Double Hull Tankers, Inc.
Index to Consolidated Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Double Hull Tankers, Inc.

We have audited the accompanying consolidated balance sheets of Double Hull Tankers, Inc. and subsidiaries (the Company) as of December 31, 2006 and 2005 and the related consolidated statements of operations, cash flows, and changes in stockholders' equity for the year ended December 31, 2006 and the period October 18, 2005 (commencement of operations) to 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 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. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Double Hull Tankers, Inc. and subsidiaries at December 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the year ended December 31, 2006 and the period October 18, 2005 (commencement of operations) to December 31, 2005, in conformity with U.S. generally accepted accounting principles.

/s/ ERNST & YOUNG LLP

New York, New York
March 15, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Overseas Shipholding Group, Inc.

We have audited the accompanying predecessor combined carve-out statements of operations, cash flows, and changes in stockholders' equity for the period January 1, 2005 to October 17, 2005 and the year ended December 31, 2004. These predecessor combined carve-out financial statements are the responsibility of OSG Crude's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with 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. We were not engaged to perform an audit of OSG Crude's internal control over financial reporting. Our audit 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 OSG Crude'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, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the predecessor combined carve-out financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of OSG Crude for the period January 1, 2005 to October 17, 2005 and the year ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

/s/ ERNST & YOUNG LLP

New York, New York
March 31, 2006

Double Hull Tankers, Inc.
Consolidated Balance Sheets
as of December 31, 2006 and 2005

	December 31, 2006 Successor	December 31, 2005 Successor
	(Dollars in thousands, except per share amounts)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 17,680	$ 15,893
Voyage receivables from OSG	4,009	5,506
Unrealized gain on interest rate swap	1,712	—
Prepaid expenses	331	281
Prepaid technical management fee to OSG	1,324	1,324
Total current assets	25,056	23,004
Vessels, net of accumulated depreciation	322,577	339,491
Other assets including deferred debt issuance cost	1,407	1,567
Total assets	$ 349,040	$ 364,062
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	$ 3,456	$ 3,895
Unrealized loss on interest rate swap	—	807
Deferred shipping revenues	6,169	6,126
Total current liabilities	9,625	10,828
Long term liabilities		
Long term debt	236,000	236,000
Stockholders' equity		
Preferred stock ($0.01 par value, 1,000,000 shares authorized, none issued or outstanding)	—	—
Common stock ($0.01 par value, 100,000,000 authorized, 30,006,250 and 30,009,250 shares issued and outstanding, respectively)	300	300
Additional paid in capital	108,395	108,272
Retained earnings	(6,992)	9,469
Accumulated other comprehensive income/(loss)	1,712	(807)
Total stockholders' equity	103,415	117,234
Total liabilities and stockholders' equity	$ 349,040	$ 364,062

See notes to accompanying financial statements

Double Hull Tankers, Inc.
Consolidated and Predecessor Combined Carve-Out Statements of Operations

	Year ended December 31, 2006	2005 Successor October 18 to December 31	2005 Predecessor January 1 to October 17	Predecessor Year ended December 31, 2004
	(Dollars in thousands except share and per share amounts)			
Shipping revenues	$ 86,793	$ 20,173	$ 84,134	$ 136,205
Ship Operating Expenses:				
Voyage expenses	—	—	772	238
Vessel expenses	18,690	3,675	14,433	15,601
Depreciation and amortization	16,915	3,478	14,462	17,762
General and administrative (Prior to October 18, 2005: allocated from Overseas Shipholding Group, Inc.)	2,389	746	5,759	7,269
Total Ship Operating Expenses	37,994	7,899	35,426	40,870
Income from Vessel Operations	48,799	12,274	48,708	95,335
Other Income/(Expense)	—	—	(1,471)	—
Interest Expense to a Wholly-owned Subsidiary of OSG	—	—	(574)	(3,411)
Interest Income	908	67	—	—
Interest Expense and Amortization of Deferred Debt Issuance Costs	(13,957)	(2,872)	(3,022)	(5,234)
Income before Income Taxes	35,750	9,469	43,641	86,690
Provision for Income Taxes	—	—	—	—
Net Income	$ 35,750	$ 9,469	$ 43,641	$ 86,690
Basic Net Income per Share	$ 1.19	$ 0.32	$ 62,344.28	$ 123,842.88
Diluted Net Income per Share	$ 1.19	$ 0.32	$ 62,344.28	$ 123,842.88
Shares Used in Computing Basic Net Income per Share	30,007,000	30,006,250	700	700
Shares Used in Computing Diluted Net Income per Share	30,016,352	30,008,190	700	700

See notes to accompanying financial statements

Double Hull Tankers, Inc.
Consolidated and Predecessor Combined Carve-Out
Statements of Changes in Stockholders' Equity

	Common Stock					
	Shares	**Amount**	**Paid-in Additional Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income/(Loss)**	**Total**
			(Dollars in thousands except shares)			
Balance at December 31, 2003	700	$ 700	$ —	$ 38,708	$ (1,804)	$ 37,604
Net Income				86,690		86,690
Other Comprehensive Income/(Loss), effect of derivative instruments	—	—	—	—	504	504
Comprehensive Income						87,194
Balance at December 31, 2004	700	700	—	125,398	(1,300)	124,798
Net Income attributable to predecessor stockholders				43,641		43,641
Other Comprehensive Income	—	—	—	—	—	
Termination of predecessor interest rate swap	—	—	—	—	1,300	1,300
Comprehensive Income						44,941
Capital Contribution by predecessor stockholders	—	—	114,320	—	—	114,320
Balance at October 17, 2005	700	$ 700	$ 114,320	$ 169,039	—	$ 284,059
Balance at October 18, 2005	—	$ —	$ —	$ —	$ —	$ —
Net Income attributable to period from October 18 to December 31				9,469		9,469
Other Comprehensive Income	—	—	—	—	—	
Unrealized loss on interest rate swap					(807)	(807)
Other Comprehensive Income						8,662
Issuance of common stock	30,006,250	300	345,879			346,179
Deemed distribution to predecessor stockholders			(237,612)			(237,612)
Compensation related to options granted			5			5
Balance at December 31, 2005	30,006,250	300	108,272	9,469	(807)	117,234
Net Income				35,750		35,750
Other Comprehensive Income, effect of derivative instruments					2,519	2,519
Other Comprehensive Income						38,269
Cash dividends declared and paid				(52,211)		(52,211)
Compensation related to options and restricted stock granted			123			123
Issuance of restricted stock awards	3,000					
Balance at December 31, 2006	30,009,250	$ 300	$ 108,395	$ (6,992)	$ 1,712	$ 103,415

See notes to accompanying financial statements

Double Hull Tankers, Inc.
Consolidated and Predecessor Combined Carve-Out
Statements of Cash Flow

	Year ended December 31, 2006	2005 October 18 to December 31 Successor	2005 January 1 to October 17 Predecessor	Year ended December 31, 2004 Predecessor
Cash Flows from Operating Activities:				
Net income	$ 35,750	$ 9,469	$ 43,641	$ 86,690
Items included in net income not affecting cash flows:				
Depreciation	16,914	3,478	14,462	16,785
Amortization, including deferred finance charges	160	36	438	1,023
Deferred compensation related to options and restricted stock	123	—	—	—
Expenditures for drydocking	—	—	(171)	(3,740)
Changes in operating assets and liabilities:				
Receivables	1,497	(5,506)	25,710	(16,361)
Prepaid expenses	(50)	(1,605)	897	(71)
Other assets		—	(17)	(2)
Accounts payable and accrued expenses	(439)	3,895	(1,921)	(76)
Deferred shipping revenues	43	6,126	—	—
Net cash provided by operating activities	53,998	15,893	83,039	84,248
Cash Flows from Investing Activities:				
Expenditures for vessels	—	(412,580)	(830)	(9,696)
Net cash (used in) investing activities	—	(412,580)	(830)	(9,696)
Cash Flows from Financing Activities:				
Issuance of common stock	—	178,180	—	—
Issuance of long-term debt, net of issuance costs	—	234,400	—	—
Cash dividends paid	(52,211)			
Repayment of loan from OSG		—	(55,931)	(69,352)
Transfer of balances	—	—	63,322	—
Repayment of long-term debt	—	—	(89,600)	(5,200)
Net cash provided by/(used in) financing activities	(52,211)	412,580	(82,209)	(74,552)
Net increase in cash and cash equivalents	1,787	15,893	—	—
Cash and cash equivalents at beginning of period	15,893	—	—	—
Cash and cash equivalents at end of period	$ 17,680	$ 15,893	$ —	$ —
Interest Paid	$ 13,686	$ —	$ 3,022	$ 5,328

See notes to accompanying financial statements

**NOTES TO DOUBLE HULL TANKERS, INC.
CONSOLIDATED AND PREDECESSOR
COMBINED CARVE-OUT FINANCIAL STATEMENTS**

General

Double Hull Tankers, Inc. (the “Company”) was incorporated on April 14, 2005 under the laws of Marshall Islands as a wholly owned indirect subsidiary of Overseas Shipholding Group, Inc. (“OSG”). In October 2005, the Company completed its initial public offering (“IPO”) by issuing and selling to the public 16,000,000 common shares, par value $0.01 per share, at a price to the public of $12.00 per share, raising gross proceeds of $192 million before deduction of underwriting discounts, commissions and expenses of approximately $13.8 million. On the date of the IPO, the Company also raised $236 million of secured debt (before expenses of approximately $1.6 million). Simultaneously with the IPO, the Company acquired seven double hull tankers consisting of three very large crude carriers, or VLCCs, and four Aframax vessels (the “Vessels”) from subsidiaries of OSG in exchange for cash and shares of its common stock. The Company chartered these vessels back to subsidiaries of OSG. The aggregate purchase price for the vessels was $580.6 million, of which $412.6 million was in the form of cash and $168 million in the form of common stock. The Company treated the excess of the purchase price over OSG’s $343.0 million aggregate book value of the vessels, or $237.6 million, as a deemed dividend to OSG.

Subsequent to the IPO, an aggregate of 648,500 of these shares were sold by a subsidiary of OSG, in connection with the underwriters’ exercise of their over-allotment option. The Company did not receive any proceeds from the sale of the over-allotment shares. As of December 31, 2006, OSG beneficially owned approximately 44.5% of the Company’s outstanding common stock. On January 23, 2007, a wholly owned subsidiary of OSG, sold 4.6 million shares of the Company’s common stock in a registered public offering reducing OSG’s beneficial ownership in the Company to approximately 29.2%.

The vessels are owned by seven Marshall Islands subsidiaries of the Company. The primary activity of each of the vessel subsidiaries is the ownership and operation of a vessel. The following table sets out the details of the vessel subsidiaries included in these consolidated financial statements:

Company	Vessel name	Dwt	Flag State	Year Built
Chris Tanker Corporation	*Overseas Chris*	309,285	Marshall Islands	2001
Ann Tanker Corporation	*Overseas Ann*	309,327	Marshall Islands	2001
Regal Unity Tanker Corporation	*Overseas Regal*	309,966	Marshall Islands	1997
Cathy Tanker Corporation	*Overseas Cathy*	112,028	Marshall Islands	2004
Sophie Tanker Corporation	*Overseas Sophie*	112,045	Marshall Islands	2003
Ania Aframax Corporation	*Overseas Ania*	94,848	Marshall Islands	1994
Rebecca Tanker Corporation	*Rebecca*	94,873	Marshall Islands	1994

Effective October 18, 2005, the Company chartered the vessels to subsidiaries of OSG for terms of five to six and one-half years at basic hire amounts which are essentially fixed. In addition, the time charter arrangements include a profit sharing component that gives the Company the opportunity to earn additional hire when vessel earnings exceed the basic hire amounts set forth in the charters. The vessels are operated in the Tankers International Pool and the Aframax International Pool and the Company expects the potential to earn additional hire will benefit from the utilization rates realized by these pools. In a pooling arrangement, the net revenues generated by all of the vessels in a pool are aggregated and distributed to pool members pursuant to a pre-arranged weighting system that recognizes each vessel’s earnings capacity based on its cargo capacity, speed and fuel consumption, and actual on-hire performance.

Each time charter may be renewed by OSG on one or more successive occasions for periods of one, two or three years, up to an aggregate of five, six or eight years, depending on the vessel. If a time charter is renewed, the charter terms providing for profit sharing will remain in effect and the charterer, at the time of exercise, will have the option to select a basic charter rate that is equal to (i) 5% above the published one-, two- or three-year time charter rate (corresponding to the extension length) for the vessel’s class, as decided by a shipbrokers panel, or (ii) the basic hire rate set forth in the applicable charter. The shipbrokers panel will be The Association of Shipbrokers and Agents Tanker Broker Panel or another panel of brokers mutually acceptable to us and OSG.

Effective October 18, 2005, the Company also entered into ship management agreements with Tanker Management Ltd., a wholly owned subsidiary of OSG. The ship management agreements provide for the technical management of the Vessels. The basic hire rate for each of the Vessels and the technical management fee are payable monthly in advance.

Note A—Summary of significant accounting policies:

Basis of presentation and accounting

Prior to October 18, 2005, the accompanying predecessor combined carve-out financial statements include the accounts of seven wholly-owned subsidiaries of OSG. Such subsidiaries (collectively, "OSG Crude"), which are incorporated in the Marshall Islands, owned a fleet consisting of seven modern tankers prior to the IPO. The predecessor combined carve-out financial statements have been prepared to reflect the financial position, results of operations and cash flows of OSG Crude, which owned the vessels which were acquired by the Company on October 18, 2005.

The Company consolidated and predecessor combined carve-out financial statements are prepared in accordance with generally accepted accounting principles in the United States. The consolidated financial statements include the assets and liabilities of the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated upon consolidation or combination. For the year ended December 31, 2005, the predecessor combined carve-out financial statements are for the period January 1, 2005 through October 17, 2005, and the consolidated financial statements of the Company and its wholly owned subsidiaries are for the 75 day period from October 18, 2005 (date operations commenced) through December 31, 2005 during which the Company operated as an independent company. For the period from January 1, 2005 through October 17, 2005 and for the year ended December 31, 2004, the predecessor combined carve-out financial statements presented herein have been carved out of the financial statements of OSG. The assets, liabilities, results of operations, and cash flows of the predecessor were carved out of the consolidated financial statements of OSG using specific identification. In the preparation of these predecessor carve-out financial statements, general and administrative expenses were not identifiable as relating solely to the vessels. General and administrative expenses, consisting primarily of salaries and other employee-related costs, office rent, legal and professional fees, and travel and entertainment were allocated based on OSG Crude's proportionate share of OSG's total ship-operating (calendar) days for each of the periods presented. Management believes these allocations to reasonably present the financial position, results of operations and cash flows of OSG Crude. However, the predecessor combined carve-out statements of financial position, operations and cash flow may not be indicative of those that would have been realized had OSG Crude operated as an independent stand-alone entity for the periods presented. Had OSG Crude operated as an independent stand-alone entity, its results could have differed significantly from those presented herein.

The statements of operations and cash flows have been reclassified to conform to the current presentation.

Cash and cash equivalents

Interest-bearing deposits that are highly liquid investments and have a maturity of three months or less when purchased are included in cash and cash equivalents. Cash and cash equivalents of $17.6 million as of December 31, 2006 are pledged as described in Note C and are held at a single financial institution. The carrying value of cash and cash equivalents approximates its fair value.

Vessels

At October 18, 2005, the Company recorded the Vessels at their historical cost to OSG Crude. The Vessels are being depreciated over periods ranging from 14 to 23 years, which represent the Vessels' remaining life at the date of acquisition from OSG Crude. For the periods through October 17, 2005, the Vessels are recorded at cost and are depreciated to their estimated salvage value on the straight-line basis, using a vessel life of 25 years. Each vessel's salvage value is equal to the product of its lightweight tonnage and an estimated scrap rate per ton. Accumulated depreciation was $130,610,280 and $113,695,467 at December 31, 2006 and 2005, respectively. Interest costs are capitalized to vessels during the period that vessels are under construction. Interest capitalized aggregated $200,803 in 2004.

Deferred drydock expenditures

On October 18, 2005, the Company entered into a management agreement with Tanker Management Ltd., a subsidiary of OSG, for the technical management of its seven vessels in exchange for a fee that is fixed for the first two years of the agreement. As part of the management agreement, OSG is responsible for drydocking costs.

Prior to October 18, 2005, expenditures incurred during a drydocking are deferred and amortized on the straight-line basis over the period until the next scheduled drydocking, generally two and a half to five years. Expenditures for maintenance and repairs are expensed when incurred. Amortization of capitalized drydock expenditures, which is included in depreciation and amortization in the combined statements of operations, amounted to $1,028,025 for the period from January 1, 2005 through October 17, 2005 and $976,864 in 2004.

Impairment of long-lived assets

The carrying amounts of long-lived assets held and used are reviewed for potential impairment whenever events or changes in circumstances indicate that the carrying amount of a particular asset may not be fully recoverable. In such instances, an impairment charge would be recognized if the estimate of the undiscounted future cash flows expected to result from the use of the asset and its eventual disposition is less than the asset's carrying amount. This assessment is made at the individual vessel level since separately identifiable cash flow information for each vessel is available. The amount of an impairment charge, if any, would be determined using discounted cash flows.

Deferred finance charges

Finance charges incurred in the arrangement of debt are deferred and amortized to interest expense on a straight-line basis over the life of the related debt. Deferred finance charges of $1,407,145 and $1,567,141 are included in other assets at December 31, 2006 and 2005, respectively. Amortization of deferred finance charges amounted to $159,996 in 2006, $35,859 for the period from October 18, 2005 to December 31, 2005, $437,922 for the period from January 1, 2005 through October 17, 2005 and $46,052 in 2004.

Revenue and expense recognition

Revenues from time charters and bareboat charters are accounted for as operating leases and are thus recognized ratably over the rental periods of such charters.

Voyage revenues are recognized ratably over the estimated length of each voyage and, therefore, are allocated between reporting periods based on the relative transit time in each period. In accordance with Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements," the Company's predecessor, OSG Crude, did not begin recognizing voyage revenue until a charter had been agreed to by one of the subsidiaries and the customer, even if the vessel has discharged its cargo and is sailing to the anticipated load port on its next voyage.

Under voyage charters, expenses such as fuel, port charges, canal tolls, cargo handling operations and brokerage commissions were paid by OSG Crude whereas, under time and bareboat charters, such voyage costs were paid by OSG Crude's customers. For voyage charters, time charter equivalent revenues represent shipping revenues less voyage expenses. For time and bareboat charters, time charter equivalent revenues represent shipping revenues less brokerage commissions, if applicable, which are included in voyage expenses.

The vessels owned by the Company and OSG Crude operated in either the Tankers International Pool (VLCCs) or the Aframax International Pool (Aframaxes) during the three years ended December 31, 2006. For vessels operating in such pools, revenues and voyage expenses are pooled and allocated to each pool's participants on a time charter equivalent basis in accordance with an agreed-upon formula.

Ship operating expenses include voyage expenses. Vessel expenses include crew costs, vessel stores and supplies, lubricating oils, maintenance and repairs, insurance and communication costs.

As part of the time charters the Company has entered into with subsidiaries of OSG with respect to its seven vessels, the Company has the opportunity to earn additional hire when vessel earnings exceed the basic hire amounts set forth in the charters. Additional hire, if any, is calculated and paid quarterly in arrears and recognized as revenue in the quarter in which it was earned.

On October 18, 2005, the Company entered into a management agreement with Tanker Management Ltd., a subsidiary of OSG, for the technical management of its seven vessels in exchange for a fee that is fixed for the first two years. This management agreement covers, among others, costs related to crewing, maintenance, ordinary repairs, scheduled drydockings, insurance deductibles and other vessel operating expenses, but excluding insurance premiums.

Derivatives

Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Investments and Hedging Activities" ("FAS 133") requires the Company and OSG Crude to recognize all derivatives on the balance sheet at fair value. If the derivative is an effective hedge, a change in the fair value is either offset against the change in fair value of the hedged item or recognized in other comprehensive income until the hedged item is recognized in income. The ineffective portion of effective hedges is immediately recognized in income. Derivatives that are not effective hedges are fully adjusted through income.

The Company and OSG Crude use interest rate swaps to convert interest-bearing debt from floating to fixed rate. The swaps are designated and qualify as a cash flow hedges. The Company and OSG Crude assumes no ineffectiveness since the interest rate swap meets the conditions required under FAS 133 to apply the critical terms method for prepayable debt.

Comprehensive Income

Accumulated other comprehensive income consists entirely of unrealized gains and losses on a derivative instrument.

Common Stock of OSG Crude

Each of the seven subsidiaries included in the predecessor combined carve-out financials statements had authorized capital of 500 common registered shares with no par value. Upon incorporation, each subsidiary issued 100 shares to OSG International, Inc., a wholly-owned subsidiary of OSG, in exchange for investment of $100,000.

Foreign currency

The functional currency of the Company and each of the vessel subsidiaries is the U.S. dollar. Monetary assets and liabilities denominated in other currencies are translated at the year end exchange rates. Foreign currency revenues and expenses are translated at transaction date exchange rates. Exchange gains and losses are included in the determination of net income.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Note B—Accounts payable and accrued expenses:

Accounts payable and accrued expenses consist of the following:

	December 31, 2006 Successor	December 31, 2005 Successor
Interest	$ 2,835,000	$ 2,815,000
Insurance	213,000	491,000
Accounts payable	57,000	83,000
Other	351,000	506,000
	$ 3,456,000	$ 3,895,000

Note C—Debt:

On October 18, 2005, the Company entered into a $401,000,000 secured credit facility with The Royal Bank of Scotland for a term of ten years, with no principal amortization for the first five years. The credit facility consists of a $236,000,000 term loan, a $150,000,000 vessel acquisition facility and a $15,000,000 working capital facility. The Company is the borrower under the credit facility and each of its seven vessel owning subsidiaries have guaranteed its performance thereunder. The facility is secured by, among other things, first priority mortgage on the Company's seven vessels, assignment of earnings and insurances and the Company's rights under the time charters for the vessels and the ship management agreements, and a pledge of the balances in the Company's bank accounts. The credit facility provides that the Company may not pay dividends if the charter-free market value of the Company's vessels that secure the credit facility is less than 135% of the Company's borrowings under the facility plus the actual or notional cost of terminating any interest rate swaps that the Company enters, if there is a continuing default under the credit facility or if the payment of the dividend would result in a default or breach of a loan covenant. Interest is payable quarterly in arrears.

The entire amount available under the $236,000,000 term loan was borrowed upon the completion of the IPO to fund a portion of the purchase price for the seven vessels that the Company acquired from OSG.

Borrowings under the term loan and the working capital facility bear interest at an annual rate of LIBOR plus a margin of 0.70%. Borrowings under the vessel acquisition portion of the credit facility bear interest at an annual rate of LIBOR plus a margin of 0.85%. To reduce the exposure to fluctuations in interest rates, the Company has entered into a five year interest rate swap effective October 18, 2005 pursuant to which the interest rate on the full amount of the Company's $236,000,000 term loan was fixed at 5.6%. The Company is required to pay a commitment fee of 0.3% per annum, which will be payable quarterly in arrears, on the undrawn portion of the facility.

The effective interest rate for debt outstanding at December 31, 2006 and 2005 was 5.6% as a result of a related interest rate swap (see Note E).

The Company will be required to repay the term loan commencing three months after the fifth anniversary of the facility closing date (October 18, 2005) in twenty quarterly installments of $6,062,500 and a final repayment of $114,750,000 occurring simultaneously with the last quarterly repayment. In addition, the vessel acquisition facility will reduce (with any excess borrowing becoming repayable at the time of reduction) quarterly commencing three months after the fifth anniversary of the facility closing date in increments of $7,500,000. The working capital facility will also reduce (with any excess borrowing becoming repayable at the time of reduction) commencing three months after the fifth anniversary of the facility closing date in twenty quarterly installments of $750,000.

As of December 31, 2006 and 2005, all of the net book amount of the Company's seven vessels, is pledged as collateral under the debt agreement.

The carrying amounts of the loans approximate their fair value.

On July 10, 2002, OSG Crude borrowed $100,000,000 according to a secured term loan agreement bearing interest at the London interbank offered rate ("LIBOR") plus a margin of 1%. The loan was guaranteed by OSG and secured by liens on the *Overseas Chris* and *Overseas Ann*. The secured loan agreement also contained financial covenants applicable to the consolidated financial position of OSG. In July 2005, OSG Crude repaid the outstanding balance, $87,000,000 of the secured term loan, with funds contributed to capital by a wholly-owned subsidiary of OSG. In connection with this transaction, the related floating-to-fixed interest rate swap was terminated. Accordingly, OSG Crude recognized a loss of approximately $1,471,000 related to such swap termination.

Note D—Loans payable to wholly-owned subsidiary of OSG:

The loans payable to a wholly-owned subsidiary of OSG consisted of amounts due under a floating rate revolving credit facility. Such facility provided for borrowings of up to $450,000,000. Borrowings bore interest based on the short-term Applicable Federal Rate published quarterly by the Internal Revenue Service of the United States. Interest was compounded quarterly.

During the second quarter of 2005, the wholly-owned subsidiary of OSG made a capital contribution to OSG Crude, reducing loans payable to the wholly-owned subsidiary to zero.

Note E—Derivatives:

As of December 31, 2006, the Company is party to a floating-to-fixed interest rate swap that is being accounted for as a cash flow hedge with a notional amount of $236,000,000 pursuant to which the Company pays a fixed rate of 5.6% and receives a floating rate based on LIBOR. The swap expires on October 18, 2010. As of December 31, 2006, the Company has recorded an asset of $1,711,937 in gain/(loss) on interest rate swap relating to the fair value of the swap. This unrealized gain has been recorded to accumulated other comprehensive income/(loss). The fair value of interest rate swaps is the estimated amount that the Company would receive or pay to terminate the agreement at the reporting date.

OSG Crude was a party to a floating-to-fixed interest rate swap that was being accounted for as a cash flow hedge with a notional amount of $87,000,000 pursuant to which it paid a fixed rate of 4.58% and received a floating rate based on LIBOR.

Note F—Accumulated other comprehensive income/(loss):

The components of accumulated unrealized loss on derivative instruments follow:

		2005		
	Year ended December 31, 2006 Successor	October 18 to December 31 Successor	January 1 to October 17 Predecessor	Year ended December 31, 2004 Predecessor
Reclassification adjustments for interest expense included in net income/(loss)	$ —	$ —	$ —	$ 2,895,492
(Increase) / decrease in unrealized loss on derivative instruments:	2,519,000	(806,778)	1,300,480	(2,391,849)
	$ 2,519,000	$ (806,778)	$ 1,300,480	$ 503,643

The components of accumulated other comprehensive income (loss) in the consolidated balance sheet follow:

	December 31,	
	2006 Successor	2005 Successor
Unrealized gain / (loss) on derivative instruments	$ 1,711,937	$ (806,778)
	$ 1,711,937	$ (806,778)

Note G—Taxes:

No income taxes have been provided herein because the Company and the predecessor company, OSG Crude, comprise foreign corporations that would not be subject to United States federal income taxes. Further, neither the Company nor OSG Crude is subject to income taxes imposed by the Marshall Islands, the country in which they are incorporated.

Note H—Stock Compensation:

In connection with the IPO, the Company awarded a total of 6,250 shares of restricted common stock to its CEO and CFO. These shares are non-transferable until they vest, which occurs ratably over a four-year period. The aggregate fair market value of the shares on the grant date, $75,000, is being amortized to compensation expense over the vesting period of four years, using the straight-line method. In addition, also in connection with the IPO, the Company awarded its CEO and CFO stock options to purchase a total of 69,448 shares of common stock at an exercise price of $12.00 per share. These stock options vest ratably over a three-year period and expire ten years from the date of grant. The Company follows Financial Accounting Standards Board Statement No. 123 (R), "Share-Based Payment" and related Interpretations in accounting for its stock-based compensation. The fair value of the options granted were estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 4.69%, dividend yield of 10.42%, expected stock price volatility of 0.31 and expected life of 6 years. The aggregate fair market value of the stock options on the grant date, $75,000, is being amortized to compensation expense over the vesting period of three years, using the straight-line method.

The Company awarded 3,000 shares of restricted common stock to its directors on May 10, 2006. These restricted shares vested on October 18, 2006. At the date of the award, the fair market value of the Company's common stock was $12.79 per share. The aggregate fair market value of the shares on the grant date is being amortized to expense over five months, using the straight-line method.

The Company awarded a total of 24,397 shares of restricted common stock to its CEO and CFO on November 8, 2006, of which 6,250 shares vest in three equal amounts in May 2007, May 2008 and May 2009 subject to continued employment and 18,147 shares vest in three equal amounts in May 2007, May 2008 and May 2009 subject to certain market conditions. At the date of the award, the fair market value of the Company's common stock was $13.785 per share. The aggregate fair market value of the shares on the grant date is being amortized to expense from November 2006 to May 2009.

The Company awarded a total of 10,842 shares of restricted common stock to its directors on November 8, 2006, of which 3,000 shares vest in three equal amounts in May 2007, May 2008 and May 2009 subject to continued office and 7,842 shares vest in three equal amounts in May 2007, May 2008 and May 2009 subject to certain market conditions. At the date of the award, the fair market value of the Company's common stock was $13.785 per share. The aggregate fair market value of the shares on the grant date is being amortized to expense from November 2006 to May 2009.

Total stock-based compensation expense was $122,561 in 2006 and $5,136 for the period from October 18, 2005 to December 31, 2005.

Note I—Charters-out:

The future minimum revenues expected to be received on the time charters for the Company's seven vessels and the related revenue days (revenue days represent calendar days, less days that vessels are not available for employment due to repairs or drydock) are as follows:

	Amount	Revenue Days
2007	71,276,500	2,511
2008	73,090,200	2,562
2009	73,146,000	2,555
2010	70,830,200	2,407
2011	43,434,000	1,328
Thereafter	4,610,100	127
Net minimum charter payments	$ 336,387,000	11,490

Future minimum revenues do not include any additional hire from the profit sharing component of the charter agreements. Revenues from a time charter are not received when a vessel is off-hire, including time required for normal periodic maintenance of the vessel. In arriving at the minimum future charter revenues, an estimated time off-hire to perform periodic maintenance on each vessel has been deducted, although there is no assurance that such estimate will be reflective of the actual off-hire in the future.

Note J—Subsequent event:

In February 2007, the Company declared a dividend of $13,204,070 or $0.44 per share, that was paid on March 6, 2007 to stockholders of record as of February 22, 2007.