKER SHIPPING LIMITED

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

ISLANDS OF BERMUDA

-----  
(Jurisdiction of incorporation or organization)

Thistle House  
4 Burnaby Street  
Hamilton, HM11  
Bermuda

(Address of principal executive offices)

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

| TITLE OF EACH CLASS | NAME OF EACH EXCHANGE<br>ON WHICH REGISTERED |
|---------------------|--|
| Common Shares       | New York Stock Exchange                      |

-----

Securities registered or to be registered pursuant to Section 12(g) of the Act:  
None

Securities for which there is a reporting obligation pursuant to Section 15(d)  
of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of

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capital or common stock as of the close of the period covered by the annual report.

Common Shares, par value \$0.01 21,046,400

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

Yes  No

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

Yes  No

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

Yes  No

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

Large accelerated filer  Accelerated filer  Non-Accelerated filer

Indicate by check mark which 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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### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain matters discussed herein may constitute forward-looking statements. The Private Securities Litigation Reform Act of 1995 provides safe harbor protections for forward-looking statements in order to encourage companies to provide prospective information about their business. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts.

The Company desires to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and is including this cautionary statement in connection with this safe harbor legislation. The words "believe," "anticipate," "intend," "estimate," "forecast," "project," "plan," "potential," "will," "may," "should," "expect," "pending" and similar expressions identify forward-looking statements.

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The forward-looking statements are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, our management's examination of historical operating trends, data contained in our records and other data available from third parties. Although we believe that these assumptions were reasonable when made, because these assumptions are inherently subject to significant uncertainties and contingencies which are difficult or impossible to predict and are beyond our control, we cannot assure you that we will achieve or accomplish these expectations, beliefs or projections. We undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise.

Important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements include the strength of world economies and currencies, general market conditions, including fluctuations in charter rates and vessel values, changes in demand in the tanker market, as a result of changes in OPEC's petroleum production levels and world wide oil consumption and storage, changes in our operating expenses, including bunker prices, drydocking and insurance costs, the market for our vessels, availability of financing and refinancing, changes in governmental rules and regulations or actions taken by regulatory authorities, potential liability from pending or future litigation, general domestic and international political conditions, potential disruption of shipping routes due to accidents or political events, vessels breakdowns and instances of off-hires and other important factors described from time to time in the reports filed by the Company with the Securities and Exchange Commission.

Please note in this annual report, "we", "us", "our", and "The Company", all refer to Nordic American Tanker Shipping Limited and its subsidiaries.

### ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable

### ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable

### ITEM 3. KEY INFORMATION

#### A. SELECTED FINANCIAL DATA

The following historical financial information should be read in conjunction with our audited consolidated financial statements and related notes all of which are included elsewhere in this document and "Operating and Financial Review and Prospects." The statement of operations data for each of the three years ended December 31, 2003, 2004, and 2005 and selected balance sheet data as of December 31, 2004 and 2005 are derived from our audited financial statements included elsewhere in this document. The statements of operations data for the years ended December 31, 2001 and 2002 and selected balance sheet data as of December 31, 2001, 2002 and 2003 are derived from our audited financial statements not included in this document.

#### SELECTED FINANCIAL DATA

December 31,

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| All figures in USD   | 2005               | 2004               | 2003             |
|--|--------------------|--------------------|------------------|
| Voyage revenue   | 117,110,178        | 67,451,598         | 37,370,75        |
| Voyage expenses  | (30,980,916)       | (4,925,353)        | (184,78          |
| Vessel operating expense<br>excl. depreciation expense presented below | (11,220,770)       | (1,976,766)        |                  |
| Administrative expenses  | (8,492,164)        | (10,851,688)       | (468,08          |
| Depreciation   | (17,529,000)       | (6,918,164)        | (6,831,04        |
| <b>Net operating income</b>  | <b>48,887,328</b>  | <b>42,779,627</b>  | <b>29,886,84</b> |
| Interest income  | 850,803            | 143,230            | 26,46            |
| Interest expense   | (3,453,963)        | (1,971,304)        | (1,797,98        |
| Other financial Income (Charges)                                       | 33,574             | (135,621)          | (15,04           |
| <b>Net financial items</b>   | <b>(2,569,586)</b> | <b>(1,963,695)</b> | <b>(1,786,55</b> |
| <b>Net profit</b>  | <b>46,317,742</b>  | <b>40,815,932</b>  | <b>28,100,28</b> |
| Basic and diluted earnings per share                                   | 3.03               | 4.05               | 2.8              |
| Cash dividends declared per share                                      | 4.21               | 4.84               | 3.0              |
| Weighted average shares outstanding basic and diluted                  | 15,263,622         | 10,078,391         | 9,706,60         |
| <b>Other financial data:</b>   |                    |                    |                  |
| Net cash from operating activities                                     | 51,055,588         | 62,817,261         | 29,893,55        |
| Dividend paid  | 64,279,487         | 47,195,842         | 29,605,41        |
| <b>Selected Balance Sheet Data (at period end):</b>                    |                    |                    |                  |
| Cash and cash equivalents  | 14,240,482         | 30,732,516         | 565,92           |
| Total assets   | 505,844,453        | 224,203,411        | 136,896,29       |
| Total debt   | 130,000,000        | 0                  | 30,000,00        |
| Shareholders' equity   | 370,872,171        | 221,868,393        | 105,707,97       |

**B. CAPITALIZATION AND INDEBTEDNESS**

Not Applicable

**C. REASONS FOR THE OFFER AND USE OF PROCEEDS**

Not Applicable

**D. RISK FACTORS**

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

### Industry Specific Risk Factors

The cyclical nature of the tanker industry may lead to volatile changes in charter rates and vessel values which may adversely affect our earnings.

If the tanker market, which has been cyclical, is depressed in the future, our earnings and available cash flow may decrease. Our ability to recharter our vessels or to sell them on the expiration or termination of their charters and the charter rates payable under our two spot market related time charters, our

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spot charters, or any renewal or replacement charters, will depend upon, among other things, economic conditions in the tanker market. Fluctuations in charter rates and tanker values result from changes in the supply and demand for tanker capacity and changes in the supply and demand for oil and oil products.

The factors affecting the supply and demand for tankers are outside of our control, and the nature, timing and degree of changes in industry conditions are unpredictable.

The factors that influence demand for tanker capacity include:

- o demand for oil and oil products,
- o supply of oil and oil products,
- o regional availability of refining capacity,
- o global and regional economic conditions,
- o the distance oil and oil products are to be moved by sea, and
- o changes in seaborne and other transportation patterns.

The factors that influence the supply of tanker capacity include:

- o the number of newbuilding deliveries,
- o the scrapping rate of older vessels,
- o conversion of tankers to other uses,
- o the number of vessels that are out of service, and
- o environmental concerns and regulations.

Historically, the tanker markets have been volatile as a result of the many conditions and factors that can affect the price, supply and demand for tanker capacity. Changes in demand for transportation of oil over longer distances and supply of tankers to carry that oil may materially affect our revenues, profitability and cash flows. Eight of our nine vessels are currently operated in the spot market or on spot market related time charters. We cannot assure you that we will receive any minimum level of charterhire for the vessels operated in the spot market or on spot market related time charters.

We will be dependent on spot charters and any decrease in spot charter rates in the future may adversely affect our earnings and our ability to pay dividends.

We currently operate a fleet of nine vessels, including the vessel delivered to us in April 2006. Of those nine vessels, one is on a long term fixed-rate charter, while the other eight are employed in the spot market or on time charters with spot market related rates. We are currently also pursuing the acquisition of a tenth vessel which we would also intend to spot charter in the near term. Therefore we are highly dependent on spot market charter rates.

We may enter into spot charters for any additional vessels that we may acquire in the future. Although spot chartering is common in the tanker industry, the spot charter market may fluctuate significantly based upon tanker and oil supply and demand. The successful operation of our vessels in the spot charter market depends upon, among other things, obtaining profitable spot charters and minimizing, to the extent possible, time spent waiting for charters and time spent traveling unladen to pick up cargo. The spot market is very volatile, and, in the past, there have been periods when spot rates have declined below the

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operating cost of vessels. We cannot assure you that future spot charters will be available at rates sufficient to enable our vessels trading in the spot market to operate profitably and to pay dividends.

Normally, tanker markets are stronger in the fall and winter months (the fourth and first quarters of the calendar year) in anticipation of increased oil consumption in the northern hemisphere during the winter months. Unpredictable weather patterns and variations in oil reserves disrupt tanker scheduling. Seasonal variations in tanker demand and, as a result, in charter rates will affect any spot market related rates that we may receive.

Compliance with safety, environmental and other governmental and other requirements may adversely affect our business.

The shipping industry is affected by numerous regulations in the form of international conventions, national, state and local laws and national and international regulations in force in the jurisdictions in which such tankers operate, as well as in the country or countries in which such tankers are registered. These regulations include the U.S. Oil Pollution Act of 1990, or OPA, the International Convention on Civil Liability for Oil Pollution Damage of 1969, the International Convention for the Prevention of Pollution from Ships, the IMO International Convention for the Safety of Life at Sea of 1974, or SOLAS, the International Convention on Load Lines of 1966 and the U.S. Marine Transportation Security Act of 2002, each of which imposes environmental, technical, safety, operational or financial requirements on us. In addition, vessel classification societies also impose significant safety and other requirements on our vessels. Regulation of vessels, particularly in the areas of safety and environmental impact may change in the future and may limit our ability to operate our business or require significant capital expenditures be incurred on our vessels to keep them in compliance.

The value of our vessels may fluctuate and could result in a lower price of our common shares.

Tanker values have generally experienced high volatility. You should expect the market value of our oil tankers to fluctuate, depending on general economic and market conditions affecting the tanker industry and competition from other shipping companies, types and sizes of vessels, and other modes of transportation. In addition, as vessels grow older, they generally decline in value. These factors will affect the value of our vessels. Declining tanker values could affect our ability to raise cash by limiting our ability to refinance our vessels, thereby adversely impacting our liquidity, or result in a breach of our loan covenants, which could result in defaults under our \$300 million revolving credit facility, or the New Credit facility. If we determine at any time that a vessel's future limited useful life and earnings require us to impair its value on our financial statements, that could result in a charge against our earnings and the reduction of our shareholders' equity. Due to the cyclical nature of the tanker market, if for any reason we sell vessels at a time when tanker prices have fallen, the sale may be at less than the vessel's carrying amount on our financial statements, with the result that we would also incur a loss and a reduction in earnings. Any such reduction could result in a lower share price.

Shipping is an inherently risky business involving global operations and our vessels are exposed to international risks which could reduce revenue or increase expenses.

Shipping companies conduct global operations. Our vessels are at risk of damage or loss because of events such as mechanical failure, collision, human error, war, terrorism, piracy, cargo loss and bad weather. In addition, changing economic, regulatory and political conditions in some countries, including political and military conflicts, have from time to time resulted in attacks on

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vessels, mining of waterways, piracy, terrorism, labor strikes and boycotts. These sorts of events could interfere with shipping routes and result in market disruptions.

Terrorist attacks, such as the attacks on the United States on September 11, 2001, and other acts of violence or war may affect the financial markets and our business, results of operations and financial condition.

Terrorist attacks such as the attacks on the United States on September 11, 2001 and the United States' continuing response to these attacks, as well as the threat of future terrorist attacks, continue to cause uncertainty in the world financial markets, including the energy markets. The continuing conflict in Iraq may lead to additional acts of terrorism, armed conflict and civil disturbance around the world, which may contribute to further instability including in the oil markets. Terrorist attacks, such as the attack on the M.T. Limburg in Yemen in October 2002, may also negatively affect our trade patterns or other operations and directly impact our vessels or our customers. Future terrorist attacks could result in increased volatility of the financial markets in the United States and globally and could result in an economic recession in the United States or the world. Any of these occurrences could have a material adverse impact on our operating results, revenue and costs.

Arrests of our vessels by maritime claimants could cause a significant loss of earnings for the related off-hire period.

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 lienholder may enforce its lien by "arresting" or "attaching" a vessel through foreclosure proceedings. The arrest or attachment of one or more of our vessels could result in a significant loss of earnings for the related off-hire period. In addition, in jurisdictions where the "sister ship" theory of liability applies, a claimant may arrest 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. In countries with "sister ship" liability laws, claims might be asserted against us or any of our vessels for liabilities of other vessels that we own.

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

A government could requisition for title or seize our vessels. Requisition for title occurs when a government takes control of a vessel and becomes its owner. Also, a government could requisition our vessels for hire. Requisition for hire occurs when a government takes control of a vessel and effectively becomes its charterer at dictated charter rates. Although we, as the owner, would be entitled to compensation in the event of a requisition, the amount and timing of payment would be uncertain.

### Company Specific Risk Factors

We cannot guarantee that we will continue to make cash distributions.

We have made distributions quarterly since September 1997. It is possible that our revenues could be reduced as a result of decreases in charter rates or that we could incur other expenses or contingent liabilities that would reduce or eliminate the cash available for distribution as dividends. The Credit Facility prohibits the declaration and payment of dividends if we are in default under it. We refer you to Item 4--Information on the Company--Business Overview--Our Credit Facility for more details. In addition, the declaration and payment of dividends is subject at all times to the discretion of our Board of Directors and compliance with Bermuda law, and may be dependent upon the adoption at the



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annual meeting of shareholders of a resolution effectuating a reduction in our share premium in an amount equal to the estimated amount of dividends to be paid in the next succeeding year. We refer you to Item 8--Financial Information--Dividend Policy for more details. We cannot assure you that we will pay dividends at rates previously paid or at all.

We may not be able to grow or to effectively manage our growth.

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

- o identify suitable tankers and/or shipping companies for acquisitions,
- o identify businesses engaged in managing, operating or owning tankers for acquisitions or joint ventures,
- o integrate any acquired tankers or businesses successfully with our existing operations,
- o hire, train and retain qualified personnel and crew to manage and operate our growing business and fleet,
- o identify additional new markets,
- o improve our operating, financial and accounting systems and controls, and
- o obtain required financing for our existing and new operations.

Our failure to effectively identify, purchase, develop and integrate any tankers or businesses could adversely affect our business, financial condition and results of operations. In addition, in November 2004, we transitioned from a bareboat charter company to an operating company. We may incur unanticipated expenses as an operating company. The number of employees of Scandic American Shipping Ltd., or the Manager, that perform services for us and our current operating and financial systems may not be adequate as we implement our plan to expand the size of our fleet, and we may not be able to require the Manager to hire more employees or adequately improve those systems. In addition, we have incurred and will continue to incur expenses associated with compliance with the Sarbanes-Oxley Act of 2002. Section 404 of that Act requires public companies include in annual reports a report containing management's assessment of the effectiveness of the Company's internal control over financial reporting and a related attestation of the Company's independent auditors. This requirement will first apply to us with respect to the fiscal year ending December 31, 2006. We have begun a comprehensive effort in preparation for compliance with Section 404 including the documentation, testing and review of our internal controls under the direction of our management. We cannot be certain at this time that all our controls will be considered effective. Therefore, we can give no assurances that our internal control over financial reporting will satisfy the new regulatory requirements when they become applicable to us. If our independent auditor is unable to provide us with an unqualified attestation report on a timely basis as required by Section 404, investors could lose confidence in the reliability of our financial statements, which could result in a decrease in the value of our common stock. Finally, acquisitions may require additional equity issuances or debt issuances (with amortization payments), each of which could lower dividends per share. If we are unable to execute the points noted above, our financial condition and dividend rates may be adversely affected.

We are dependent on the Manager and there may be conflicts of interest arising

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from the relationship between our Chairman and the Manager.

Our success depends to a significant extent upon the abilities and efforts of the Manager and our management team. Our success will depend upon our and the Manager's ability to hire and retain key members of our management team. The loss of any of these individuals could adversely affect our business prospects and financial condition. Difficulty in hiring and retaining personnel could adversely affect our results of operations. We do not maintain "key man" life insurance on any of our officers.

Herbjorn Hansson, our Chairman, President and Chief Executive Officer, is also an owner of the Manager. In addition, one of our directors is also an owner of the Manager. The Manager may engage in business activities other than with respect to the Company. The fiduciary duty of a director may compete with or be different from the interests of the Manager and may create conflicts of interest in relation to that director's duties to the Company.

An increase in operating costs could adversely affect our cash flow and financial condition.

Under the original bareboat charters to BP Shipping, BP Shipping was responsible for our vessels' operating and voyage costs. Under the time and spot charters of eight of our nine vessels, we are responsible for many of such costs. Our vessel operating expenses include the costs of crew, fuel (for spot chartered vessels), provisions, deck and engine stores, insurance and maintenance and repairs, which depend on a variety of factors, many of which are beyond our control. Some of these costs, primarily relating to insurance and enhanced security measures implemented after September 11, 2001 and fuel, have been increasing. The price of fuel is near historical high levels and may increase in the future. If our vessels suffer damage, they may need to be repaired at a drydocking facility. The costs of drydock repairs are unpredictable and can be substantial. Increases in any of these costs would decrease earnings and dividends per share.

Our vessels operate in the highly competitive international tanker market.

The operation of tanker vessels and transportation of crude and petroleum products is extremely competitive. Competition arises primarily from other tanker owners, including major oil companies as well as independent tanker companies, some of whom have substantially greater resources. Competition for the transportation of oil and oil products can be intense and depends on price, location, size, age, condition and the acceptability of the tanker and its operators to the charterers. We will have to compete with other tanker owners, including major oil companies as well as independent tanker companies.

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

Purchasing and operating secondhand vessels may result in increased operating costs which could adversely affect our earnings and as our fleet ages, the risks associated with older vessels could adversely affect our operations.

Our current business strategy includes additional growth through the acquisition of new and secondhand vessels. The ninth vessel that we took delivery of in early April 2006 is secondhand. Further, we are pursuing the acquisition of a tenth secondhand modern double-hull Suezmax tanker. While we typically inspect secondhand vessels prior to purchase, this does not provide us with the same knowledge about their condition that we would have had if these vessels had been built for and operated exclusively by us. Generally, we do not receive the benefit of warranties from the builders for the secondhand vessels that we

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acquire.

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

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

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

Borrowing under the New Credit Facility requires us to dedicate a part of our cash flow from operations to paying interest on our indebtedness. These payments limit funds available for working capital, capital expenditures and other purposes, including making distributions to shareholders and further equity or debt financing in the future. Amounts borrowed under the New Credit Facility bear interest at variable rates. Increases in prevailing rates could increase the amounts that we would have to pay to our lenders, even though the outstanding principal amount remains the same, and our net income and cash flows would decrease. We expect our earnings and cash flow to vary from year to year due to the cyclical nature of the tanker industry. In addition, our current policy is not to accumulate cash, but rather to distribute our available cash to shareholders. If we do not generate or reserve enough cash flow from operations to satisfy our debt obligations, we may have to undertake alternative financing plans, such as:

- o seeking to raise additional capital,
- o refinancing or restructuring our debt,
- o selling tankers or other assets, or
- o reducing or delaying capital investments.

However, these alternative financing plans, if necessary, may not be sufficient to allow us to meet our debt obligations. If we are unable to meet our debt obligations or if some other default occurs under the Credit Facility, the lenders could elect to declare that debt, together with accrued interest and fees, to be immediately due and payable and proceed against the collateral securing that debt, which constitutes our entire fleet and substantially all of our assets.

Our New Credit Facility contains restrictive covenants which may limit our liquidity and corporate activities.

The New Credit Facility imposes operating and financial restrictions on us. These restrictions may limit our ability to:

- o pay dividends and make capital expenditures if we do not repay amounts drawn under the New Credit Facility or if there is another default under the New Credit Facility,
- o incur additional indebtedness, including the issuance of guarantees,

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- o create liens on our assets,
- o change the flag, class or management of our vessels or terminate or materially amend the management agreement relating to each vessel,
- o sell our vessels,
- o merge or consolidate with, or transfer all or substantially all our assets to, another person, or
- o enter into a new line of business.

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

Shipping is an inherently risky business and our insurance may not be adequate to cover all our losses.

There are a number of risks associated with the operation of ocean-going vessels, including mechanical failure, collision, human error, war, terrorism, property loss, cargo loss or damage and business interruption due to political circumstances in foreign countries, hostilities and labor strikes. Any of these events may result in loss of revenues, increased costs and decreased cash flows. In addition, the operation of any vessel is subject to the inherent possibility of marine disaster, including oil spills and other environmental mishaps, and the liabilities arising from owning and operating vessels in international trade. We cannot assure investors that our insurance will protect us against all risks. We may not be able to maintain adequate insurance coverage at reasonable rates for our fleet in the future and the insurers may not pay particular claims. For example, a catastrophic spill could exceed our insurance coverage and have a material adverse effect on our financial condition. In the past, new and stricter environmental regulations have led to higher costs for insurance covering environmental damage or pollution, and new regulations could lead to similar increases or even make this type of insurance unavailable. Furthermore, even if insurance coverage is adequate to cover our losses, we may not be able to timely obtain a replacement ship in the event of a loss. 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 payment of these calls could result in significant expenses to us which could reduce our cash flows and place strains on our liquidity and capital resources.

Because some of our expenses are incurred in foreign currencies, we are exposed to exchange rate risks.

The charterers of our vessels pay us in U.S. dollars. While we incur most of our expenses in U.S. dollars, we have in the past incurred expenses in other currencies, most notably the Norwegian Kroner. Declines in the value of the U.S. dollar relative to the Norwegian Kroner, or the other currencies in which we incur expenses, would increase the U.S. dollar cost of paying these expenses and thus would adversely affect our results of operations.

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

Under the United States Internal Revenue Code of 1986, or the Code, 50% of the

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gross shipping income of a vessel owning or chartering corporation, such as ourselves, attributable to transportation that begins or ends, but that does not both begin and end, in the U.S. will be characterized as U.S. source shipping income and such income will be subject to a 4% United States federal income tax unless that corporation is entitled to a special tax exemption under the Code which applies to the international shipping income derived by certain non-United States corporations. We believe that we currently qualify for this statutory tax exemption and we will take this position for U.S. tax return reporting purposes. However, there are several risks that could cause us to become taxed on our U.S. source shipping income. Due to the factual nature of the issues involved, we can give no assurances on our tax-exempt status.

If we are not entitled to this statutory tax exemption for any taxable year, we would be subject for any such year to a 4% United States federal income tax on our U.S. source shipping income. The imposition of this tax could have a negative effect on our business and would result in decreased earnings available for distribution to our shareholders.

If U.S. tax authorities were to treat us as a "passive foreign investment company," that could have adverse consequences on U.S. holders.

A foreign corporation will be treated as a "passive foreign investment company" 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, such 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 trade or business. For purposes of these tests, income derived from the performance of services does not constitute "passive income." Those holders of stock in a passive foreign investment company who are citizens or residents of the United States or domestic entities would alternatively be subject to a special adverse U.S. Federal income tax regime with respect to the income derived by the passive foreign investment company, the distributions they receive from the passive foreign investment company and the gain, if any, they derive from the sale or other disposition of their shares in the passive foreign investment company. In particular, dividends paid by us would not be treated as "qualified dividend income" eligible for preferential tax rates in the hands of noncorporate U.S. shareholders.

Based on our current and expected future operations, we believe that we are no longer a passive foreign investment company with respect to the taxable year 2005 and thereafter. As a result, noncorporate U.S. shareholders should be eligible to treat dividends paid by us in 2006 and thereafter as "qualified dividend income" which is subject to preferential tax rates (through 2010). Since we expect to derive more than 25% of our income each year from our time chartering and voyage chartering activities, we believe that such income will be treated for relevant U.S. Federal income tax purposes as services income, rather than rental income. Correspondingly, such income should not constitute "passive income," and the assets that we own and operate in connection with the production of that income (which should constitute more than 50% of our assets each year), in particular our vessels, should not constitute passive assets for purposes of determining whether we are a passive foreign investment company in any taxable year. However, no assurance can be given that the Internal Revenue Service will accept this position or that we would not constitute a passive foreign investment company for any future taxable year if there were to be changes in the nature and extent of our operations.

Risks Relating to Our Common Shares

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Our common share price may be highly volatile and future sales of our common shares could cause the market price of our common shares to decline.

The market price of our common shares has historically fluctuated over a wide range and may continue to fluctuate significantly in response to many factors, such as actual or anticipated fluctuations in our operating results, changes in financial estimates by securities analysts, economic and regulatory trends, general market conditions, rumors and other factors, many of which are beyond our control. Investors in our common shares may not be able to resell their shares at or above their purchase price due to those factors, which include the risks and uncertainties set forth in this annual report.

Because we are a foreign corporation, you may not have the same rights that a shareholder in a U.S. corporation may have.

We are a Bermuda exempted company. Our memorandum of association and bye-laws and The Companies Act, 1981 of Bermuda, or the Companies Act, govern our affairs. The Companies Act does not as clearly establish your rights and the fiduciary responsibilities of our directors as do statutes and judicial precedent in some U.S. jurisdictions. Therefore, you may have more difficulty in protecting your interests as a shareholder in the face of actions by the management, directors or controlling shareholders than would shareholders of a corporation incorporated in a United States jurisdiction. There is a statutory remedy under Section 111 of the Companies Act which provides that a shareholder may seek redress in the courts as long as such shareholder can establish that our affairs are being conducted, or have been conducted, in a manner oppressive or prejudicial to the interests of some part of the shareholders, including such shareholder. However, the principles governing Section 111 have not been well developed.

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

We are incorporated in the Islands of Bermuda. Substantially all of our assets and those of our subsidiaries are located outside the United States. As a result, it may be difficult or impossible for U.S. investors to serve process within the United States upon us or to enforce judgment upon us for civil liabilities in U.S. courts. In addition, you should not assume that courts in the countries in which we are incorporated or where our assets are located (1) would enforce judgments of U.S. courts obtained in actions against based upon the civil liability provisions of applicable U.S. federal and state securities laws or (2) would enforce, in original actions, liabilities against us based upon these laws.

### ITEM 4. INFORMATION ON THE COMPANY

#### A. HISTORY AND DEVELOPMENT OF THE COMPANY

Nordic American Tanker Shipping Limited, or the Company, was founded on June 12, 1995 under the laws of the Islands of Bermuda and we maintain our principal offices at Thistle House, 4 Burnaby Street, Hamilton HM 11, Bermuda. Our telephone number at such address is (441) 292-7202.

The Company was formed for the purpose of acquiring and chartering three Suezmax tankers that were built in 1997. These three vessels were bareboat chartered to BP Shipping Ltd., or BP Shipping, for a period of seven years. BP Shipping redelivered these three vessels to us in September 2004, October 2004 and November 2004, respectively. We have continued contracts with BP Shipping by time chartering to it two of our original vessels at spot market related rates for three-year terms up to the autumn of 2007. We have bareboat chartered the third of our original three vessels to Gulf Navigation Company LLC, or Gulf Navigation, of Dubai, U.A.E. for a term of five years at a fixed rate of charterhire, subject to two one-year extensions at Gulf Navigation's option. We

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acquired our fourth vessel in November 2004, our fifth and sixth vessels in March 2005, our seventh vessel in August 2005, our eighth vessel in November 2005 and our ninth vessel in April 2006. We currently operate eight vessels in the spot market or on spot market related time charters.

### B. BUSINESS OVERVIEW

#### Our Fleet

Our fleet, including the additional vessel we have acquired in April 2006, consists of nine modern double-hull Suezmax tankers. The following chart provides information regarding each vessel, including its employment status.

| Vessel            | Yard       | Year<br>Built | Dwt     | Employment Status<br>(Expiration Date) | Flag             |
|-------------------|------------|---------------|---------|--|------------------|
| Gulf Scandic      | Samsung    | 1997          | 151,459 | Bareboat (Nov. 2009)                   | Isle of Man      |
| Nordic Hawk       | Samsung    | 1997          | 151,459 | TC/Spot (1) (Oct. 2007)                | Bahamas          |
| Nordic Hunter     | Samsung    | 1997          | 151,459 | TC/Spot (1) (Sep. 2007)                | Bahamas          |
| Nordic Voyager    | Dalian New | 1997          | 149,591 | Spot                                   | Norway           |
| Nordic Freedom    | Daewoo     | 2005          | 159,500 | Spot (Mar. 2007)                       | Bahamas          |
| Nordic Fighter    | Hyundai    | 1998          | 153,181 | Spot                                   | Norway           |
| Nordic Discovery  | Hyundai    | 1998          | 153,181 | Spot                                   | Norway           |
| Nordic Saturn     | Daewoo     | 1998          | 157,332 | Spot                                   | Marshall Islands |
| Nordic Jupiter(2) | Daewoo     | 1998          | 157,332 | Spot                                   | Marshall Islands |

(1) TC/Spot = Time Charter on spot market related terms.

(2) The vessel was delivered to us on April 10, 2006.

#### Our Charters

We operate our vessels on bareboat charters, time charters and in the spot market. Our goal is to take advantage of potentially higher market rates through time charters with spot market related rates and voyage charters. Including our recent acquisition, we plan to operate eight of our nine vessels in the spot market or on spot market related time charters, although we may consider charters at fixed rates depending on market conditions.

#### Bareboat Charters

We have chartered one of our vessels (the Gulf Scandic) under a bareboat charter to Gulf Navigation, for a period of five years, terminating in the fourth quarter of 2009, subject to two one-year extensions at Gulf Navigation's option. Under the terms of the bareboat charter, Gulf Navigation is obligated to pay a fixed charterhire of \$17,325 per day for the entire charter period. The charterhire is payable to us monthly in advance. Under certain circumstances, including in the event the vessel is lost, the bareboat charter will be deemed terminated and Gulf Navigation will not be obligated to pay the charterhire.

During the charter period, Gulf Navigation will generally be responsible for operating and maintaining the vessel and will bear all costs and expenses with respect to the vessel. During the bareboat charter period, we have the responsibility to insure the vessel at our expense against hull and machinery and war risks. However, Gulf Navigation is required to insure against protection and indemnity risks. Upon the expiration of the bareboat charter, Gulf Navigation is required to redeliver the vessel in the same or as good structure, state, condition and class as that in which the vessel was delivered, fair wear and tear not affecting class excepted.

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Under the terms of the bareboat charter, Gulf Navigation has agreed to indemnify us against any loss, damage or expense incurred by us arising out of the operation of the vessel by Gulf Navigation and against any lien arising out of an event occurring during the charter period.

### Time Charters

We have chartered two of our vessels (the Nordic Hawk and the Nordic Hunter) under spot market related time charters to BP Shipping for a period of three years each, terminating between September 1 and October 31, 2007. The amount of charterhire payable under the charters to BP Shipping is based on a formula designed to generate earnings to us as if we had operated the vessels in the spot market on two routes used for the calculation, less 5%. Since the charterhire paid to us will be based on this formula, at times, the charterhire payable may be higher or lower than rates achieved by other tanker operators in the spot market operating on these or other routes. The charterhire is payable to us monthly.

Under the time charters, BP Shipping is generally responsible for, among other things, the cost of all fuels with respect to the vessels (with certain exceptions, including during off-hire periods), port charges, and costs related to towage, pilotage, mooring loading and discharging facilities and services. Under time charters, we are generally required, among other things, to keep the related vessel seaworthy, to crew and maintain the vessel and to comply with applicable regulations. We are also required to insure the related vessel against protection and indemnity risks, hull and machinery and war risks, and provide standard oil pollution insurance cover. If any off-hire period exceeds thirty consecutive days, BP Shipping will have the option to terminate the charter.

### Spot Charters

We currently operate one vessel (the Nordic Freedom) in the spot market (other than in a pool). Tankers operating in the spot market typically are chartered for a single voyage which may last up to several weeks. Tankers operating in the spot market may generate increased profit margins during improvements in tanker rates, while tankers operating fixed-rate time charters generally provide more predictable cash flows.

Under a typical voyage charter in the spot market, we will be paid freight on the basis of moving cargo from a loading port to a discharge port. We will be responsible for paying both operating costs and voyage costs and the charterer will be responsible for any delay at the loading or discharging ports. Under voyage charters, we are generally required, among other things, to keep the related vessel seaworthy, to crew and maintain the vessel and to comply with applicable regulations.

### Pooling Arrangements

We currently operate five of our vessels (the Nordic Voyager, Nordic Discovery, Nordic Fighter, Nordic Saturn and Nordic Jupiter) in spot market pools with other vessels that are not owned by us. The pools are managed by third party pool administrators. The pool administrator of each pool has the responsibility for the commercial management of the participating vessels, including the marketing, chartering, operation and bunker (fuel oil) purchase of the vessels. The pool participants remain responsible for all other costs including the financing, insurance, manning and technical management of their vessels. The earnings of all of the vessels are aggregated, or pooled, and divided according to the relative performance capabilities of the vessel and the actual earning days each vessel is available.

### The Management Agreement



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Under the Management Agreement by and between the Company and Scandic American Shipping Ltd., or the Manager, the Manager assumes commercial and operational responsibility of our vessels and is required to manage our day-to-day business subject, always, to our objectives and policies as established from time to time by the Board of Directors. The Manager sub-contracts certain of these duties to Teekay Marine Services AS (formerly IUM Shipmanagement AS), a third-party technical manager affiliated with Teekay Shipping Corporation, a publicly traded shipping company. All decisions of a material nature concerning our business are reserved to our Board of Directors. The Management will terminate on June 30, 2019, unless earlier terminated pursuant to its terms, as discussed below, or extended by the parties following mutual agreement.

For its services under the Management Agreement, the Manager is entitled to cover its costs incurred plus a management fee equal to \$100,000 per annum. The management fee is payable to the Manager quarterly in advance. The Management Agreement formerly provided that the Manager would receive 1.25% of any gross charterhire paid to us. In order to further align the Manager's interests with those of the Company, the Manager agreed with us to amend the Management Agreement to eliminate this payment, and we issued to the Manager restricted common shares equal to 2% of our outstanding common shares. Any time additional common shares are issued, the Manager will receive additional restricted common shares to maintain the number of common shares issued to the Manager at 2% of our total outstanding common shares. These restricted shares are nontransferable for three years from issuance.

Under the Management Agreement, the Manager pays, and receives reimbursement from us, for our administrative expenses including such items as:

- o all costs and expenses incurred on our behalf, including operating expenses and other costs for vessels that are chartered out on time charters or traded in the spot market and for monitoring the condition of our vessel that is operating under bareboat charter,
- o executive officer and staff salaries,
- o administrative expenses, including, among others, for third party public relations, insurance, franchise fees and registrars' fees,
- o all premiums for insurance of any nature, including directors' and officers' liability insurance and general liability insurance,
- o brokerage commissions payable by us on the gross charter hire received in connection with the charters,
- o directors' fees and meeting expenses,
- o audit fees,
- o other expenses approved by the Board of the Directors and
- o attorneys' fees and expenses, incurred on our behalf in connection with (A) any litigation commenced by or against us or (B) any claim or investigation by any governmental, regulatory or self-regulatory authority involving us.

We have agreed to defend, indemnify and save the Manager and its affiliates (other than us and our subsidiaries), officers, directors, employees and agents harmless from and against any and all loss, claim, damage, liability, cost or

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expense, including reasonable attorneys' fees, incurred by the Manager or any such affiliates based upon a claim by or liability to a third party arising out of the operation of our business, unless due to the Manager's or such affiliates' negligence or willful misconduct.

We may terminate the Management Agreement in the event that:

- o the Manager commits any material breach or omission of its material obligations or undertakings thereunder that is not remedied within thirty days of our notice to the Manager of such breach or omission,
- o the Manager fails to maintain adequate authorization to perform its duties thereunder that is not remedied within thirty days,
- o certain events of the Manager's bankruptcy occur, or
- o it becomes unlawful for the Manager to perform its duties under the Management Agreement.

### Commercial and Technical Management Agreements

We have entered into a commercial management agreement with Teekay Chartering Limited, or Teekay, an affiliate of Teekay Shipping Corporation for the Nordic Freedom. Under the supervision of the Manager, Teekay's duties include seeking and negotiating charters for this vessel.

We have entered into a commercial management agreement with the Swedish based Stena Bulk AS, or Stena, for the Nordic Voyager, which is operated in a pool with other Stena-controlled Suezmax tankers. Under the supervision of the Manager, Stena's duties in the pool include seeking and negotiating charters for this vessel.

We have entered into a commercial management agreement with Frontline Management ASA, or Frontline, for the Nordic Fighter and the Nordic Discovery, which are operated in a pool with other Frontline controlled Suezmax tankers. Under the supervision of the Manager, Frontline's duties in the pool include seeking and negotiating charters for these vessels.

We have entered into a commercial management agreement with the U.S. based OMI Corporation, or OMI, for the Nordic Saturn and Nordic Jupiter, which are operated in a pool with other OMI-controlled Suezmax tankers. Under the supervision of the Manager, OMI's duties in the pool include seeking and negotiating charters for these vessels. We have entered into a technical management agreement for Nordic Jupiter with OMI Marine Services under the supervision of the Manager.

We have entered into a technical management agreement for the Nordic Hawk, Nordic Hunter, Nordic Voyager, Nordic Freedom and Nordic Saturn with Teekay Marine Services AS (formerly IUM Shipmanagement AS) under the supervision of the Manager.

We have entered into a technical management agreement for the Nordic Fighter and the Nordic Discovery with V.Ships Norway AS, or V.Ships. V.Ships is a marine service group that provides ship management and related services to a managed fleet of approximately 650 vessels worldwide.

Compensation under the commercial and technical management agreements is in accordance with industry standards.

### Our Credit Facility

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In September 2005, we entered into a new \$300 million revolving credit facility, which we refer to as the New Credit Facility. The New Credit Facility became effective as of October 2005 and replaced our previous credit facility from October 2004, a portion of which was set to mature in October 2005. The New Credit Facility will mature in September 2010.

The New Credit Facility provides funding for future vessel acquisitions and general corporate purposes. The New Credit Facility cannot be reduced by the lender and there is no repayment obligation of the principal during the five year term. Amounts borrowed under the New Credit Facility bear interest at a rate equal to LIBOR plus a margin between 0.7% and 1.2% (depending on the loan to vessel value ratio). We must pay a commitment fee of 30% of the applicable margin on any undrawn amounts.

In September 2005, we borrowed \$60.0 million under our previous credit facility to finance part of the purchase price of our seventh vessel that we acquired in August 2005, and \$7.0 million to finance the down payment for the acquisition of our eighth vessel.

In October 2005, we refinanced the borrowings of \$67.0 million under our previous credit facility by drawing on our New Credit Facility. In November 2005, we borrowed \$63.0 million under our New Credit Facility to finance part of the purchase price of our eighth vessel that we acquired in September 2005. Our aggregate borrowings under our New Credit Facility are \$130.0 million as of December 31, 2005.

Borrowings under the New Credit Facility are secured by mortgages over our existing and new vessels and assignments of earnings and insurances, and drawings will be available subject to loan to vessel value ratios. We are subject to mandatory prepayment upon the occurrence of certain events. The terms and conditions of the New Credit Facility require compliance with certain restrictive covenants, which we feel are consistent with loan facilities incurred by other shipping companies. Under the New Credit Facility, we are, among other things, required to:

- o maintain certain loan to vessel value ratios,
- o maintain a book equity of no less than \$150.0 million,
- o remain listed on a recognized stock exchange, and
- o obtain the consent of the lenders prior to creating liens on or disposing of our vessels.

The New Credit Facility provides that we may not pay dividends if following such payment we would not be in compliance with certain financial covenants or there is a default under the New Credit Facility.

### The International Tanker Market

International seaborne oil and petroleum products transportation services are mainly provided by two types of operators: major oil company captive fleets (both private and state-owned) and independent shipowner fleets. Both types of operators transport oil under short-term contracts (including single-voyage "spot charters") and long-term time charters with oil companies, oil traders, large oil consumers, petroleum product producers and government agencies. The oil companies own, or control through long-term time charters, approximately one third of the current world tanker capacity, while independent companies own or control the balance of the fleet. The oil companies use their fleets not only to transport their own oil, but also to transport oil for third-party charterers in direct competition with independent owners and operators in the tanker charter market.

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The oil transportation industry has historically been subject to regulation by national authorities and through international conventions. Over recent years, however, an environmental protection regime has evolved which has a significant impact on the operations of participants in the industry in the form of increasingly more stringent inspection requirements, closer monitoring of pollution-related events, and generally higher costs and potential liabilities for the owners and operators of tankers.

In order to benefit from economies of scale, tanker charterers will typically charter the largest possible vessel to transport oil or products, consistent with port and canal dimensional restrictions and optimal cargo lot sizes. A tanker's carrying capacity is measured in deadweight tons, or dwt, which is the amount of crude oil measured in metric tons that the vessel is capable of loading. The oil tanker fleet is generally divided into the following five major types of vessels, based on vessel carrying capacity: (i) Ultra Large Crude Carrier (ULCC) - with a size range of approximately 320,000 to 450,000 dwt; (ii) Very Large Crude Carrier (VLCC) with a size range of approximately 200,000 to 320,000 dwt; (iii) Suezmax-size range of approximately 120,000 to 200,000 dwt; (iv) Aframax-size range of approximately 80,000 to 120,000 dwt; (v) Panamax-size range of approximately 60,000 to 70,000 dwt; and (v) small tankers of less than approximately 60,000 dwt. ULCCs and VLCCs typically transport crude oil in long-haul trades, such as from the Arabian Gulf to Rotterdam via the Cape of Good Hope. Suezmax tankers also engage in long-haul crude oil trades as well as in medium-haul crude oil trades, such as from West Africa to the East Coast of the United States. Aframax-size vessels generally engage in both medium-and short-haul trades of less than 1,500 miles and carry crude oil or petroleum products. Smaller tankers mostly transport petroleum products in short-haul to medium-haul trades.

### The Tanker Market 2005

For the third year in a row the tanker market was very profitable for tanker owners. Even though 2005 was not as robust as 2004 for crude carriers, it was the second best year since the 1970s. In the single voyage market, VLCCs reached an average of \$55,000 per day, down from the extraordinary high of \$89,000 the year before. Suezmaxes achieved \$48,000 per day, versus \$65,000 in 2004. Corresponding rates for Aframaxes were \$40,000 compared with \$47,000 in 2004.

Estimates indicate an increase in seaborne oil trade of 3.5% from 2004 to 2005 and a slight reduction in average transport distance. Based on industry reports, there was an increase in waiting time in ports and straits compared with the year before, leading to a decline in the productivity of the fleet. Our preliminary estimates show an overall growth of 3% to 4% in tanker tonnage demand from 2004 to 2005.

The tanker fleet, excluding chemical tankers, rose at the highest rate in many years on a dwt basis, with deliveries of 28 million dwt, while scrapping and other removals amounted to no more than 5 million dwt. Fleet growth by dwt in 2005 was as high as 7%, resulting in a drop in the fleet's utilization rate from 91.5% in 2004 to 88.5% in 2005.

The most important trend in the global oil market in 2005 was the stagnation in oil production outside OPEC. Hurricane-related supply disruptions in the U.S. Gulf, higher than anticipated North Sea depletion rates and a more moderate growth in Russian oil output were the main elements behind the stagnation of non-OPEC production.

The consequence of less oil from non-OPEC sources was an increased demand for OPEC oil. Since OPEC was already producing at almost full capacity, most of the extra demand resulted in higher prices. Lack of spare oil production capacity drove crude oil prices to, at its peak, above \$70 per barrel and dampened the

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extremely strong growth in oil consumption of close to 4% in 2004 to only 1.3% in 2005, according to the most recent estimates.

The sale and purchase market for tankers was strong in 2005, especially for very modern tankers. Values for double hull tankers increased on average approximately 7.5%, whereas values for single hull tankers on average fell approximately 10%.

According to the January 2005 Oil and Gas Journal, the Middle East has 57.1% of the world's proven oil reserves, which will continue to drive long and medium haul seaborne transportation. World oil production reached 84.6 million barrels per day in January 2006. OPEC countries located in the Middle East supplied approximately a quarter of this volume. Given the dominance of world oil reserves located in this region, this share is expected to grow in coming years as oil fields in other parts of the world gradually reach maturity and begin a process of natural decline. The length of transportation distances between the Middle East and consuming areas means that such a trend would boost ton-miles (the product of volumes and transport distances) and could be beneficial for tanker demand.

A significant and ongoing shift toward quality in vessels and operations has taken place during the last decade as charterers and regulators increasingly focus on safety and protection of the environment. Since 1990, there has been an increasing emphasis on environmental protection through legislation and regulations such as the U.S. Oil Pollution Act of 1990, International Maritime Organization protocols and classification society procedures, demanding higher quality tanker construction, maintenance, repair and operations. Operators that have proven an ability to seamlessly integrate these required safety regulations into their operations are being rewarded. For example, the emergence of vessels equipped with double hulls represented a differentiation in vessel quality and enabled such vessels to command improved earnings in the spot charter markets. The effect has been a shift in major charterers' preference towards greater use of double hulls and, therefore, more difficult trading conditions for older single-hull vessels. These changes were reflected in the sharp increase in scrapping of older vessels during periods of weaker market conditions in recent years. As a result, the net increase in transportation capacity for Suezmax tankers has been relatively low during this period, or 7.0% from 1993 through 2003 according to R.S. Platou Economic Research a.s. However, due to the increase in oil demand, deliveries have increased and net Suezmax tanker capacity has grown 13.5% since the beginning of 2003. We believe charterers generally prefer more modern, double-hull vessels resulting in a portion of the older vessels achieving lower levels of employment. Two major oil companies have announced they will no longer charter single-hull tonnage.

### Environmental and Other Regulation

Government regulation significantly affects the ownership and operation of our tankers. They are subject to international conventions, national, state and local laws and regulations in force in the countries in which our vessels may operate or are registered.

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

We believe that the heightened level of environmental and quality concerns among

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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 our 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.

### Environmental Regulation--IMO

In 1992, the International Maritime Organization, or IMO (the United Nations agency for maritime safety and the prevention of marine pollution by ships), adopted regulations that set forth pollution prevention requirements applicable to tankers. These regulations, which have been adopted by more than 150 nations, including many of the jurisdictions in which our tankers operate, provide, in part, that:

- o tankers between 25 and 30 years old must be of double-hull construction or of a mid-deck design with double sided construction, unless (1) they have wing tanks or double-bottom spaces not used for the carriage of oil, which cover at least 30% of the length of the cargo tank section of the hull or bottom; or (2) they are capable of hydrostatically balanced loading (loading less cargo into a tanker so that in the event of a breach of the hull, water flows into the tanker, displacing oil upwards instead of into the sea);
- o tankers 30 years old or older must be of double-hull construction or mid-deck design with double sided construction; and
- o all tankers are subject to enhanced inspections.

Also, under IMO regulations, a tanker must be of double-hull construction or a mid-deck design with double sided construction or be of another approved design ensuring the same level of protection against oil pollution if the tanker:

- o is the subject of a contract for a major conversion or original construction on or after July 6, 1993;
- o commences a major conversion or has its keel laid on or after January 6, 1994; or
- o completes a major conversion or is a newbuilding delivered on or after July 6, 1996.

Effective September 2002, the IMO accelerated its existing timetable for the phase-out of single-hull oil tankers. These regulations require the phase-out of most single-hull oil tankers by 2015 or earlier, depending on the age of the tanker and whether it has segregated ballast tanks. After 2007, the maximum permissible age for single-hull tankers will be 26 years. Compliance with the new regulations regarding inspections of all tankers, however, could adversely affect our operations. Under current regulations, retrofitting will enable a tanker to operate until the earlier of 25 years of age and the anniversary date of its delivery in 2017. However, as a result of the oil spill in November 2002

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relating to the loss of the M/T Prestige, which was owned by a company not affiliated with us, in December 2003 the Marine Environmental Protection Committee of the IMO adopted a proposed amendment to the International Convention for the Prevention of Pollution from Ships to accelerate the phase out of single-hull tankers from 2015 to 2010 unless the relevant flag state, in a particular case, extends the date to 2015. This amendment came into effect in April 2005.

The IMO has also negotiated international conventions that impose liability for oil pollution in international waters and a signatory's territorial waters. In September 1997, the IMO adopted Annex VI to the International Convention for the Prevention of Pollution from Ships to address air pollution from ships. Annex VI was ratified in May 2004 and became effective in May 2005. Annex VI sets limits on sulfur oxide and nitrogen oxide emissions from ship exhausts and prohibit deliberate emissions of ozone depleting substances, such as chlorofluorocarbons. Annex VI also includes a global cap on the sulfur content of fuel oil and allows for special areas to be established with more stringent controls on sulfur emissions. We believe that compliance with the Annex VI regulations will have no material effect on our results of operations. Additional or new conventions, laws and regulations may be adopted that could adversely affect our ability to manage our ships.

Under the International Safety Management Code, or ISM Code, promulgated by the IMO, the party with operational control of a vessel is required to develop an extensive safety management system that includes, among other things, the adoption of a safety and environmental protection policy setting forth instructions and procedures for operating its vessels safely and describing procedures for responding to emergencies. We will rely upon the safety management system that we and our third party technical managers have developed.

The ISM Code requires that vessel operators obtain a safety management certificate for each vessel they operate. This certificate evidences compliance by a vessel's management with code requirements for a safety management system. No vessel can obtain a certificate unless its manager has been awarded a document of compliance, issued by each flag state, under the ISM Code. We have the requisite documents of compliance for our offices and safety management certificates for all of our tankers for which the certificates are required by the IMO. We are required to renew these documents of compliance and safety management certificates annually.

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

Although the United States is not a party to these conventions, many countries have ratified and follow the liability plan adopted by the IMO and set out in the International Convention on Civil Liability for Oil Pollution Damage of 1969. Under this convention, if the country in which the damage results is a party to the 1992 Protocol to the International Convention on Civil Liability for Oil Pollution Damage, a vessel's registered owner is strictly liable for pollution damage caused in the territorial waters of a contracting state by discharge of persistent oil, subject to certain complete defenses. Under an amendment to the Protocol that became effective on November 1, 2003, for vessels of 5,000 to 140,000 gross tons (a unit of measurement for the total enclosed spaces within a vessel), liability is limited to approximately \$6.7 million plus \$942 for each additional gross ton over 5,000. For vessels of over 140,000 gross tons, liability is limited to approximately \$134 million. As the convention calculates liability in terms of a basket of currencies, these figures are based on currency exchange rates on June 6, 2006. The right to limit liability is

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forfeited under the International Convention on Civil Liability for Oil Pollution Damage where the spill is caused by the owner's actual fault and under the 1992 Protocol where the spill is caused by the owner's intentional or reckless conduct. Vessels trading to states that are parties to these conventions must provide evidence of insurance covering the liability of the owner. In jurisdictions where the International Convention on Civil Liability for Oil Pollution Damage has not been adopted, various legislative schemes or common law govern, and liability is imposed either on the basis of fault or in a manner similar to that convention. We believe that our P&I insurance will cover the liability under the plan adopted by the IMO.

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

The United States regulates the tanker industry with an extensive regulatory and liability regime for environmental protection and cleanup of oil spills, consisting primarily of the U.S. Oil Pollution Act of 1990, or OPA, and the Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA. OPA affects all owners and operators whose vessels trade with the United States or its territories or possessions, or whose vessels operate in the waters of the United States, which include the U.S. territorial sea and the 200 nautical mile exclusive economic zone around the United States. CERCLA applies to the discharge of hazardous substances (other than oil) whether on land or at sea. Both OPA and CERCLA impact our operations.

Under OPA, vessel owners, operators and bareboat charterers are "responsible parties" who 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 oil spills from their vessels. These other damages are defined broadly to include:

- o natural resource damages and related assessment costs;
- o real and personal property damages;
- o net loss of taxes, royalties, rents, profits or earnings capacity;
- o net cost of public services necessitated by a spill response, such as protection from fire, safety or health hazards; and
- o loss of subsistence use of natural resources.

OPA limits the liability of responsible parties to the greater of \$600 per gross ton or \$0.5 million per tanker that is over 3,000 gross tons (subject to possible adjustment for inflation). The act 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 discharge of pollutants within their waters. In some cases, states that have enacted this type of legislation have not yet issued implementing regulations defining tanker owners' responsibilities under these laws. CERCLA, which applies to owners and operators of tankers, contains a similar liability regime and provides for cleanup and removal of hazardous substances and for natural resource damages. Liability under CERCLA is limited to the greater of \$300 per gross ton or \$5 million.

These limits of liability do not apply, however, where the incident is caused by violation of applicable U.S. federal safety, construction or operating regulations, or by the responsible party's gross negligence or willful misconduct. These limits do not apply if the responsible party fails or refuses to report the incident or to cooperate and assist in connection with the



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

OPA also requires owners and operators of vessels to establish and maintain with the U.S. Coast Guard evidence of financial responsibility sufficient to meet the limit of their potential strict liability under the act. The U.S. Coast Guard has enacted regulations requiring evidence of financial responsibility in the amount of \$1,500 per gross ton for tankers, coupling the OPA limitation on liability of \$1,200 per gross ton with the CERCLA liability limit of \$300 per gross ton. Under these regulations, an owner or operator of more than one tanker is required to obtain a certificate of responsibility for each vessel in the fleet in an amount equal only to the financial responsibility requirement of the tanker having the greatest maximum strict liability under OPA and CERCLA. We have provided evidence of financial responsibility in the form of guarantees issued by a guarantor approved by the U.S. Coast Guard and received certificates of financial responsibility from the U.S. Coast Guard for each of our vessels that calls in U.S. waters.

We insure each of our vessels with pollution liability insurance in the maximum commercially available amount of \$1.0 billion per incident per vessel. A catastrophic spill could exceed the insurance coverage available, in which event there could be a material adverse effect on our business.

OPA also amended the Federal Water Pollution Control Act to require owners or operators of tankers operating in the waters of the United States to file vessel response plans with the U.S. Coast Guard, and their tankers are required to operate in compliance with their U.S. Coast Guard approved plans. These response plans must, among other things:

- o address a "worst case" scenario and identify and ensure, through contract or other approved means, the availability of necessary private response resources to respond to a "worst case discharge";
- o describe crew training and drills; and
- o identify a qualified individual with full authority to implement removal actions.

Vessel response plans for our tankers operating in the waters of the United States have been approved by the U.S. Coast Guard. In addition, the U.S. Coast Guard has announced it intends to propose similar regulations requiring certain vessels to prepare response plans for the release of hazardous substances. We are responsible for ensuring our vessels comply with any additional regulations.

OPA does not prevent individual states from imposing their own liability regimes with respect to oil pollution incidents occurring within their boundaries. In fact, most U.S. states that border a navigable waterway have enacted environmental pollution laws that impose strict liability on a person for removal costs and damages resulting from a discharge of oil or a release of a hazardous substance. These laws may be more stringent than U.S. federal law.

### European Union Tanker Restrictions

In July 2003, the European Union adopted regulations that accelerate the IMO single hull tanker phase-out timetable. Under the regulation no oil tanker is allowed to operate under the flag of a EU member state, nor shall any oil tanker, irrespective of its flag, be allowed to enter into ports or offshore terminals under the jurisdiction of a EU member state after the anniversary of the date of delivery of the ship in the year specified in the following table, unless such tanker is a double hull oil tanker:

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| Category of Oil Tankers   | Date or Year  |
|---|---|
| Category 1 oil tankers of 20,000 dwt and above carrying crude oil, fuel oil, heavy diesel oil or lubricating oil as cargo, and of 30,000 dwt and above carrying other oils, which do not comply with the requirements for protectively located segregated ballast tanks | 2003 for ships delivered in 1980 or earlier<br>2004 for ships delivered in 1981<br>2005 for ships delivered in 1982 or later  |
| Category 2 - oil tankers of 20,000 dwt and above carrying crude oil, fuel oil, heavy diesel oil or lubricating oil as cargo, and of 30,000 dwt and above carrying other oils, which do comply with the protective located segregated ballast tank requirements          | 2003 for ships delivered in 1975 or earlier<br>2004 for ships delivered in 1976<br>2005 for ships delivered in 1977<br>2006 for ships delivered in 1978 and 1979<br>2007 for ships delivered in 1980 and 1981 |
| and   | 2008 for ships delivered in 1982  |
| Category 3 - oil tankers of 5,000 dwt and above but less than the tonnage specified for Category 1 and 2 tankers.   | 2009 for ships delivered in 1983<br>2010 for ships delivered in 1984 or later   |

Furthermore, under the regulation, all oil tankers of 5,000 dwt or less must comply with the double hull requirements no later than the anniversary date of delivery of the ship in the year 2008. The regulation, however, provides that oil tankers operated exclusively in ports and inland navigation may be exempted from the double hull requirement provided that they are duly certified under inland water legislation. The European Union, following the lead of certain European Union nations such as Italy and Spain, as of October 2003, has also banned all single-hull tankers of 600 dwt and above carrying high grade oil, regardless of flag, from entering or leaving its ports or offshore terminals or anchoring in areas under its jurisdiction. Commencing in 2005, certain single-hull tankers above 15 years of age will also be restricted from entering or leaving European Union ports or offshore terminals and anchoring in areas under European Union jurisdiction.

The European Union has also adopted legislation that: (1) bans manifestly sub-standard vessels (defined as those over 15 years old that have been detained by port authorities at least twice in a six-month period) from European waters and creates an obligation of port states to inspect vessels posing a high risk to maritime safety or the marine environment; and (2) provides the European Union with greater authority and control over classification societies, including the ability to seek to suspend or revoke the authority of negligent societies. It is impossible to predict what legislation or additional regulations, if any, may be promulgated by the European Union or any other country or authority.

### Vessel Security Regulations

Since the terrorist attacks of September 11, 2001, there has been a variety of initiatives intended to enhance vessel security. On November 25, 2002, the Maritime Transportation Security Act of 2002 (MTSA) came into effect. To implement certain portions of the MTSA, in July 2003, the U.S. Coast Guard issued regulations requiring the implementation of certain security requirements aboard vessels operating in waters subject to the jurisdiction of the United States. Similarly, in December 2002, amendments to the International Convention for the Safety of Life at Sea (SOLAS) created a new chapter of the convention dealing specifically with maritime security. The new chapter went into effect in

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July 2004 and imposes various detailed security obligations on vessels and port authorities, most of which are contained in the newly created International Ship and Port Facilities Security (ISPS) Code. We are in compliance with the ISPS Code. Among the various requirements are:

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

The U.S. Coast Guard regulations, intended to align with international maritime security standards, exempt non-U.S. tankers from MTSA vessel security measures provided such vessels have on board, by July 1, 2004, a valid International Ship Security Certificate (ISSC) that attests to the vessel's compliance with SOLAS security requirements and the ISPS Code. We have implemented the various security measures addressed by the MTSA, SOLAS and the ISPS Code ensure that our tankers attain compliance with all applicable security requirements within the prescribed time periods. We do not believe these additional requirements will have a material financial impact on our operations.

### Inspection by Classification Societies

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

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

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

**Annual Surveys:** For seagoing ships, annual surveys are conducted for the hull and the machinery, including the electrical plant, and where applicable for special equipment classed, at intervals of 12 months from the date of commencement of the class period indicated in the certificate.

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

**Class Renewal Surveys:** Class renewal surveys, also known as special surveys, are carried out for the ship's hull, machinery, including the electrical plant, and for any special equipment classed, at the intervals indicated by the character of classification for the hull. At the special survey, the vessel is thoroughly examined, including audio-gauging to determine the thickness of the steel structures. Should the thickness be found to be less than class requirements, the classification society would prescribe steel renewals. The classification

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society may grant a one-year grace period for completion of the special survey. Substantial amounts of money may have to be spent for steel renewals to pass a special survey if the vessel experiences excessive wear and tear. In lieu of the special survey every four or five years, depending on whether a grace period was granted, a shipowner has the option of arranging with the classification society for the vessel's hull or machinery to be on a continuous survey cycle, in which every part of the vessel would be surveyed within a five-year cycle.

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

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

Most vessels are also dry-docked every 30 to 36 months for inspection of the underwater parts and for repairs related to inspections. If any defects are found, the classification surveyor will issue a "recommendation" which must be rectified by the ship owner within prescribed time limits.

Most insurance underwriters make it a condition for insurance coverage that a vessel be certified as "in class" by a classification society which is a member of the International Association of Classification Societies. All our vessels are certified as being "in class" by Lloyd's Register of Shipping (one vessel) and Det norske Veritas (eight vessels). All new and secondhand vessels that we purchase must be certified prior to their delivery under our standard contracts.

### Risk of Loss and Liability Insurance

The operation of any cargo vessel includes risks such as mechanical failure, collision, property loss, cargo loss or damage and business interruption due to political circumstances in foreign countries, hostilities and labor strikes. In addition, there is always an inherent possibility of marine disaster, including oil spills and other environmental mishaps, and the liabilities arising from owning and operating vessels in international trade. OPA, which imposes virtually unlimited liability upon owners, operators and demise charterers of any vessel trading in the United States exclusive economic zone for certain oil pollution accidents in the United States, has made liability insurance more expensive for ship owners and operators trading in the United States market. While we carry loss of hire insurance to cover 100% of our fleet, we may not be able to maintain this level of coverage. Furthermore, while we believe that our present insurance coverage is adequate, not all risks can be insured, and there can be no guarantee that any specific claim will be paid, or that we will always be able to obtain adequate insurance coverage at reasonable rates.

### Hull and Machinery Insurance

We have obtained marine hull and machinery and war risk insurance, which includes the risk of actual or constructive total loss, for all of the vessels in our fleet. The vessels in our fleet are each covered up to at least fair market value, with deductibles of \$350,000 per vessel per incident. We also arranged increased value coverage for each vessel. Under this increased value coverage, in the event of total loss of a vessel, we will be able recover for amounts not recoverable under the hull and machinery policy by reason of any under-insurance.

### 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

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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 coverage, except for pollution, is unlimited.

Our current protection and indemnity insurance coverage for pollution is \$1 billion per vessel per incident. The fourteen 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 \$4.25 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.

### 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 as an operator. We arrange our time charters and voyage charters in the spot market through the use of brokers, who negotiate the terms of the charters based on market conditions. We compete primarily with owners of tankers in the Suezmax and class size. Ownership of tankers is highly fragmented and is divided among major oil companies and independent vessel owners.

### Permits and Authorizations

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

### C. ORGANIZATIONAL STRUCTURE

Prior to September 30, 1997, the Company was a wholly owned subsidiary of Uglund Nordic Shipping ASA, or UNS, a Norwegian shipping company whose shares were listed on the Oslo Stock Exchange. On September 30, 1997, 11,731,613 warrants for the purchase of the Company's common shares, which had been sold to the public in 1995, were exercised. Until May 30, 2003, UNS acted as the Manager, and provided managerial, administrative and advisory services to the Company pursuant to the Management Agreement. Since May 30, 2003, Scandic American Shipping Ltd. has acted as the Company's Manager, and provides such services pursuant to the Management Agreement. The Management Agreement was amended on October 12, 2004 to further align the Manager's interests with those of the Company as a shareholder of the Company. See Item 4--Information on the Company -- Business Overview --The Management Agreement.

### D. PROPERTY, PLANT AND EQUIPMENT

See Items 4 - Information on the Company - Business Overview - Our Fleet, for a description of our vessels. The vessels are mortgaged for securing the new

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credit facility.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. OPERATING RESULTS

We present our income statement using voyage revenues and voyage expenses. The Company's vessels are operated under bareboat charters, spot related time charters and spot charters. Under a bareboat charter the charterer pays substantially all of the vessel voyage and operating costs. Under a spot related time charter, the charterer pays substantially all of the vessel voyage costs. Under a spot charter, the vessel owner pays all such costs. Vessel voyage costs consist primarily of fuel, port charges and commissions.

Since the amount of voyage expenses that we incur for a charter depends on the type of the charter, we use net voyage revenues to provide comparability among the different types of charters. Net voyage revenue, a non-GAAP financial measure, provides more meaningful disclosure than voyage revenues, the most directly comparable financial measure under accounting principles generally accepted in the United States. Net voyage revenues divided by the number of days on the charter provides the Time Charter Equivalent (TCE) Rate. For bareboat charters operating costs must be added in order to calculate TCE rates. Net voyage revenues and TCE rates are widely used by investors and analysts in the tanker shipping industry for comparing the financial performance of companies and for preparing industry averages. The following table reconciles our net voyage revenues to voyage revenues. In 2004, our calculation methodology for net voyage revenues was adjusted to better reflect the various commission schemes under which we operate. Prior period TCE amounts have been adjusted to conform to the 2004 reconciliation.

|                    | Year Ended<br>December 31, 2005 | Year Ended<br>December 31, 2004 | Year Ended<br>December 31, 2003 |
|--------------------|---------------------------------|---------------------------------|---------------------------------|
| Voyage Revenue     | 117,110,178                     | 67,451,598                      | 37,370,756                      |
| Voyage Expenses    | (30,980,916)                    | (4,925,353)                     | (184,781)                       |
| Net Voyage Revenue | 86,129,262                      | 62,526,245                      | 37,185,975                      |

YEAR ENDED DECEMBER 31, 2005 COMPARED TO YEAR ENDED DECEMBER 31, 2004

Voyage revenues increased by 73.6% to \$117,110,178 in 2005 from \$67,451,598 in 2004. Net voyage revenues increased by 37.7% to \$86,129,262 in 2005 from \$62,526,245 in 2004. Voyage expenses increased by 529% to \$30,980,916 in 2005 from \$4,925,353 in 2004. The increase in voyage revenues and net voyage revenues is primarily due to the growth of the Company. The Company increased its fleet from 4 vessels as at December 31, 2004 or 1,133 ship days, meaning the number of days the Company's vessels were generating revenue, during 2004 to 8 vessels as at December 31, 2005 or 2,193 ship days during 2005. This represents an increase in cargo capacity of 93.5%.

Vessel operating expenses were \$11,220,770 for 2005 compared to \$1,976,766 for 2004. The increase is due to the change in the Company's current operating structure as of October 2004 from a passive leasing company into an operating company. Prior to October 2004 the original three vessels were on bareboat charter to BP Shipping. Under bareboat charter agreements all vessel operating expenses are paid by the charterer.

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Administrative expenses were \$8,492,164 for 2005 compared to \$10,851,688 for 2004. The decrease was due to the non-cash charge of \$9,252,365 in 2004 compared to \$3,582,995 in 2005 that is linked to a change in the compensation scheme for our Manager. This decrease was off-set by a full year of general and administrative expenses reflecting the new operating structure of the Company as described above. The original incentive plan for the Manager was a revenue based cash commission structure. The Manager agreed to eliminate the commission. The cash commission was replaced by restricted share issuances to the Manager of 2% of the Company's outstanding common shares from time to time in order to align the interests of the Manager and the Company. These restricted shares are non-transferable for three years from issuance. In connection with the transition to an operating company, the Company introduced a stock incentive plan with 400,000 shares reserved for issuance of which 320,000 stock options were granted at December 31, 2005. The initial strike price for options granted in 2005 was equal to \$38.75, which was the offering price per share of our common shares in our follow-on offering in November 2004. The Company has recorded a compensation cost of \$1,415,000 associated with the employee stock option awards. For further information, see Item 6 -- Directors, Senior Management and Employees -- 2004 Stock Incentive Plan.

Net operating income for 2005 increased 14.3% from the comparable period in 2004 from \$42,779,627 to \$48,887,328 primarily due to increased revenue offset partially by increased costs as described above.

Depreciation, which includes depreciation of vessels and amortization of drydockings, increased from \$6,918,164 for 2004 to \$17,529,000 for 2005. The increase is due to the increase in book value of our fleet as a result of our acquisitions of four vessels during 2005 compared to acquisition of one vessel during 2004.

Interest expense increased from \$1,971,304 for 2004 to \$3,453,963 for 2005. The increase is primarily due to the decision of the Board to keep non-retiring debt on the balance sheet in the region of \$15 million per vessel which we believe is an appropriate debt to equity ratio for the Company.

### YEAR ENDED DECEMBER 31, 2004 COMPARED TO YEAR ENDED DECEMBER 31, 2003

Voyage revenues increased by 80.5% to \$67,451,598 in 2004, from \$37,370,756 in 2003. Net voyage revenues increased by 68.1% to \$62,526,245 in 2004, from \$37,185,975 in 2003. The increase in voyage revenues and net voyage revenues was due to higher tanker spot market rates in the twelve month period in 2004 and the addition of one vessel on November 23, 2004. The tanker spot market rates are determined by the demand for the carriage of oil and the distance the oil is to be carried, measured in tonne miles, and the supply of vessels to transport that oil. As a result of the strong spot market rates during 2004, our TCE rates increased 46.6% to \$62,231 for 2004, from \$42,460 for 2003.

Vessel operating expenses were \$1,976,766 for 2004. There are no comparable figures for 2003. The Company did not have vessel operating expenses for the comparable period of 2003 since all the vessels were chartered to BP Shipping under bareboat charter agreements. Under bareboat charter agreements all vessels operating expenses are paid by the charterer.

Administrative expenses increased by 2,218% to \$10,851,688 in 2004, from \$468,087 in 2003. The increase is primarily due to share-based expense of \$9,252,365, which results from a change in the compensation scheme for our Manager, Scandic American Shipping Ltd. The Management Agreement was amended in 2004 from a cash commission structure based on charter revenue to a share-based structure that provides 2% of the Company's outstanding shares to the Manager. Other administrative costs have increased as a result of the transition to an operating company. In 2004, the Company engaged the Manager to assume the commercial and operational responsibility of our vessels and to manage our

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day-to-day business. This agreement is based on cost incurred plus a fixed fee of \$100,000 per annum. Until June 30, 2004, the Company paid an annual fixed fee of \$250,000 for these services. Furthermore, the Company hired our Chief Executive Officer, Herbjorn Hansson, in 2004.

Net operating income for 2004 increased 43.1% from the comparable period in 2003 from \$29,886,849 to \$42,779,627 primarily due to increased revenue partially offset by increased costs as described above.

### B. LIQUIDITY AND CAPITAL RESOURCES

#### YEAR ENDED DECEMBER 31, 2005 COMPARED TO YEAR ENDED DECEMBER 31, 2004

Cash flows provided by operating activities decreased by 18.7% in 2005 to \$51,055,588 compared to \$62,817,261 in 2004 primarily derived from the growth of the Company as described above.

Cash flow provided from financing activities was \$226,613,441 for 2005 compared to \$33,486,608 for the same period in 2004. The increase was due to (i) increase in proceeds from 2004 to 2005 of \$49.8 million from a follow-on offering, (ii) increase from 2004 to 2005 in net proceeds from the drawdown of the credit facility of \$160.0 million, offset by (iii) increased dividends paid from 2004 to 2005 of \$17.1 million and (iv) decrease from 2004 to 2005 in payment of loan facility costs of \$0.4 million in respect of our \$300 million New Credit Facility.

Cash flow used in investing activities increased by 344.7% in 2005 to \$294,161,063 compared to \$66,137,277 in 2004. The increase represents the acquisition costs of the four vessels acquired during 2005.

In February 2006, the Company agreed to acquire a double hull Suezmax tanker from an unrelated third party for a purchase price of \$69.0 million. The vessel was delivered to us on April 10, 2006.

In March 2006, the Company sold 4,297,500 shares (including the over-allotment) in a public offering in the U.S. to repay outstanding debt. The offering was priced at \$28.50 per share, and net proceeds to the Company were \$115.2 million.

In April 2006, the Company borrowed \$69.0 million under the New Credit Facility to finance the ninth vessel delivered to the Company on April 10, 2006

The Company believes that its borrowing capacity under the New Credit Facility, together with its working capital, are sufficient to fund its ongoing operations and commitment for capital expenditures.

#### YEAR ENDED DECEMBER 31, 2004 COMPARED TO YEAR ENDED DECEMBER 31, 2003

Cash flows provided by operating activities increased to \$62,817,261 for 2004 from \$29,893,551 for 2003. The majority of the increases resulted from higher cash flows related to net voyage revenues. The cash flows from customers less payments for voyage expenses were \$67,415,268 and \$32,320,191 in 2004 and 2003, respectively. The increase in cash flows were offset by an increase in cash paid for vessel operations of \$1,925,508 in 2004.

Cash flows provided by financing activities for 2004 was \$33,486,608 compared to cash flows provided by financing activities of \$29,605,410 for the same period in 2003. The increase was due to (i) proceeds from a follow-on offering of \$112.1 million offset by (ii) increased dividends paid from 2003 to 2004 of \$17.6 million, (iii) repayment of \$30 million in bank debt and (iv) payment of loan facility costs of \$1.5 million in respect of our \$300 million credit facility.



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Cash flow used by investing activities was \$66,137,277 which represents the acquisition cost of the vessel acquired in November 2004. There were no investing activities for the comparable period of 2003.

In March 2005, the Company sold 3,500,000 shares in a public offering in the US to fund the \$149.2 million acquisition costs of two vessels and to repay outstanding debt under our credit facility. The offering was priced at \$49.50 per share, and net proceeds (after offering costs of \$ 11.1 million) to the Company were \$162.1 million.

In June 2005, the Company agreed to acquire a double hull suezmax tanker built in 1998 for \$71.4 million. The vessel is expected to be delivered from the seller to the Company no later than end August 2005. The Company has an unused credit facility of \$300 million at June 30, 2005.

The Company believes that its borrowing capacity under the credit facility, together with its working capital is sufficient to fund its ongoing operations and commitment for capital expenditures.

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.

Not applicable

D. TREND INFORMATION

The oil tanker industry has been highly cyclical, experiencing volatility in charterhire rates and vessel values resulting from changes in the supply of and demand for crude oil and tanker capacity. See Item 4. Information on the Company - Business Overview - The Tanker Market 2005.

E. OFF BALANCE SHEET ARRANGEMENTS

Not applicable

F. DISCLOSURE OF CONTRACTUAL OBLIGATIONS

As of December 31, 2005 significant contractual obligations consisted of our obligations as borrower under our New Credit Facility and our obligations under the Management Agreement with Scandic American Shipping Ltd.

The following table sets out long-term financial and other commercial obligations outstanding as of December 31, 2005 (all figures in USD `000)

Payment Due by Period:

|                       | Total   | 2006  | 2007<br>-2009 | 2010<br>-2012 | 2013<br>-2019 |
|-----------------------|---------|-------|---------------|---------------|---------------|
| Credit Facility (1)   | 130,000 | 0     | 130,000       | 0             | 0             |
| Interest Payments (2) | 24,383  | 6,578 | 17,805        | 0             | 0             |
| Commitment Fees (3)   | 1,342   | 362   | 980           | 0             | 0             |
| Management Fees (4)   | 1,400   | 100   | 300           | 300           | 700           |
| Total                 | 157,125 | 7,040 | 149,085       | 300           | 700           |

Notes:

- (1) Refers to our obligation to repay indebtedness outstanding as of December 31, 2005
- (2) Refers to estimated interest payments over the term of the indebtedness outstanding as of December 31, 2005 assuming a weighted

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- average interest rate of 4.99% per annum.
- (3) Refers to estimated commitment fees over the term of the indebtedness outstanding as of December 31, 2005
  - (4) Refers to the management fees payable to Scandic American Shipping Ltd. under the Management Agreement with the Manager.

### CRITICAL ACCOUNTING POLICIES

We prepare our financial statements in accordance with accounting principles generally accepted in the United States of America (US GAAP). Following is a discussion of the accounting policies that involve a high degree of judgment and the methods of their application. For a further description of our material accounting policies, please read Item 18 - Financial Statements-- Note 1 - Summary of Significant Accounting Policies.

#### Revenue recognition

We generate a majority of our revenues from vessels operating in pools and from spot charters. Within the shipping industry, the two methods used to account for voyage revenues and expenses are the percentage of completion and the completed voyage methods. Most shipping companies, including our pool managers and spot charter managers are using the percentage of completion method. In applying the percentage of completion method, we believe that in most cases the discharge-to-discharge basis of calculating voyages more accurately reflects voyage results than the load-to-load basis. At the time of cargo discharge, we generally have information about the next load port and expected discharge port, whereas at the time of loading we are normally less certain what the next load port will be.

#### Long-lived assets

A significant part of the Company's total assets consists of our vessels. The oil tanker market is highly cyclical and the useful lives of our vessels are dependent on a number of factors, such as future market demand for oil and future market supply of tanker capacity.

#### Depreciable lives

Management uses considerable judgment when establishing the depreciable lives of our vessels. In order to estimate useful lives of our vessels, Management must make assumptions about future market conditions in the oil tanker market. The Company considers the establishment of depreciable lives to be a critical accounting estimate.

#### Drydocking

Generally, we drydock each vessel every two and a half to five years. We capitalize a substantial portion of the costs we incur during drydocking and amortize those costs on a straight-line basis from the completion of a drydocking to the estimated completion of the next drydocking. We expense costs related to routine repairs and maintenance incurred during drydocking that do not improve or extend the useful lives of the assets.

#### Impairment

Our vessels are evaluated for impairment whenever indicators of impairment exist. When an impairment indicator is present, the Company must evaluate whether the carrying amounts of the vessels are recoverable. If an impairment test is warranted, we assess whether the undiscounted cash flows expected to be generated by our long-lived assets exceed their carrying value. If this assessment indicates that the long-lived assets are impaired, the assets are written down to their fair value. These assessments are based on our judgment,

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which includes the estimate of future cash flows from long-lived assets.

### RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board, or FASB, issued SFAS No. 153, Exchanges of Non-monetary Assets, an amendment of APB Opinion No. 29. The adoption of this statement, effective June 2005, did not have any impact on the Company's results of operations, financial position or cash flows.

In May 2005, the FASB issued Statement SFAS No. 154, Accounting Changes and Error Corrections, effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. SFAS 154 requires voluntary changes in accounting principle be retrospectively applied to financial statements from previous periods unless such application is impracticable. Under the newly issued standard changes in depreciation, amortization, or depletion for long-lived, non-financial assets should be accounted for as a change in accounting estimate that is affected by a change in accounting principle. The Company believes that the adoption of this standard will not have a material impact on the Company's results of operations, financial position or cash flow.

### ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

#### A. DIRECTORS AND SENIOR MANAGEMENT

Directors and Senior Management of the Company and the Manager

Pursuant to the Management Agreement with Scandic American Shipping Ltd., or the Manager, the Manager provides management, administrative and advisory services to us. The Manager is owned by Herbjorn Hansson, our Chairman, and Andreas Ove Ugland, one of our directors, and may engage in business activities other than with respect to the Company.

Set forth below are the names and positions of the directors of the Company and executive officers of the Company and the Manager. The directors of the Company are elected annually, and each director elected holds office until a successor is elected. Officers of both the Company and the Manager are elected from time to time by vote of the respective board of directors and hold office until a successor is elected.

#### The Company

| Name                   | Age | Position  |
|------------------------|-----|---|
| Herbjorn Hansson       | 58  | Chairman, Chief Executive Officer, President and Director |
| Turid M. Sorensen      | 46  | Chief Financial Officer                                   |
| Rolf Amundsen          | 61  | Chief Investor Relations Officer                          |
| Hon. Sir David Gibbons | 78  | Director  |
| George C. Lodge        | 78  | Director  |
| Andreas Ove Ugland     | 51  | Director  |
| Torbjorn Gladso        | 59  | Director  |
| Andrew W. March        | 50  | Director  |
| Paul J. Hopkins        | 58  | Director  |

#### The Manager

| Name              | Age | Position  |
|-------------------|-----|---|
| Herbjorn Hansson  | 58  | Director, President and Chief Executive Officer |
| Turid M. Sorensen | 46  | Chief Financial Officer                         |

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|                    |    |  |
|--------------------|----|--|
| Rolf Amundsen      | 61 | Chief Investor Relations Officer                         |
| Frithjof Bettum    | 44 | Vice President Technical Operations & Chartering         |
| Jan Erik Langangen | 56 | Executive Vice President--Business Development and Legal |

Certain biographical information with respect to each director and executive officer of the Company and the Manager listed above is set forth below.

Herbjorn Hansson earned his M.B.A. at the Norwegian School of Economics and Business Administration and Harvard Business School. In 1974 he was employed by the Norwegian Shipowners' Association. In the period from 1975 to 1980, he was Chief Economist and Research Manager of INTERTANKO, an industry association whose members control about 70% of the world's independently owned tanker fleet, excluding state owned and oil company fleets. During the 1980s, he was Chief Financial Officer of Kosmos/Andres Jahre, at the time one of the largest Norwegian based shipping and industry groups. In 1989, Mr. Hansson founded Ugland Nordic Shipping AS, or UNS, which became one of the world's largest owners of specialized shuttle tankers. He served as Chairman in the first phase and as Chief Executive Officer as from 1993 to 2001 when UNS, under his management, was sold to Teekay Shipping Corporation, or Teekay, for an enterprise value of \$780.0 million. He continued to work with Teekay, most recently as Vice Chairman of Teekay Norway AS, until he started working full-time for the Company on September 1, 2004. Mr. Hansson is the founder and has been Chairman and Chief Executive Officer of the Company since its establishment in 1995. He also is a member of various governing bodies of companies within shipping, insurance, banking, manufacturing, national/international shipping agencies including classification societies and protection and indemnity associations. Mr. Hansson is fluent in Norwegian and English, and has a command of German and French for conversational purposes.

Turid M. Sorensen was appointed Chief Financial Officer by the Board of Directors on February 6, 2006. She has a bachelor degree in Business Administration from the Norwegian School of Management. Ms. Sorensen has 20 years of experience in the shipping industry. During the period from 1984 to 1987, she worked for Anders Jahre AS and Kosmos AS in Norway and held various positions within accounting and information technology. In the period from 1987 to 1995, Ms. Sorensen was Manager of Accounting and IT for Skaugen PetroTrans Inc., in Houston, Texas. After returning to Norway she was employed by Ugland Nordic Shipping ASA and Teekay Norway AS as Vice President, Accounting. From October 2004 until her appointment as Chief Financial Officer, she served as our Treasurer and Controller.

Rolf Amundsen was appointed Chief Investor Relations Officer and Advisor to the Chairman by the Board of Directors on February 6, 2006 and prior to that time served as our Chief Financial Officer from June 2004. Mr. Admundsen has an M.B.A. in economics and business administration, and his entire career has been in international banking. Previously, Mr. Amundsen has served as the president of the financial analysts society in Norway. Mr. Amundsen served as the chief executive officer of a Nordic investment bank for many years, where he established a large operation for the syndication of international shipping investments.

Andreas Ove Ugland has been a director of the Company since February 1997. Mr. Ugland has also served as director and Chairman of Ugland International Holding plc, a shipping/transport company listed on the London Stock Exchange, Andreas Ugland & Sons AS, Grimstad, Norway, HOegh Ugland Autoliners AS, Oslo and Buld Associates Inc., Bermuda. Mr. Ugland has had his whole career in shipping in the Ugland family owned shipping group. Mr. Ugland is a shareholder and the Chairman of the Manager.

Andrew W. March has been a director of the Company since June 2005. Mr. March also currently serves in a management position with Vitol S.A., an international

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oil trader, involved in supply, logistics and transport and as a director for Imarex, an electronic trading platform for freight derivatives. From 1978 to 2004, Mr. March served in various positions with subsidiaries of BP p.l.c., an international oil major company. Most recently, from January 2001 to 2004, Mr. March was Commercial Director of BP Shipping Ltd., responsible for all aspects of the business including long term strategy. From 1986 to 2000, Mr. March was employed in various positions with BP Trading, serving as Global Product Trading Manager from 1999. Mr. March received his MBA from Liverpool University.

Sir David Gibbons has been a director of the Company since September 1995. Sir David served as the Premier of Bermuda from August 1977 to January 1982. Sir David has served as Chairman of The Bank of N.T. Butterfield and Son Limited from 1986 to 1997, Chairman of Colonial Insurance Co. Ltd. since 1986 and as Chief Executive Officer of Edmund Gibbons Ltd. since 1954. Sir David Gibbons is a member of our Audit Committee.

George C. Lodge has been a director of the Company since September 1995. Professor Lodge has been a member of the Harvard Business School faculty since 1963. He was named associate professor of business administration at Harvard in 1968 and received tenure in 1972.

Paul J. Hopkins has been a director of the Company since June 2005. Mr. Hopkins is also a Vice President and a director of Corridor Resources Inc., a Canadian publicly traded exploration and production company. From 1989 through 1993 he served with Lasmo as Project Manager during the start-up of the Cohasset/Panuke oilfield offshore Nova Scotia, the first offshore oil production in Canada. Earlier, Mr. Hopkins served as a consultant on frontier engineering and petroleum economic evaluations in the international oil industry. Mr. Hopkins was seconded to Chevron UK in 1978 to assist with the gas export system for the Ninian Field. From 1973, he was employed with Ranger Oil (UK) Limited, being involved in the drilling and production testing of oil wells in the North Sea. Through the end of 1972 he worked with Shell Canada as part of its offshore Exploration Group.

Torbjorn Gladso has been a director of the Company since October 2003. Mr. Gladso is a partner in Saga Corporate Finance AS. He has extensive experience within investment banking since 1978. He has been the Chairman of the Board of the Norwegian Register of Securities and Vice Chairman of the Board of Directors of the Oslo Stock Exchange. Mr. Gladso is Chairman of our Audit Committee.

Jan Erik Langangen is the Executive Vice President, Business Development and Legal, of the Manager. Mr. Langangen previously served as the Chief Financial Officer from 1979 to 1983, and as Chairman of the Board from 1987 to 1992, of Statoil, an oil and gas company that is controlled by the Norwegian government and that is the largest company in Norway. He also served as Chief Executive Officer of UNI Storebrand from 1985 to 1992. Mr. Langangen was also Chairman of the Board of the Norwegian Governmental Value Commission from 1998 to 2001. Mr. Langangen is a partner of Langangen & Helset, a Norwegian law firm and previously was a partner of the law firm Langangen & Engesaeth from 1996 to 2000 and of the law firm Thune & Co. from 1994 to 1996. Mr. Langangen received a Masters of Economics from The Norwegian School of Business Administration and his law degree from the University of Oslo.

Frithjof Bettum was appointed Vice President--Technical Operations & Chartering of the Manager on October 1, 2005. Mr. Bettum has a Mechanical Engineering degree from Vestfold University College. Mr. Bettum has 21 years of experience in the shipping and the offshore business. From 1984 to 1992, Mr. Bettum was employed by Allum Engineering AS in Sandefjord, Norway where he served as project manager. At Allum Engineering AS Mr. Bettum worked on projects in the areas of engineering, the new building and conversion management of shuttle tankers, Floating Production, Storage and Offloading (FPSO), semi-submersible drilling units and the shore based manufacturer industry. From 1993 to 2001, Mr.

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Bettum was employed by Nordic American Shipping AS (which later became Uglund Nordic Shipping ASA) where he served as Vice President--Offshore. In 2004, Mr. Bettum joined Teekay Norway AS as Vice President Offshore where he was responsible for business development, the daily operations of the company and the conversion of shuttle tankers and offshore units.

### B. COMPENSATION

#### Compensation of Directors and Officers

During 2005, the six non-employee directors received, in the aggregate, approximately \$228,100 in cash fees for their services as directors. From June 20, 2005 the Board was expanded from five to seven directors of which each of the non-employee directors receives a fee at the annual rate of \$45,000. We do not pay director fees to employee directors. We do, however, reimburse our directors for all reasonable expenses incurred by them in connection with serving on our board of directors. Directors may receive restricted shares or other grants under our 2004 Stock Incentive Plan described below.

We have an employment agreement with Herbjorn Hansson, our Chairman, President and Chief Executive Officer, Turid M. Sorensen, our Chief Financial Officer, and Rolf Amundsen, our Chief Investor Relations Officer and Advisor to the Chairman. Mr. Hansson does not receive any additional compensation for serving as a director or the Chairman of the Board. The aggregate compensation of our executive officers during 2005 was \$475,000. The aggregate compensation of our executive officers is expected to be approximately \$720,000 during 2006. On certain terms the employment agreement with Mr. Hansson may be terminated by us or Mr. Hansson upon six months' written notice to the other party. The employment agreement with Ms. Sorensen may be terminated by us or by Ms. Sorensen upon six months' written notice to the other party. The employment agreement with Mr. Amundsen may be terminated by us or Mr. Amundsen upon three months' written notice to the other party.

#### 2004 Stock Incentive Plan

Under the terms of the Company's 2004 Stock Incentive Plan, the directors, officers and certain key employees of the Company and the Manager are eligible to receive awards which include incentive stock options, non-qualified stock options, stock appreciation rights, dividend equivalent rights, restricted stock, restricted stock units and performance shares. A total of 400,000 common shares are reserved for issuance upon exercise of options, as restricted share grants or otherwise under the plan. Included under the 2004 Stock Incentive Plan are options to purchase common shares at an exercise price equal to \$38.75, the offering price per share of the Company's common shares in our follow-on offering in November 2004, subject to annual downward adjustment if the payment of dividends in the related fiscal year exceed a 3% yield calculated based on the initial strike price. During 2005 the Company granted, under the terms of the Company's 2004 Stock Incentive Plan, an aggregate of 320,000 stock options that the Board of Directors had agreed to issue during 2004. These options will vest in equal installments on each of the first four anniversaries of the grant dates.

### C. BOARD PRACTICES

The members of the Company's board of directors serve until the next annual general meeting following his or her election to the board. The members of the current board of directors were elected at the annual general meeting held in 2005. The Company's Board of Directors has established an Audit Committee, consisting of two independent directors, Messrs. Gladso and Gibbons. Mr. Gladso serves as the audit committee financial expert. The members of the Audit Committee do not receive additional remuneration for serving on the Audit Committee in this capacity. The Audit Committee provides assistance to the

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Company's board of directors in fulfilling their responsibility to shareholders, and investment community relating to corporate accounting, reporting practices of the Company, and the quality and integrity of the financial reports of the Company. The Audit Committee, among other duties, recommends to the Company's board of directors the independent auditors to be selected to audit the financial statements of the Company; meets with the independent auditors and financial management of the Company to review the scope of the proposed audit for the current year and the audit procedures to be utilized; reviews with the independent auditors, and financial and accounting personnel, the adequacy and effectiveness of the accounting and financial controls of the Company; and reviews the financial statements contained in the annual report to shareholders with management and the independent auditors.

Pursuant to an exemption for foreign private issuers, we are not required to comply with many of the corporate governance requirements of the New York Stock Exchange that are applicable to U.S. listed companies. A description of the significant differences between our corporate governance practices and the New York Stock Exchange requirements is available on our website [www.nat.bm](http://www.nat.bm) under "Corporate Governance".

### D. EMPLOYEES

As at December 31, 2005, the Company had one full-time employee and one part-time employee.

### E. SHARE OWNERSHIP

The following table sets forth information regarding the share ownership of the Company as of June 26, 2006 by its directors and officers. All of the shareholders are entitled to one vote for each share of common stock held.

| Title  | Identity of Person     | No. of Shares | Percent of Class |
|--------|------------------------|---------------|------------------|
| Common | Herbjorn Hansson(1)    | 555,594       | 2.64%            |
|        | Hon. Sir David Gibbons |               | *                |
|        | Thorbjorn Gladso       | *             |                  |
|        | Andrew W. March        | *             |                  |
|        | Paul J. Hopkins        | *             |                  |
|        | George C. Lodge        | *             |                  |
|        | Andreas Ove Ugland(1)  | 520,594       | 2.47%            |
|        | Turid M. Sorensen      |               | *                |
|        | Rolf Amundsen          |               | *                |
|        |                        |               | *                |

(1) Includes 520,594 shares held by the Manager, of which Messrs. Hansson and Ugland are sole shareholders.

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

## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### A. MAJOR SHAREHOLDERS

According to a Schedule 13G filed on March 31, 2005, Gilder, Gagnon, Howe & Co. LLC owned 748,559 or 5.9%, as reported in that Schedule 13G, of the Company's common shares. According to a Schedule 13G filed on June 30, 2005, Gilder, Gagnon, Howe & Co. LLC own 263,545 or 2.7%, as reported in that Schedule 13G, of the Company's common shares.

### B. RELATED PARTY TRANSACTIONS

Since May 30, 2003, Scandic American Shipping Ltd., which is owned by Messrs. Ugland and Hansson, has been our Manager pursuant to the Management Agreement

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with the Company. See Item 4--Information on the Company -- Business Overview -- The Management Agreement.

Mr. Jan Erik Langangen, Executive Vice President of the Manager, is a partner of Langangen & Helset Advokatfirma AS which in the past has also provided and may continue to provide legal services to us.

### C. INTERESTS OF EXPERTS AND COUNSEL

Not Applicable

## ITEM 8. FINANCIAL INFORMATION

### A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

See Item 18

#### Legal Proceedings

To the best of the Company's knowledge, the Company is not currently involved in any legal or arbitration proceedings that would have a significant effect on the Company's financial position or profitability and no such proceedings are pending or known to be contemplated by governmental authorities.

#### Dividend Policy

Our policy is to declare quarterly dividends to shareholders, substantially equal to our net operating cash flow during the previous quarter after reserves as the Board of Directors may from time to time determine are required, taking into account contingent liabilities, the terms of our New Credit Facility, our other cash needs and the requirements of Bermuda law. However, if we declare a dividend in respect of a quarter in which an equity issuance has taken place, we calculate the dividend per share as our net operating cash flow for the quarter (after taking into account the factors described above) divided by the weighted average number of shares over that quarter. Net operating cash flow represents net income plus depreciation and non-cash administrative charges. The dividend paid is the calculated dividend per share multiplied by the number of shares outstanding at the end of the quarter.

Total dividend paid out in 2005 was \$64,279,487 or \$4.21 per share. The dividend payments per share in 2005, 2004, 2003, 2002 and 2001 have been as follows:

| Period      | 2005   | 2004   | 2003   | 2002   | 2001   |
|-------------|--------|--------|--------|--------|--------|
| 1st Quarter | \$1.62 | \$1.15 | \$0.63 | \$0.36 | \$1.41 |
| 2nd Quarter | 1.15   | 1.70   | 1.27   | 0.34   | 1.19   |
| 3rd Quarter | 0.84   | 0.88   | 0.78   | 0.33   | 0.72   |
| 4th Quarter | 0.60   | 1.11   | 0.37   | 0.32   | 0.55   |
| Total       | \$4.21 | \$4.84 | \$3.05 | \$1.35 | \$3.87 |

The dividend paid out in a quarter is based on the results of the previous quarter.

The Company declared a dividend of \$1.88 per share for the first quarter of 2006 which was paid to shareholders in February 2006. In addition, the Company declared a dividend of \$1.58 per share for the second quarter of 2006, which was paid to shareholders in May 2006.

### B. SIGNIFICANT CHANGES



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Not applicable

### ITEM 9. THE OFFER AND LISTING

Not applicable except for Item 9.A.4. and Item 9.C

#### Price Range of Common Shares

Since November 16, 2004, the primary trading market for our common shares has been the New York Stock Exchange, or the NYSE, on which our shares are listed under the symbol "NAT." The primary trading market for our common shares was the American Stock Exchange, or the AMEX, until November 15, 2004, at which time trading of our common shares on the AMEX ceased. The secondary trading market for our common shares was the Oslo Stock Exchange, or the OSE, until January 14, 2005, at which time trading of our common share on the OSE ceased.

The following table sets forth the high and low closing prices for shares of our common stock as reported by the New York Stock Exchange, the American Stock Exchange and the Oslo Stock Exchange:

| The year ended: | NYSE<br>HIGH | NYSE<br>LOW | AMEX<br>HIGH | AMEX<br>LOW | OSE<br>HIGH | OSE<br>LOW |
|-----------------|--------------|-------------|--------------|-------------|-------------|------------|
| 2001            | N/A          | N/A         | \$22.89      | \$13.00     | NOK 215.00  | NOK 125.00 |
| 2002            | N/A          | N/A         | \$16.55      | \$ 9.86     | NOK 145.00  | NOK 90.00  |
| 2003            | N/A          | N/A         | \$16.90      | \$11.25     | NOK 125.00  | NOK 90.00  |
| 2004            | \$41.30      | \$35.26     | \$41.59      | \$15.00     | NOK 300.00  | NOK 115.00 |
| 2005 (1)        | \$56.68      | \$28.60     | N/A          | N/A         | NOK 225.00  | NOK 205.00 |

| For the quarter ended: | AMEX<br>HIGH | AMEX<br>LOW | NYSE<br>HIGH | NYSE<br>LOW | OSE<br>HIGH | OSE<br>LOW |
|------------------------|--------------|-------------|--------------|-------------|-------------|------------|
| March 31, 2004         | \$27.10      | \$15.00     | N/A          | N/A         | NOK 179.00  | NOK 115.00 |
| June 30, 2004          | \$34.59      | \$21.25     | N/A          | N/A         | NOK 225.00  | NOK 160.00 |
| September 30, 2004     | \$37.75      | \$25.00     | N/A          | N/A         | NOK 249.00  | NOK 210.00 |
| December 31, 2004 (1)  | \$41.59      | \$31.15     | \$41.30      | \$35.26     | NOK 300.00  | NOK 214.00 |
| March 31, 2005 (1)     | N/A          | N/A         | \$56.68      | \$35.95     | NOK 225.00  | NOK 205.00 |
| June 30, 2005          | N/A          | N/A         | \$49.79      | \$37.48     | N/A         | N/A        |
| September 30, 2005     | N/A          | N/A         | \$46.48      | \$37.30     | N/A         | N/A        |
| December 31, 2005      | N/A          | N/A         | \$37.90      | \$28.60     | N/A         | N/A        |

(1) The AMEX figures are based on trading from the beginning of the quarter through November 15, 2004 and the NYSE figures are based on trading from November 16, 2004 through the end of the quarter. The OSE numbers for 2005 are based on trading through January 14, 2005

The high and low market prices for our common shares by month since December 2005 have been as follows:

| For the month:         | NYSE<br>HIGH | NYSE<br>LOW |
|------------------------|--------------|-------------|
| January 2006           | \$32.50      | \$29.00     |
| February 2006          | \$36.92      | \$28.83     |
| March 2006             | \$31.11      | \$27.90     |
| April 2006             | \$33.53      | \$28.50     |
| May 2006               | \$35.99      | \$29.65     |
| June 1 - June 26, 2006 | \$35.58      | \$31.51     |

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### C. MARKETS

See Item 9A above.

## ITEM 10. ADDITIONAL INFORMATION

### A. SHARE CAPITAL

Not Applicable

### B. MEMORANDUM AND ARTICLES OF ASSOCIATION

The following description of our capital stock summarizes the material terms of our Memorandum of Association and our bye-laws.

Under our Memorandum of Association, as amended, our authorized capital consists of 51,200,000 common shares having a par value of \$0.01 per share.

The purposes and powers of the Company are set forth in Items 6 and 7 of our Memorandum of Association and in paragraphs (b) to (n) and (p) to (u) of the Second Schedule of the Bermuda Companies Act of 1981 (the "Companies Act") which is attached as an exhibit to our Memorandum of Association. These purposes include the entering into of any guarantee, contract, indemnity or suretyship and to assure, support, secure, with or without the consideration or benefit, the performance of any obligations of any person or persons; and the borrowing and raising of money in any currency or currencies to secure or discharge any debt or obligation in any manner.

Our bye-laws provide that our board of directors shall convene and the Company shall hold annual general meetings in accordance with the requirements of the Companies Act at such times and places as the Board shall decide. Our board of directors may call special meetings at its discretion or as required by the Companies Act. Under the Companies Act, holders of one-tenth of our issued common shares may call special meetings of shareholders.

Bermuda law permits the bye-laws of a Bermuda company to contain a provision eliminating personal liability of a director or officer to the company for any loss arising or liability attaching to him by virtue of any rule of law in respect of any negligence default, breach of duty or breach of trust of which the officer or person may be guilty. Bermuda law also grants companies the power generally to indemnify directors and officers of the company if any such person was or is a party or threatened to be made a party to a threatened, pending or completed action, suit or proceeding by reason of the fact that he or she is or was a director and officer of the company or was serving in a similar capacity for another entity at the company's request.

Our bye-laws do not prohibit a director from being a party to, or otherwise having an interest in, any transaction or arrangement with the Company or in which the Company is otherwise interested. Our bye-laws provide that a director who has an interest in any transaction or arrangement with the Company and who has complied with the provisions of the Companies Act and with our bye-laws with regard to disclosure of such interest shall be taken into account in ascertaining whether a quorum is present, and will be entitled to vote in respect of any transaction or arrangement in which he is so interested. Our bye-laws provide our board of directors the authority to exercise all of the powers of the Company to borrow money and to mortgage or charge all or any part of our property and assets as collateral security for any debt, liability or obligation. Our directors are not required to retire because of their age, and our directors are not required to be holders of our common shares. Directors serve for one year terms, and shall serve until re-elected or until their successors are appointed at the next annual general meeting.

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Our bye-laws provide that each director, alternate director, officer, person or member of a committee, if any, resident representative, or his heirs, executors or administrators, which we refer to collectively as an indemnitee, will be indemnified and held harmless out of our funds to the fullest extent permitted by Bermuda law against all liabilities, loss, damage or expense (including liabilities under contract, tort and statute or any applicable foreign law or regulation and all reasonable legal and other costs and expenses properly payable) incurred or suffered by him as such director, alternate director, officer, person or committee member or resident representative (or in his reasonable belief that he is acting as any of the above). In addition, each indemnitee shall be indemnified against all liabilities incurred in defending any proceedings, whether civil or criminal, in which judgment is given in such indemnitee's favor, or in which he is acquitted.

There are no pre-emptive, redemption, conversion or sinking fund rights attached to our common shares. The holders of common shares are entitled to one vote per share on all matters submitted to a vote of holders of common shares. Unless a different majority is required by law or by our bye-laws, resolutions to be approved by holders of common shares require approval by a simple majority of votes cast at a meeting at which a quorum is present.

Special rights attaching to any class of our shares may be altered or abrogated with the consent in writing of not less than 75% of the issued and outstanding shares of that class or with the sanction of a resolution passed at a separate general meeting of the holders of such shares voting in person or by proxy.

Our Memorandum of Association and our bye-laws may be amended upon the consent of not less than two-thirds of the issued and outstanding common shares.

In the event of our liquidation, dissolution or winding up, the holders of common shares are entitled to share in our assets, if any, remaining after the payment of all of our debts and liabilities, subject to any liquidation preference on any outstanding preference shares.

Our bye-laws provide that our board of directors may, from time to time, declare and pay dividends out of contributed surplus. Each common share is entitled to dividends if and when dividends are declared by our board of directors, subject to any preferred dividend right of the holders of any preference shares.

There are no limitations on the right of non-Bermudians or non-residents of Bermuda to hold or vote our common shares.

Our bye-laws permit the Company to refuse to register the transfer of any common shares if the effect of that transfer would result in 50% or more of our aggregated issued share capital, or 50% or more of the outstanding voting power being held by persons who are resident for tax purposes in Norway or the United Kingdom.

Our bye-laws permit the Company to increase its capital, from time to time, with the consent of not less than two-thirds of the outstanding voting power of the Company's issued and outstanding common shares.

### C. MATERIAL CONTRACTS

On May 30, 2003, the Company's shareholders approved a novation agreement by which the Management Agreement was novated from UNS to our Manager and thereafter the contract period was extended to 2019.

For a description of our New Credit Facility, see Item 4 -- Information on the Company -- Business Overview -- Our Credit Facility.

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Otherwise, the Company has not entered into any material contracts outside the ordinary course of business during the past two years.

### D. EXCHANGE CONTROLS

The Company has been designated as a non-resident of Bermuda for exchange control purposes by the Bermuda Monetary Authority, whose permission for the issue of the Common Shares was obtained prior to the offering thereof.

The transfer of shares between persons regarded as resident outside Bermuda for exchange control purposes and the issuance of Common Shares to or by such persons may be effected without specific consent under the Bermuda Exchange Control Act of 1972 and regulations thereunder. Issues and transfers of Common Shares involving any person regarded as resident in Bermuda for exchange control purposes require specific prior approval under the Bermuda Exchange Control Act 1972.

Subject to the foregoing, there are no limitations on the rights of owners of the Common Shares to hold or vote their shares. Because the Company has been designated as non-resident for Bermuda exchange control purposes, there are no restrictions on its ability to transfer funds in and out of Bermuda or to pay dividends to United States residents who are holders of the Common Shares, other than in respect of local Bermuda currency.

In accordance with Bermuda law, share certificates may be issued only in the names of corporations or individuals. In the case of an applicant acting in a special capacity (for example, as an executor or trustee), certificates may, at the request of the applicant, record the capacity in which the applicant is acting. Notwithstanding the recording of any such special capacity, the Company is not bound to investigate or incur any responsibility in respect of the proper administration of any such estate or trust.

The Company will take no notice of any trust applicable to any of its shares or other securities whether or not it had notice of such trust.

As an "exempted company", the Company is exempt from Bermuda laws which restrict the percentage of share capital that may be held by non-Bermudians, but as an exempted company, the Company may not participate in certain business transactions including: (i) the acquisition or holding of land in Bermuda (except that required for its business and held by way of lease or tenancy for terms of not more than 21 years) without the express authorization of the Bermuda legislature; (ii) the taking of mortgages on land in Bermuda to secure an amount in excess of \$50,000 without the consent of the Minister of Finance of Bermuda; (iii) the acquisition of securities created or issued by, or any interest in, any local company or business, other than certain types of Bermuda government securities or securities of another "exempted company, exempted partnership or other corporation or partnership resident in Bermuda but incorporated abroad; or (iv) the carrying on of business of any kind in Bermuda, except in so far as may be necessary for the carrying on of its business outside Bermuda or under a license granted by the Minister of Finance of Bermuda.

There is a statutory remedy under Section 111 of the Companies Act 1981 which provides that a shareholder may seek redress in the Bermuda courts as long as such shareholder can establish that the Company's affairs are being conducted, or have been conducted, in a manner oppressive or prejudicial to the interests of some part of the shareholders, including such shareholder. However, this remedy has not yet been interpreted by the Bermuda courts.

The Bermuda government actively encourages foreign investment in "exempted" entities like the Company that are based in Bermuda but do not operate in competition with local business. In addition to having no restrictions on the degree of foreign ownership, the Company is subject neither to taxes on its

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income or dividends nor to any exchange controls in Bermuda. In addition, there is no capital gains tax in Bermuda, and profits can be accumulated by the Company, as required, without limitation. There is no income tax treaty between the United States and Bermuda pertaining to the taxation of income other than applicable to insurance enterprises.

### E. TAXATION

The Company is incorporated in Bermuda. Under current Bermuda law, the Company is not subject to tax on income or capital gains, and no Bermuda withholding tax will be imposed upon payments of dividends by the Company to its shareholders. No Bermuda tax is imposed on holders with respect to the sale or exchange of Shares. Furthermore, the Company has received from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1966, as amended, an assurance that, in the event that Bermuda enacts any legislation imposing any tax computed on profits or income, including any dividend or capital gains withholding tax, or computed on any capital asset, appreciation, or any tax in the nature of an estate, duty or inheritance tax, then the imposition of any such tax shall not be applicable. The assurance further provides that such taxes, and any tax in the nature of estate duty or inheritance tax, shall not be applicable to the Company or any of its operations, nor to the shares, debentures or other obligations of the Company, until March 2016.

### F. DIVIDENDS AND PAYING AGENTS

Not Applicable

### G. STATEMENT BY EXPERTS

Not Applicable

### H. DOCUMENTS ON DISPLAY

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended. In accordance with these requirements we file reports and other information with the Securities and Exchange Commission. These materials, including this annual report and the accompanying exhibits may be inspected and copied at the public reference facilities maintained by the Commission at 100 F Street, NE, Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the public reference room by calling 1 (800) SEC-0330, and you may obtain copies at prescribed rates from the Public Reference Section of the Commission at its principal office in Washington, D.C. The SEC maintains a website (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. In addition, documents referred to in this annual report may be inspected at the Company's headquarters at Thistle House 4 Burnaby Street Hamilton, HM11 Bermuda.

We furnish holders of our common shares with annual reports containing audited financial statements and a report by our independent public accountants, and intend to make available quarterly reports containing selected unaudited financial data for the first three quarters of each fiscal year. The audited financial statements will be prepared in accordance with United States generally accepted accounting principles. As a "foreign private issuer," we are exempt from the rules under the Securities Exchange Act prescribing the furnishing and content of proxy statements to shareholders. While we intend to furnish proxy statements to shareholders in accordance with the rules of the New York Stock Exchange, those proxy statements do not conform to Schedule 14A of the proxy rules promulgated under the Exchange Act. All reports, proxy statements and other information filed by us with the New York Stock Exchange may be inspected at the New York Stock Exchange's offices at 20 Broad Street, New York, New York 10005. In addition, as a "foreign private issuer," we are exempt from the rules

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under the Exchange Act relating to short swing profit reporting and liability.

### I. SUBSIDIARY INFORMATION

Not applicable.

### ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk from changes in interest rates related to the variable rate of the Company's borrowings, or the Loan under our New Credit Facility.

Amounts borrowed under the New Credit Facility bears interest at a rate equal to LIBOR plus a margin between 0.70% to 1.20% per year (depending on the loan to vessel value ratio). Increasing interest rates could affect our future profitability. In certain situations, the Company may enter into financial instruments to reduce the risk associated with fluctuations in interest rates.

A 100 basis point increase in LIBOR would have resulted in an increase of approximately \$0.4 million in our interest expense for the year ended December 31, 2005.

The Company is exposed to the spot market. Historically, the tanker markets have been volatile as a result of the many conditions and factors that can affect the price, supply and demand for tanker capacity. Changes in demand for transportation of oil over longer distances and supply of tankers to carry that oil may materially affect our revenues, profitability and cash flows. Eight of our nine vessels are currently operated in the spot market or on spot market related time charters. We believe that over time, spot employment generates premium earnings compared to longer-term employment.

We estimate that during 2005, a \$1,000 per day decrease in the spot market rate would have decreased our voyage revenue by approximately \$1.8 million.

### ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not Applicable

## PART II

### ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not Applicable

### ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not Applicable

### ITEM 15. CONTROLS AND PROCEDURES.

We evaluated the effectiveness of the Company's disclosure controls and procedures as December 31, 2005. Based on that evaluation, the chief executive officer and the chief financial officer concluded that the Company's disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by the Company in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. The Company believes that a system of controls, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been

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detected.

or

There have been no changes in internal controls over financial reporting (identified in connection with management's evaluation of such internal controls over financial reporting) that occurred during the year covered by this annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

ITEM 16. RESERVED.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

The Board of Directors has determined that Mr. Torbjorn Gladso is an audit committee financial expert. Mr. Gladso is "independent" as determined in accordance with the rules of the New York Stock Exchange.

ITEM 16B. CODE OF ETHICS.

The Company has adopted a code of ethics that applies to all of the Company's employees, including our principal executive officer, principal accounting officer or controller. The Code may be downloaded at our website ([www.nat.bm](http://www.nat.bm)). Additionally, any person, upon request, may ask for a hard copy of electronic file of the Code. If we make any substantive amendment to the Code of Ethics or grant any waivers, including any implicit waiver, from a provision of our Code of Ethics, we will disclose the nature of that amendment or waiver on our website. During the year ended December 31, 2005, no such amendment was made or waiver granted.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

(a) Audit Fees

The Company's Board of Directors has established preapproval and procedures for the engagement of the Company's independent public accounting firms for all audit and non-audit services. The following table sets forth, for the two most recent fiscal years, the aggregate fees billed for professional services rendered by our principal accountant, Deloitte Statsautoriserete Revisorer AS, for the audit of the Company's annual financial statements and services provided by the principal accountant in connection with statutory and regulatory filings or engagements for the two most recent fiscal years.

|                                     |          |
|-------------------------------------|----------|
| FISCAL YEAR ENDED DECEMBER 31, 2005 | \$71,400 |
| FISCAL YEAR ENDED DECEMBER 31, 2004 | \$49,700 |

(b) Audit-Related Fees (1)

|                                     |           |
|-------------------------------------|-----------|
| FISCAL YEAR ENDED DECEMBER 31, 2005 | \$150,455 |
| FISCAL YEAR ENDED DECEMBER 31, 2004 | \$90,400  |

(1) Audit-Related-Fees consists of accounting consultations related to accounting, financial reporting or disclosure matters not classified as "Audit Services".

(c) Tax Fees

Not applicable

(d) All Other Fees

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Not applicable.

(e) Audit Committee's Pre-Approval Policies and Procedures

Our audit committee pre-approves 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.

(f) Not applicable.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not Applicable

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PERSONS.

Not Applicable

## PART III

ITEM 17. FINANCIAL STATEMENTS

See item 18.

ITEM 18. FINANCIAL STATEMENTS

See pages F-1 through F-11

NORDIC AMERICAN TANKER SHIPPING LIMITED

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To the shareholders of Nordic American Tanker Shipping Limited

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Nordic American Tanker Shipping



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Limited Bermuda

We have audited the accompanying balance sheets of Nordic American Tanker Shipping Ltd. (the "Company") as of December 31, 2005 and 2004, and the related statements of operations, statements of shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company has determined that it is not required to have, nor were we engaged to perform, an audit of its 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 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, such financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

Oslo, Norway, May 18, 2006  
Deloitte Statsautoriserede Revisorer AS

### BALANCE SHEETS

All figures in USD

|                                   | Notes | Dec. 31, 2005   | Dec. 31, 2004   |
|-----------------------------------|-------|-----------------|-----------------|
| -----                             |       |                 |                 |
| Assets                            |       |                 |                 |
| Current Assets                    |       |                 |                 |
| Cash and Cash Equivalents         |       | 14,240,482      | 30,732,516      |
| Accounts Receivables, net         | 4     | 19,556,725      | 4,539,354       |
| Voyages in Progress               |       | 2,445,906       | 0               |
| Prepaid Expenses and Other Assets | 5     | 3,147,527       | 1,479,710       |
| <br>Total Current Assets          |       | <br>39,390,640  | <br>36,751,580  |
| -----                             |       |                 |                 |
| Long-term Assets                  |       |                 |                 |
| Vessels, net                      | 6     | 463,933,101     | 187,301,038     |
| Other Long-term Assets            |       | 2,520,712       | 150,793         |
| <br>Total Long-term Assets        |       | <br>466,453,813 | <br>187,451,831 |
| -----                             |       |                 |                 |
| Total Assets                      |       | 505,844,453     | 224,203,411     |
| -----                             |       |                 |                 |

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|  |    |              |              |
|--|----|--------------|--------------|
| Liabilities and Shareholders' Equity   |    |              |              |
| Current Liabilities  |    |              |              |
| Accounts Payable   |    | 1,562,188    | 411,366      |
| Deferred Revenue   | 11 | 537,055      | 1,286,070    |
| Accrued Liabilities  |    | 2,873,039    | 637,582      |
| Total Current Liabilities  | 12 | 4,972,282    | 2,335,018    |
| -----  |    |              |              |
| Long-term Liabilities  |    |              |              |
| Long-term Debt   | 9  | 130,000,000  | 0            |
| Total Long-term Liabilities  |    | 130,000,000  | 0            |
| -----  |    |              |              |
| Shareholders' Equity   |    |              |              |
| Common Shares,<br>par value \$0.1 per share,<br>issued and outstanding<br>(51,200,000 shares authorized);<br>16,644,496 shares issued and<br>outstanding, (13,067,838 issued<br>and outstanding in 2004) | 13 | 166,445      | 130,678      |
| Additional Paid-in Capital   |    | 432,682,337  | 265,752,581  |
| Accumulated Deficit  |    | (61,976,611) | (44,014,866) |
| Total Shareholders' Equity   |    | 370,872,171  | 221,868,393  |
| Total Liabilities & Shareholders' Equity   |    | 505,844,453  | 224,203,411  |
| -----  |    |              |              |

The footnotes are an integral part of these financial statements

STATEMENTS OF OPERATIONS

All figures in USD

|  | Notes | Year Ended December 31, |              |             |
|--|-------|-------------------------|--------------|-------------|
|  |       | 2005                    | 2004         | 2003        |
| -----  |       |                         |              |             |
| Voyage Revenue   | 3     | 117,110,178             | 67,451,598   | 37,370,756  |
| Voyage Expenses  |       | (30,980,916)            | (4,925,353)  | (184,781)   |
| Vessel Operating Expenses -<br>excluding depreciation<br>expense presented below |       | (11,220,770)            | (1,976,766)  | 0           |
| Administrative Expenses  | 2,7   | (8,492,164)             | (10,851,688) | (468,087)   |
| Depreciation   | 6     | (17,529,000)            | (6,918,164)  | (6,831,040) |
| Net Operating Income   |       | 48,887,328              | 42,779,627   | 29,886,848  |
| -----  |       |                         |              |             |
| Interest Income  |       | 850,803                 | 143,230      | 26,462      |
| Interest Expense   | 9,10  | (3,453,963)             | (1,971,304)  | (1,797,981) |
| Other Financial Income (Charges)   |       | 33,574                  | (135,621)    | (15,040)    |
| Net Financial Items  |       | (2,569,586)             | (1,963,695)  | (1,786,559) |
| -----  |       |                         |              |             |
| Net profit before Tax  |       | 46,317,742              | 40,815,932   | 28,100,289  |
| -----  |       |                         |              |             |
| Tax Expense  |       | 0                       | 0            | 0           |

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|  |            |            |            |
|--|------------|------------|------------|
| Net Profit for the Year                                  | 46,317,742 | 40,815,932 | 28,100,289 |
|  |            |            |            |
| Basic Earnings per Share                                 | 3.03       | 4.05       | 2.89       |
| Diluted Earnings per Share                               | 3.03       | 4.05       | 2.89       |
| Basic Weighted Average Number<br>of Shares Outstanding   | 15,263,622 | 10,078,391 | 9,706,606  |
| Diluted Weighted Average Number<br>of Shares Outstanding | 15,263,622 | 10,078,391 | 9,706,606  |

The footnotes are an integral part of these financial statements

### STATEMENTS OF CASH FLOWS

All figures in USD

|   | Year Ended December 31, |               |              |
|---|-------------------------|---------------|--------------|
|   | 2005                    | 2004          | 2003         |
| Cash Flows from Operating Activities                    |                         |               |              |
| Net Profit  | 46,317,742              | 40,815,932    | 28,100,289   |
| Reconciliation of Net Profit to                         |                         |               |              |
| Net Cash from   |                         |               |              |
| Operating Activities                                    |                         |               |              |
| Depreciation  | 17,529,000              | 6,918,164     | 6,831,040    |
| Amortization of Prepaid Finance Costs                   | 717,910                 | 112,838       | 14,480       |
| Share-based Compensation                                | 3,582,995               | 9,252,365     | 0            |
| Stock Incentive Plan                                    | 1,415,000               | 0             | 0            |
| Increase/Decrease in:                                   |                         |               |              |
| Accounts Receivables                                    | (15,017,371)            | 3,602,956     | (4,865,784)  |
| Accounts Payable and Accrued Liabilities                | 3,386,273               | 1,010,626     | (178,140)    |
| Deferred Revenue  | (749,015)               | 1,286,075     | 0            |
| Other Assets  | (6,126,946)             | (181,695)     | (8,334)      |
| Net Cash Provided by Operating<br>Activities            | 51,055,588              | 62,817,261    | 29,893,551   |
| Cash Flows from Investing Activities                    |                         |               |              |
| Investment in Vessels                                   | (294,161,063)           | (66,137,277)  | 0            |
| Net Cash Used in Investing Activities                   | (294,161,063)           | (66,137,277)  | 0            |
| Cash Flows from Financing Activities                    |                         |               |              |
| Proceeds from Issuance of Common Stock                  | 161,967,534             | 112,137,953   | 0            |
| Proceeds from Use of Credit Facility                    | 135,000,000             | 96,000,000    | 0            |
| Repayments of Credit Facility                           | (5,000,000)             | (126,000,000) | 0            |
| Loan Facility Costs                                     | (1,074,606)             | (1,455,503)   | 0            |
| Dividends Paid  | (64,279,487)            | (47,195,842)  | (29,605,410) |
| Net Cash Provided by (Used in)<br>Financing Activities  | 226,613,441             | 33,486,608    | (29,605,410) |
| Net (Decrease) Increase in Cash,<br>and Cash Equivalent | (16,492,034)            | 30,166,592    | 288,141      |

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|                                     |            |            |           |
|-------------------------------------|------------|------------|-----------|
| Beginning Cash and Cash Equivalents | 30,732,516 | 565,924    | 277,783   |
|                                     |            |            |           |
| Ending Cash and Cash Equivalents    | 14,240,482 | 30,732,516 | 565,924   |
|                                     |            |            |           |
| Cash paid for Interest              | 916,104    | 1,774,264  | 1,975,125 |

The footnotes are an integral part of these financial statements

### STATEMENTS OF SHAREHOLDERS' EQUITY

All figures in USD, except where noted

|  | No. of<br>Shares | Common<br>Shares | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit | Accumula<br>Other<br>Comprehen<br>Loss |
|--|------------------|------------------|----------------------------------|------------------------|--|
|  |                  |                  |                                  |                        |  |
| Balance at 01.01.03  | 9,706,606        | 97,066           | 144,395,866                      | (36,129,835)           | (2,016,000)                            |
| Net Profit   |                  |                  |                                  | 28,100,289             |  |
| Unrealized Loss on<br>Derivative Instruments                     |                  |                  |                                  |                        | (365,000)                              |
| Adjustment for Losses on<br>Derivatives Reclassified to Earnings |                  |                  |                                  |                        | 1,231,000                              |
| Dividend Paid  |                  |                  |                                  | (29,605,410)           |  |
| Total Comprehensive Income                                       |                  |                  |                                  |                        |  |
|  |                  |                  |                                  |                        |  |
| Balance at 12.31.03  | 9,706,606        | 97,066           | 144,395,866                      | (37,634,956)           | (1,150,000)                            |
|  |                  |                  |                                  |                        |  |
| Net Profit   |                  |                  |                                  | 40,815,932             |  |
| Common Shares Issued   | 3,361,232        | 33,612           | 121,356,715                      |                        |  |
| Unrealized Loss on<br>Derivative Instruments                     |                  |                  |                                  |                        | (20,000)                               |
| Adjustment for Losses on<br>Derivatives Reclassified to Earnings |                  |                  |                                  |                        | 1,170,000                              |
| Dividend Paid  |                  |                  |                                  | (47,195,842)           |  |
| Total Comprehensive Income                                       |                  |                  |                                  |                        |  |
|  |                  |                  |                                  |                        |  |
| Balance at 12.31.04  | 13,067,838       | 130,678          | 265,752,581                      | (44,014,866)           |  |
|  |                  |                  |                                  |                        |  |
| Net Profit   |                  |                  |                                  | 46,317,742             |  |
| Common Shares Issued   | 3,576,658        | 35,767           | 165,514,756                      |                        |  |

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|                             |            |         |             |              |
|-----------------------------|------------|---------|-------------|--------------|
| Stock Option Plan Valuation |            |         |             | 1,415,000    |
| Dividend Paid               |            |         |             | (64,279,487) |
| Total Comprehensive Income  |            |         |             |              |
| Balance at 12.31.05         | 16,644,496 | 166,445 | 432,682,337 | (61,976,611) |

The footnotes are an integral part of these financial statements

### NORDIC AMERICAN TANKER SHIPPING LIMITED

#### NOTES TO FINANCIAL STATEMENTS

##### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP).

**Nature of Business:** The principal business of Nordic American Tanker Shipping Limited (the "Company") is to own and operate crude oil tankers.

**Use of Estimates:** Preparation of financial statements in accordance with U.S. GAAP necessarily includes amounts based on estimates and assumptions made by management. Actual results could differ from those amounts. The effects of changes in accounting estimates are accounted for in the same period as the estimates are changed.

**Concentration of Credit Risk:** Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and accounts receivable. The Company maintains its cash with reputable financial institutions. The terms of these deposits are on demand to minimize risk. The Company has not experienced any losses related to these cash deposits and believes it is not exposed to any significant credit risk.

Accounts receivable consist of uncollateralized receivables from international customers primarily in the international shipping industry. To minimize risk associated with international transactions, all sales are denominated in U.S. currency. The Company routinely assesses the financial strength of its customers. Accounts receivable are presented net of allowances for doubtful accounts relating to demurrage claims. If amounts become uncollectible, they will be charged to operations when that determination is made.

**Interest Rate Risk:** The Company is exposed to interest rate risk for its debt borrowed under the New Credit Facility. In certain situations, the Company may enter into financial instruments to reduce the risk associated with fluctuations in interest rates. The Company has no outstanding derivatives at December 31, 2005 and has not entered into any such arrangements in 2005.

**Cash and Cash Equivalents:** Cash and cash equivalents consist of deposits with original maturities of three months or less.

**Foreign Currency Risk:** The Company's functional currency is the U.S. dollar as all revenues are received in U.S. dollars and the majority of the Company's expenditures are made in U.S. dollars. The Company's reporting currency is U.S.

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dollars. The Company considers currency risk to be insignificant.

**Property and Equipment:** Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. The Company's property and equipment are recorded at the cost method and consist solely of vessels. The estimated useful life of the Company's vessels is 25 years from the date the vessel is delivered from the shipyard. Repairs and maintenance are expensed as incurred.

**Impairment of Long-Lived Assets:** Long-lived assets are required to be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition is less than the carrying amount of the asset, the asset is deemed impaired. The amount of the impairment is measured as the difference between the carrying value and the fair value of the asset.

**Revenue and expense recognition:** Revenue and expense recognition policies for voyage and time charter agreements are as follows:

**Bareboat:** Revenues from bareboat charters are recorded at a fixed charterhire rate per day over the term of the charter. The charterhire is payable monthly in advance. During the charter period the charterer will be responsible for operating and maintaining the vessel and will bear all costs and expenses with respect to the vessel.

**Time charters under spot related terms:** The revenue from time charters under spot related terms payable under the charters is based on a formula designed to generate earnings to the Company as if the Company had operated the vessels in the spot market on two routes used for the calculation, less 5% in commission to the charterer. The charterhire is payable to the Company monthly. The charterer is responsible for all voyage related costs while the Company is responsible for providing the crew and paying other operating costs

**Spot charters.** Voyage revenues and voyage expenses are recognized on a pro rata basis based on the relative transit time in each period. Estimated losses on voyages are provided for in full at the time such losses become evident. A voyage is deemed to commence upon the completion of discharge of the vessel's previous cargo and is deemed to end upon the completion of discharge of the current cargo. Voyage expenses primarily include only those specific costs which are borne by the Company in connection with voyage charters which would otherwise have been borne by the charterer under time charter agreements. These expenses principally consist of fuel, canal and port charges. Demurrage income represents payments by the charterer to the vessel owner when loading and discharging time exceed the stipulated time in the voyage charter. Demurrage income is measured in accordance with the provisions of the respective charter agreements and the circumstances under which demurrage claims arise and is recognized on a pro rata basis over the length of the voyage to which it pertains. At December 31, 2005 and 2004, the Company has no reserves against its due from charterers balance associated with demurrage revenues.

**Pooling arrangements:** Revenues and voyage expenses of the vessels operating in pool arrangements are pooled and the resulting net pool revenues, calculated on a time charter equivalent basis, are allocated to the pool participants according to an agreed formula. Formulas used to allocate net pool revenues vary among different pools but generally allocate revenues to pool participants on the basis of the number of days a vessel operates in the pool with weighting adjustments made to reflect vessels' differing capacities and performance capabilities. The same revenue and expenses principles stated above are applied in determining the pool's net pool revenues. The pool managers are responsible for collecting voyage revenue, paying voyage expenses and distributing net pool revenues to the participants.

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Based on the guidance from EITF 99-19 earnings generated from pools in which the Company is the principal of the pool's vessels' activities are recorded based on gross method. Earnings generated from pools in which the Company is not regarded as the principal of the vessels' activities are recorded as per net method.

The Company accounts for the net pool revenues allocated by these pools as "Voyage Revenue" in its statements of operations.

**Vessel Operating Expenses:** Vessel Operating Expenses include crewing, repair and maintenance, insurance, stores, lube oils and communication expenses. These expenses are recognized when incurred.

**Accounting for Drydocking Costs:** The Company's vessels are required to be drydocked approximately every 30 to 60 months for major repairs and maintenance that cannot be performed while the vessels are in operation. The Company follows the deferral method of accounting for drydocking costs whereby actual costs incurred are deferred and are amortized on a straight-line basis over the period through the date the next drydocking is scheduled to become due. Unamortized drydocking costs of vessels that are sold are written off to income in the year of the vessel's sale. The capitalized and unamortized drydocking costs are included in the book value of the vessels. Amortization expense of the drydocking costs is included in depreciation expense.

**Inventories:** Inventories, which comprise principally of bunker fuel, are stated at cost which is determined on a first-in, first-out (FIFO) basis.

**Financial Instruments:** The fair values of cash and cash equivalents, short-term investments, accounts receivable, and accounts payable approximate carrying value because of the short-term nature of these instruments.

**Loan Financing costs:** Finance costs, including fees, commissions and legal expenses, which are presented as other assets are capitalized and amortized on a straight-line basis over the term of the relevant Credit Facility. Amortization of finance costs is included in interest expense.

**Segment Information:** The Company has identified only one operating segment under Statement of Financial Accounting Standards ("SFAS") No. 131 "Segments of an Enterprise and Related Information." The Company has only one type of vessel - Suezmax crude oil tankers - operating on time charter contracts at market related rates, in the spot market and on long-term bareboat contract.

**Geographical Segment:** The Company currently operates four of its vessels in spot market pools with other vessels that are not owned by it. The pools are managed by third party pool administrators. The earnings of all of the vessels are aggregated, or pooled, and divided according to the relative performance capabilities of the vessel and the actual earning days each vessel is available. The pool vessels are operated in the spot market by the pool administrators. As a significant portion of the Company's vessels are operated in pools it is not practical to allocate geographical data to each vessel and thereby not giving meaningful information to the reader.

**Derivative Instruments and Hedging Activities:** The Company accounts for its derivative instruments and hedging activities according to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 137 and SFAS No. 138. This standard, as amended, requires derivative instruments to be recorded in the balance sheet at their fair value. Changes in the fair value of derivatives that do not qualify for hedge treatment, as well as ineffective portions of any hedge, are recorded to earnings. Changes in fair value for qualifying cash flow-hedges are recorded in equity and are realized in earnings in conjunction with the gain or loss on the hedged item or transaction.

Changes in the fair value of qualifying hedges offset corresponding changes in

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the fair value of the hedged item in the statement of operations.

**Share-Based Compensation:** The Company has chosen early adoption of the accounting standard No. 123 (R) "Share-Based Payment" ("SFAS123R"), which establishes a fair value-based method of accounting for share-based compensation plans. The adoption of the standard did not have any significant effect on the financial statements as the Company previously used the SFAS 123. The Company applied the modified prospective method.

**Earnings per Share:** SFAS No. 128 "Earnings Per Share ("EPS")," requires EPS to be computed and reported as both basic EPS and diluted EPS. Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted EPS is computed by dividing net income by the weighted average number of common shares and dilutive common stock equivalents (i.e. stock options, warrants) outstanding during the period.

The Company's average stock price during 2005 was above the average exercise price of the options and a dilutive effect on EPS could potentially arise. However, the proceeds of an exercise of all outstanding options calculated as per the Treasury Stock Method would exceed the costs of acquiring shares at the average 2005 stock price. The potential effect of the outstanding options is therefore anti-dilutive and is not included in the numbers stated above.

**Income taxes:** The Company is incorporated in Bermuda. Under current Bermuda law, the Company is not subject to corporate income taxes.

**Reclassifications:** Certain amounts on the balance sheets and the statement of operations in prior year financial accounts have been reclassified to conform to the current year presentation.

**New Pronouncements:** In December 2004, the FASB issued SFAS No. 153, "Exchanges of Non-monetary Assets", an amendment of APB Opinion No. 29. The adoption of this statement, effective June 2005, did not have any impact on the Company's results of operations, financial position or cash flows.

In May 2005, the Financial Accounting Standards Board ("FASB") issued Statement ("SFAS") No. 154, "Accounting Changes and Error Corrections", effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. SFAS 154 requires voluntary changes in accounting principle be retrospectively applied to financial statements from previous periods unless such application is impracticable. Under the newly issued standard changes in depreciation, amortization, or depletion for long-lived, non-financial assets should be accounted for as a change in accounting estimate that is affected by a change in accounting principle. The Company believes that the adoption of this standard will not have a material impact on the Company's results of operations, financial position or cash flow.

## 2. RELATED PARTY TRANSACTIONS

The Manager, Scandic American Shipping Ltd., is jointly owned by the Chairman and CEO of the Company, Mr. Herbjorn Hansson, and a Board Member, Mr. Andreas Ove Ugland. The Manager, under the Management Agreement, assumes commercial and operational responsibility of the Company's vessels and is required to manage the Company's day-to-day business subject, always, to the Company's objectives and policies as established from time to time by the Board of Directors. For its services under the Management Agreement, the Manager is entitled to cover the cost incurred plus a management fee equal to \$100,000 per annum. The Manager also has a right to 2% of the Company's total outstanding shares (see Note 8 "Share-Based Compensation"). The Company has recognized total costs of \$2,196,264 for the services provided under the Management Agreement for the year ended December 31, 2005. The comparable amount for the years 2004 and 2003 were \$653,799 and \$0 respectively. Additionally the Company recognized \$3,582,995 in



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non-cash share-based compensation expense during the year 2005 related to the issuance of shares to the Manager (see Note 8 "Share-Based Compensation"). The comparable amount for the years 2004 and 2003 was \$9,252,365 and \$0, respectively. Payable at December 31, 2005 was \$396,314 and payable at December 31, 2004 was \$105,080. These items are included in the accounts payable. The costs are included in administrative expenses.

Mr. Jan Erik Langangen, Executive Vice President of the Manager, is a partner of Langangen & Helset Advokatfirma AS which in the past has also provided and may continue to provide legal services to us. The Company has recognized costs of \$77,526 for the services provided by Langangen & Helset Advokatfirma AS in 2005. The comparable amount for the years 2004 and 2003 was \$33,435 and \$3,361 respectively. Payable at December 31, 2005 was \$0 and payable at December 31, 2004 was \$38,157. These costs are included as administrative expenses.

### 3. REVENUE

For the twelve months ending December 31, 2005 the Company's only source of income was from the Company's eight vessels. The table below shows the current employment of the vessels. All of the Company's revenues are earned in international markets.

| Vessel name      | Employment | Charterer*/<br>Commercial Operator |
|------------------|------------|------------------------------------|
| Gulf Scandic     | Bareboat   | Gulf Navigation*                   |
| Nordic Hawk      | Spot / TC  | BP Shipping*                       |
| Nordic Hunter    | Spot / TC  | BP Shipping*                       |
| Nordic Freedom   | Spot       | Teekay Shipping                    |
| Nordic Voyager   | Spot       | Stena Bulk                         |
| Nordic Fighter   | Spot       | Frontline                          |
| Nordic Discovery | Spot       | Frontline                          |
| Nordic Saturn    | Spot       | OMI                                |

One customer accounted for 37%, 97% and 100% of the Company's revenues during the year ended December 31, 2005, 2004 and 2003, respectively.

### 4. ACCOUNTS RECEIVABLE

|                                  | 2005              | 2004             |
|----------------------------------|-------------------|------------------|
| BP Shipping                      | 4,030,009         | 4,310,979        |
| Gulf Navigation Company          | 0                 | 189,114          |
| Gemini Tankers Ltd               | 2,725,145         | 0                |
| Stena Bulk                       | 5,192,581         | 0                |
| Frontline                        | 4,628,353         | 0                |
| Teekay Shipping Corporation      | 2,980,637         | 0                |
| Others <10%                      | 0                 | 39,261           |
| <b>Total Accounts Receivable</b> | <b>19,556,725</b> | <b>4,539,354</b> |

There is no allowance for doubtful accounts as at December 31, 2005 and 2004.

### 5. PREPAID EXPENSES AND OTHER CURRENT ASSETS

|                                  | 2005      | 2004      |
|----------------------------------|-----------|-----------|
| Bunkers and lubricants inventory | 2,136,762 | 0         |
| Other <5%                        | 1,010,765 | 1,479,710 |

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Total as per December 31, 3,147,527 1,479,710

### 6. PROPERTY AND EQUIPMENT

Property and equipment consist of eight modern double hull Suezmax crude oil tankers. Depreciation is calculated on a straight-line basis over the estimated useful life of the vessels. The estimated useful life of a new vessel is 25 years.

|                                    | 2005         | 2004         |
|------------------------------------|--------------|--------------|
| Opening Balance                    | 236,913,247  | 170,775,970  |
| Acquisitions                       | 294,161,063  | 66,137,277   |
| Closing Balance                    | 531,074,310  | 236,913,247  |
| Opening Balance                    | (49,612,209) | (42,694,045) |
| Depreciation                       | (17,529,000) | (6,918,164)  |
| Closing Balance                    | (67,141,209) | (49,612,209) |
| Net Book Value as per December 31, | 463,933,101  | 187,301,038  |

Included in the above amounts as at December 31, 2005 are drydocking charges and ballast tank improvements with a net book value of \$2.2 million. Depreciation expenses for drydocking and ballast tank improvements were \$0.16 million. There were no such charges for the comparable period of 2004. The Company's vessels are mortgaged for amounts owing under the New Credit Facility.

### 7. ADMINISTRATIVE EXPENSES

|                                    | 2005      | 2004       | 2003    |
|------------------------------------|-----------|------------|---------|
| Management fee                     | 100,000   | 175,000    | 250,000 |
| Directors and officers insurance   | 121,427   | 112,500    | 101,666 |
| Salary and wages                   | 635,393   | 165,490    | 0       |
| Audit, legal and consultants       | 678,858   | 587,831    | 106,281 |
| Outsourced administrative services | 1,460,871 | 313,309    | 0       |
| Share-based compensation           | 3,582,995 | 9,252,365  | 0       |
| 2004 Stock Incentive Plan          | 1,415,000 | 0          | 0       |
| Other fees and expenses            | 497,620   | 245,193    | 10,140  |
| Total administrative expenses      | 8,492,164 | 10,851,688 | 468,087 |

The decrease in total administrative expenses is due to the decrease in share-based compensation caused by the change in the terms of the Management Agreement with the Manager effective from October 2004. The Management Agreement formerly provided that the Manager would receive 1.25% of any gross charterhire paid to the Company. In order to further align the Manager's interests with those of the Company, the Manager agreed with us to amend the Management Agreement to eliminate this payment. The Company issued to the Manager in October 2004 restricted common shares equal to 2% of the Company's outstanding common shares. Any time additional common shares are issued, the Manager will receive additional restricted common shares to maintain the number of common shares issued to the Manager at 2% of our total outstanding common shares. In connection with the follow-on offering in March 2005, restricted shares were issued to the Manager in accordance with the Management Agreement. The share-based compensation expense related to the issuance of restricted shares to the Manager of \$3,582,995 in 2005 was classified as administrative expenses.

The decrease in share-based compensation is offset by increase in other administrative expenses due to the change in operating structure as of October

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2004 from a passive leasing company into an operating company.

### 8. SHARE-BASED COMPENSATION

#### 2004 Stock Incentive Plan

Under the terms of the Company's 2004 Stock Incentive Plan, or the Plan, the directors, officers and certain key employees of the Company and the Manager will be eligible to receive awards which include incentive stock options, non-qualified stock options, stock appreciation rights, dividend equivalent rights, restricted stock, restricted stock units and performance shares. The Company believes that such awards better align the interests of its employees with those of its shareholders. A total of 400,000 common shares are reserved for issuance upon exercise of options, as restricted share grants or otherwise under the plan. A total of 320,000 options have been issued as at December 31, 2005.

Stock option awards were granted with an exercise price equal to the market price of the Company's common shares at the date of a public offering in November 2004, with later adjustments when dividends to shareholders exceed 3% of the initial stock option exercise price. Stock option awards generally vest equally over four years from grant date and have a 10-year contractual term.

The fair value of each option award is estimated on the date of grant using the Black & Scholes option valuation model that uses the assumptions noted in the following table. Stock options to non-employees are measured at each reporting date and fair value is estimated with the same model used for estimating fair value of the options granted to employees. Because the option valuation model incorporates ranges of assumptions for inputs, those ranges are disclosed. Expected volatilities are based on implied volatilities from historical volatility of the Company's stock and other factors. Expected life of the options is estimated to be equal to the vesting period for employees when calculating the fair value of the options. When calculating the fair value of the options issued to non-employees the expected life is equal to the actual life of options. The Company recognizes the compensation cost for stock options issued to non-employees over the service period, which is considered to be equal to the vesting period.

Stock options to employees are measured at fair value at the grant date and the compensation cost is recognized on a straight-line basis over the vesting period. The assumptions used when estimating the fair value at grant date are specified in the table below.

Stock options to non-employees are measured at fair value at the balance sheet date and the assumptions used are specified separately in the table below.

The risk-free rate for periods within the contractual life of the stock options is based on the U.S. Treasury yield curve in effect at the time of grant for options to employees. The risk-free rate at year-end is used for stock options issued to non-employees.

|                          | 12.31.2005    | 12.31.2005    |
|--------------------------|---------------|---------------|
| Weighted average figures | Employees     | Non-employees |
| Expected volatility      | 42.60%        | 42.08%        |
| Expected dividends       | 3%            | 3%            |
| Expected life            | 3.81          | 9.27          |
| Risk-free rate (range)   | 3.52% - 4.43% | 4.53% - 4.61% |

A summary of option activity under the Plan as of December 31, 2005, and changes

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during the year then ended is presented below:

| Options                          | Shares<br>employees | Shares<br>non-employees | Weighted-average<br>exercise price |
|----------------------------------|---------------------|-------------------------|------------------------------------|
| Outstanding at January 1, 2005   | -                   |                         | -                                  |
| Granted                          | 240,000             | 80,000                  | \$35.70                            |
| Exercised                        | -                   |                         | -                                  |
| Forfeited or expired             | -                   |                         | -                                  |
| Outstanding at December 31, 2005 | 240,000             | 80,000                  | \$35.70                            |
| Exercisable at December 31, 2005 | 55,000              | 12,500                  | \$35.70                            |

Outstanding and exercisable stock options as at December 31, 2005 have a weighted-average remaining term of 9.07 years for employees and 9.30 for non-employees. The exercise price for outstanding stock options as at December 31, 2005 is \$35.70.

|                                 | Options-<br>Employees | Weighted-<br>average<br>grant-date<br>fair value<br>-Employees | Options-<br>Non-<br>employees | Weighted-average<br>grant-date<br>fair value-<br>Non-employees |
|---------------------------------|-----------------------|--|-------------------------------|--|
| Non-vested at January 1, 2005   | -                     | -  | -                             | -  |
| Granted during the year         | 240,000               | \$18.44  | 80,000                        | \$22.93  |
| Vested during the year          | (55,000)              | \$18.65  | (12,500)                      | \$29.29  |
| Forfeited during the year       | -                     | -  | -                             | -  |
| Estimated forfeitures unvested  | -                     | -  | -                             | -  |
| Non-vested at December 31, 2005 | 185,000               | \$18.38  | 67,500                        | \$21.75  |

Please refer to Note 7 in regards to the compensation cost related to the Plan recognized in the profit and loss account. Unrecognized compensation cost related to the Plan is \$3,831,763 as at December 31, 2005. That cost is expected to be recognized over a weighted-average period of 1.95 years.

### Restricted Shares

The Management Agreement formerly provided that the Manager would receive 1.25% of any gross charterhire paid to us. In order to further align the Manager's interests with those of the Company, the Manager agreed with us to amend the Management Agreement, effective October 12, 2004, to eliminate this payment, and we have issued to the Manager restricted common shares equal to 2% of our outstanding common shares at par value of \$0.01 per share. Any time additional common shares are issued, the Manager will receive additional restricted common shares to maintain the number of common shares issued to the Manager at 2% of our total outstanding common shares. These restricted shares are non-transferable for three years from issuance. During 2005 the Company has issued to the Manager 76,658 shares at an average fair value of \$46.74. The share-based compensation expense related to the issuance of restricted shares to the Manager of \$3,582,995 in 2005 was classified as administrative expenses.

The shares are considered restricted as the holders of the shares cannot dispose of them for three years from issuance.

### 9. LONG-TERM DEBT

In September 2005, the Company entered into a new \$300 million revolving credit facility, which is referred to as the New Credit Facility. The New Credit

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Facility became effective as of October 2005 and replaced the previous credit facility from October 2004, a portion of which was set to mature in October 2005. The New Credit Facility will mature in September 2010.

The New Credit Facility provides funding for future vessel acquisitions and general corporate purposes. The New Credit Facility cannot be reduced by the lender and there is no repayment obligation of the principal during the five year term. Amounts borrowed under the New Credit Facility bear interest at a rate equal to LIBOR plus a margin between 0.70% and 1.20% (depending on the loan to vessel value ratio). The Company pays a commitment fee of 30% of the applicable margin on any undrawn amounts.

Borrowings under the Credit Facility are secured by mortgages over our vessels and assignment of earnings and insurance. We will be able to pay dividends in accordance with our dividend policy as long as we are not in default under the Credit Facility.

In February 2005, the Company borrowed \$5.0 million under the previous Credit Facility to finance part of the purchase price of the second vessel that was acquired in February 2005. The borrowings were repaid in March 2005.

In September 2005, the Company borrowed \$60.0 million under the previous credit facility to finance part of the purchase price of the seventh vessel that was acquired in August 2005, and \$7.0 million to finance the down payment for the acquisition of the eighth vessel that was acquired in November 2005.

In October 2005, the Company refinanced the borrowings of \$67.0 million under our previous credit facility by drawing on the New Credit Facility.

In November 2005, the Company borrowed \$63.0 million under the New Credit Facility to finance part of the purchase price of the eighth vessel that was acquired in September 2005.

Accrued interest as per December 31, 2005 is \$900,000 and is payable during the first quarter of 2006.

### 10. FINANCIAL ITEMS

Interest expense consists of interest expense on the long-term debt, commitment fee and loan financing costs related to the \$300 million New Credit Facility. The \$130 million borrowed bears an interest rate equal to LIBOR plus a margin between 0.7% and 1.2%. The loan financing costs are expenses incurred in connection with the refinancing of the New Credit Facility. These charges are amortized over the term of the New Credit Facility on a straight-line basis. Amortization of loan costs is included in the interest expense. The amortization of loan financing costs was for the years 2005, 2004 and 2003 \$717,910, \$112,838 and \$14,480 respectively. Total capitalized loan financing costs are \$1,713,835 as per December 31, 2005 and as per December 31, 2004 \$1,357,140.

The amortization of loan financing costs for the years 2006 to 2009 are \$364,000 per year and \$257,835 for the year 2010.

The commitment fee is based on 30% of the applicable margin on any undrawn amounts.

### 11. DEFERRED REVENUE

Deferred revenue of \$537,055 represents prepaid freight received from one of the Company's customers prior to December 31, 2005, for services to be rendered during January 2006.

### 12. TOTAL CURRENT LIABILITIES

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|   | 2005      | 2004      |
|---|-----------|-----------|
| -----   |           |           |
| Accounts Payable                                  | 751,977   | 411,366   |
| Accounts Payable, Technical & Commercial Managers | 784,425   | 0         |
| Deferred Revenue                                  | 537,055   | 1,286,070 |
| Accrued Interests                                 | 1,170,044 | 0         |
| Accrued Expenses, Technical & Commercial Managers | 1,459,445 | 0         |
| Other Current Liabilities                         |           |           |