

## FINANCIAL STATEMENTS

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## **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, 2007 and 2006 and the related consolidated statements of operations, cash flows, and changes in stockholders' equity for the years ended December 31, 2007, 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. An audit 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, 2007 and 2006, and the consolidated results of their operations and their cash flows for the year ended December 31, 2007, 2006 and the period October 18, 2005 (commencement of operations) to December 31, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Double Hull Tankers Inc.'s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 10, 2008, expressed an unqualified opinion thereon.

New York, New York  
March 10, 2008

/s/ ERNST & YOUNG LLP

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

We have audited Double Hull Tankers, Inc.'s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Double Hull Tankers, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Double Hull Tankers, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Double Hull Tankers, Inc. and subsidiaries as of December 31, 2007 and 2006 and the related consolidated statements of operations, cash flows, and changes in stockholder's equity for the years ended December 31, 2007 and 2006 and the period October 18, 2005 (commencement of operations) to December 31, 2005 and our report dated March 10, 2008 expressed an unqualified opinion thereon.

New York, New York  
March 10, 2008

/s/ ERNST & YOUNG LLP

## **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. 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 audit 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, in conformity with U.S. generally accepted accounting principles.

New York, New York  
March 31, 2006

/s/ ERNST & YOUNG LLP

**Double Hull Tankers, Inc.**  
**Consolidated Balance Sheets**  
**as of December 31, 2007 and 2006**

	December 31, 2007	December 31, 2006
(Dollars in thousands, except per share amounts)		
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 10,365	\$ 17,680
Voyage receivables from OSG	1,547	4,009
Unrealized gain on interest rate swap	—	1,712
Prepaid expenses	318	331
Prepaid technical management fee to OSG	1,357	1,324
	13,587	25,056
<b>Total current assets</b>	<b>13,587</b>	<b>25,056</b>
Vessels, net of accumulated depreciation	398,005	322,577
Other assets including deferred debt issuance cost	1,337	1,407
Deposits for vessel acquisition	9,145	—
Deferred Equity Offering Cost	134	—
	422,208	349,040
<b>Total assets</b>	<b>\$ 422,208</b>	<b>\$ 349,040</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 4,409	\$ 3,456
Unrealized loss on interest rate swap	10,218	—
Deferred shipping revenues	7,006	6,169
Current installment of long-term debt	75,000	—
	96,633	9,625
<b>Total current liabilities</b>	<b>96,633</b>	<b>9,625</b>
<b>Long term liabilities</b>		
Long term debt	253,700	236,000
<b>Stockholders' equity</b>		
Preferred stock (\$0.01 par value, 1,000,000 shares authorized, none issued or	—	—
Common stock (\$0.01 par value, 100,000,000 authorized, 30,030,811 and 30,009,250	300	300
shares issued and outstanding, respectively;		
Paid-in additional capital	108,760	108,395
Retained earnings/(deficit)	(26,967)	(6,992)
Accumulated other comprehensive income/(loss)	(10,218)	1,712
	71,875	103,415
<b>Total stockholders' equity</b>	<b>71,875</b>	<b>103,415</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 422,208</b>	<b>\$ 349,040</b>

See notes to accompanying financial statements.

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

	2005			
	Year ended December 31, 2007	Year ended December 31, 2006	Successor October 18 to December 31	Predecessor January 1 to October 17
(Dollars in thousands except share and per share amounts)				
Shipping revenues	\$ 81,427	\$ 86,793	\$ 20,173	\$ 84,134
<b>Ship Operating Expenses:</b>				
Voyage expenses	—	—	—	772
Vessel expenses	19,423	18,690	3,675	14,433
Depreciation and amortization	17,271	16,915	3,478	14,462
General and administrative (Prior to October 18, 2005: allocated from Overseas Shipholding Group, Inc.)	3,775	2,389	746	5,759
<b>Total Ship Operating Expenses</b>	<b>40,469</b>	<b>37,994</b>	<b>7,899</b>	<b>35,426</b>
Income from Vessel Operations	40,958	48,799	12,274	48,708
<b>Other Income/(Expense)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(1,471)</b>
Interest Expense to a Wholly-owned Subsidiary of OSG	—	—	—	(574)
Interest Income	962	908	67	—
Interest Expense and Amortization of Deferred Debt Issuance Costs	(14,457)	(13,957)	(2,872)	(3,022)
<b>Income before Income Taxes</b>	<b>27,463</b>	<b>35,750</b>	<b>9,469</b>	<b>43,641</b>
Provision for Income Taxes	—	—	—	—
<b>Net Income</b>	<b>\$ 27,463</b>	<b>\$ 35,750</b>	<b>\$ 9,469</b>	<b>\$ 43,641</b>
Basic Net Income per Share	\$ 0.91	\$ 1.19	\$ 0.32	\$ 62,344.28
Diluted Net Income per Share	\$ 0.91	\$ 1.19	\$ 0.32	\$ 62,344.28
Shares Used in Computing Basic Net Income per Share	30,024,407	30,007,000	30,006,250	700
Shares Used in Computing Diluted Net Income per Share	30,036,523	30,016,352	30,008,190	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		Paid-in Additional Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
	Shares	Amount				
(Dollars in thousands except shares)						
Balance at December 31, 2004	700	700	—	125,398	(1,300 )	124,798
Net Income attributable to predecessor stockholders				43,641	—	43,641
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 Oct. 18 to	—	—	—	9,469	—	9,469
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	—	—	—	—	—	—
Cash dividends declared and paid	—	—	—	(52,211)	—	(52,211)
Compensation related to options and restricted stock	—	—	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

Balance at December 31, 2006	30,009,250	\$	300	\$	108,395	\$	(6,992)	\$	1,712	\$	103,415
Net Income	—		—		—		27,463		—		27,463
Other Comprehensive Income, effect of derivative											
Instruments	—		—		—		—		(11,930)		(11,930)
Other Comprehensive Income	—		—		—		—		—		15,533
Cash dividends declared and paid	—		—		—		(47,438)		—		(47,438)
Compensation related to options and restricted stock	—		—		365		—		—		365
Issuance of restricted stock awards	21,561		—		—		—		—		—
Balance at December 31, 2006	30,030,811	\$	300	\$	108,760	\$	(26,967)	\$	(10,218)	\$	71,875

See notes to accompanying financial statements.

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

	2005			
	Year ended December 31, 2007	Year ended December 31, 2006	October 18 to December 31 Successor	January 1 to October 17 Predecessor
<b>Cash Flows from Operating Activities:</b>				
Net income	\$ 27,463	\$ 35,750	\$ 9,469	\$ 43,641
Items included in net income not affecting cash flows:				
Depreciation	17,272	16,914	3,478	14,462
Amortization, including deferred finance charges	165	160	36	438
Deferred compensation related to options and restricted stock granted	365	123	—	—
Expenditures of drydocking	—	—	—	(171)
Changes in operating assets and liabilities:				
Receivables	2,462	1,497	(5,506)	25,710
Prepaid expenses	(20)	(50)	(1,605)	897
Other assets	—	—	—	(17)
Accounts payable, accrued expenses and deferred revenue	1,790	(396)	10,021	(1,921)
Deferred Offering Costs	(134)	—	—	—
Net cash provided by operating activities	<u>49,363</u>	<u>53,998</u>	<u>15,893</u>	<u>83,039</u>
<b>Cash Flows from Investing Activities:</b>				
Expenditures for vessels	(92,700)	—	(412,580)	(830)
Increase in vessel acquisition deposit	(9,145)	—	—	—
Net cash (used in) investing activities	<u>(101,845)</u>	<u>—</u>	<u>(412,580)</u>	<u>(830)</u>
<b>Cash Flows from Financing Activities:</b>				
Issuance of common stock	—	—	178,180	—
Issuance of long-term debt, net of issuance costs	92,605	—	234,400	—
Cash dividends paid	(47,438)	(52,211)	—	—
Repayment of loan from OSG	—	—	—	(55,931)
Transfer of balances	—	—	—	63,322
Repayment of long-term debt	—	—	—	(89,600)
Net cash provided by/(used in) financing activities	<u>45,167</u>	<u>(52,211)</u>	<u>412,580</u>	<u>(82,209)</u>
Net increase (decrease) in cash and cash equivalents	(7,315)	1,787	15,893	—
Cash and cash equivalents at beginning of period	17,680	15,893	—	—
Cash and cash equivalents at end of period	<u>\$ 10,285</u>	<u>\$ 17,680</u>	<u>\$ 15,893</u>	<u>\$ —</u>
Interest Paid	<u>\$ 13,7</u>	<u>\$ 13,686</u>	<u>\$ —</u>	<u>\$ 3,022</u>

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 the 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, comprising our initial fleet, consisting of three very large crude carriers, or VLCCs, and four Aframax vessels (collectively, the “Initial Vessels”) from subsidiaries of OSG in exchange for cash and shares of its common stock. The Company chartered the Initial Vessels back to subsidiaries of OSG. The aggregate purchase price for the Initial 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 Initial Vessels, or \$237.6 million, as a deemed dividend to OSG.

During the first half of 2007 wholly owned subsidiaries of OSG sold all of their shares of the Company’s common stock. The Company did not receive any proceeds from the sale of the shares.

On December 4, 2007, the Company acquired a Suezmax tanker, the *Overseas Newcastle*, for \$92.7 million. This vessel is chartered back to OSG. This vessel and the Initial Vessels are collectively referred to as the “Vessels.”

The Company has placed a deposit of \$9.1 million towards the acquisition of the *Overseas London* for a total purchase price of \$90.3 million (see Note K).

The Vessels are owned by eight 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-owning subsidiaries included in these consolidated financial statements:

Company	Vessel name	Dwt	Flag State	Year Built
Chris Tanker Corporation	<i>Overseas Chris</i>	309,285	Marshall Islands	2001
Ann Tanker Corporation	<i>Overseas Ann</i>	309,327	Marshall Islands	2001
Regal Unity Tanker Corporation	<i>Overseas Regal</i>	309,966	Marshall Islands	1997
Newcastle Tanker Corporation	<i>Overseas Newcastle</i>	164,626	Marshall Islands	2001
Cathy Tanker Corporation	<i>Overseas Cathy</i>	112,028	Marshall Islands	2004
Sophie Tanker Corporation	<i>Overseas Sophie</i>	112,045	Marshall Islands	2003
Ania Aframax Corporation	<i>Overseas Ania</i>	94,848	Marshall Islands	1994
Rebecca Tanker Corporation	<i>Overseas Rebecca</i>	94,873	Marshall Islands	1994

Effective October 18, 2005, the Company chartered the Initial Vessels to subsidiaries of OSG for initial 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 Initial Vessel earnings exceed the basic hire amounts set forth in the charters. The Initial 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 for the Initial Vessels 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 Initial 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 length of the additional period chosen) for the Initial 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 Initial Vessels in exchange for a fee that was fixed for the first two years of each agreement and the Company had the right to terminate each agreement upon 90 days' prior written notice to OSG and OSG had the right to terminate each agreement upon 90 days' prior written notice following October 18, 2007. On May 11, 2007, the Company and OSG reached an agreement whereby the Company and OSG each deferred its right to terminate each Agreement upon 90 days' prior written notice until after October 18, 2008. The basic hire rate for each of the Initial Vessels and the technical management fee are payable monthly in advance.

Effective December 4, 2007, the Company bareboat chartered the *Overseas Newcastle* to OSG for a term of seven years. The basic bareboat charter rate is \$26,300 per day for the first three years of the charter term, and is reduced to \$25,300 per day for the last four years of the charter term. In addition to the bareboat charter rate, the Company will, through the profit sharing element of the charter agreement, earn 33% of the vessel's earnings above the time charter equivalent rate of \$35,000 per day for the first three years of the charter term and above \$34,000 per day for the last four years of the charter term, calculated on a four quarter rolling average. At the end of the seven year bareboat charter term, OSG has the right to acquire the vessel for \$77 million.

#### **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 the seven Initial Vessels 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 Double Hull Tankers, Inc. on October 18, 2005.

The Double Hull Tankers, Inc. 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 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 \$10.4 million as of December 31, 2007 are pledged as described in Note D 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 Initial Vessels at their historical cost to OSG Crude. The Initial Vessels are being depreciated over periods ranging from 14 to 23 years, which represent the Initial Vessels' remaining life at the date of acquisition from OSG Crude. For the periods through October 17, 2005, the Initial 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. The *Overseas Newcastle* is being depreciated over a period of 18 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 \$147,881,505 and \$130,610,280 at December 31, 2007 and 2006, respectively.

#### *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 Initial 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.

#### *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 \$1,337,277 and \$1,407,145 are included in other assets at December 31, 2007 and 2006, respectively. Amortization of deferred finance charges amounted to \$164,868 in 2007, \$159,996 in 2006, \$35,859 for the period from October 18, 2005 to December 31, 2005 and \$437,922 for the period from January 1, 2005 through October 17, 2005.

### *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," our 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 Initial Vessels were owned by the Company and operated by OSG Crude in either the Tankers International Pool (VLCCs) or the Aframax International Pool (Aframaxes) during the three years ended December 31, 2007. 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 and bareboat charter the Company has entered into with subsidiaries of OSG with respect to its 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 ship management agreements with Tanker Management Ltd., a subsidiary of OSG, for the technical management of its seven Initial Vessels in exchange for a fee that was fixed for the first two years of the agreement and the Company had the right to terminate each agreement upon 90 days' prior written notice to OSG and OSG had the right to terminate each agreement upon 90 days' prior written notice following October 18, 2007. On May 11, 2007, the Company and OSG reached an agreement whereby the Company and OSG each deferred its right to terminate each agreement until after October 18, 2008 upon 90 days' prior written notice. As part of the ship management agreements, OSG is responsible for drydocking costs.

### *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 cash flow hedges. The Company and OSG Crude assumes no ineffectiveness since the interest rate swaps meet 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 derivative instruments.

### *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-owning 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—Earnings per common share:**

The computation of basic earnings per share is based on the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share assumes the exercise of all dilutive stock options and restricted shares using the treasury stock method. The components of the calculation of basic earnings per share and diluted earnings per share are as follows:

<b>(Dollars in thousands except shares for the period ended December 31,</b>	<b>2007</b>	<b>2006</b>	<b>October 18 to December 31, 2005 Successor</b>
Net income	\$ 27,463	\$ 35,750	\$ 9,469
Common shares outstanding, basic:			
Weighted average shares outstanding, basic	30,024,407	30,007,000	30,006,250
Common shares outstanding, diluted:			
Weighted average shares outstanding, basic	30,024,407	30,007,000	30,006,250
Dilutive equity awards	12,116	9,352	1,940
Weighted average shares outstanding, diluted	30,036,523	30,016,352	30,008,190

**Note C—Accounts payable and accrued expenses:**

Accounts payable and accrued expenses consist of the following:

	December 31,	
	2007	2006
Interest	\$ 3,137,000	\$ 2,835,000
Insurance	268,000	213,000
Accounts payable	55,000	57,000
Other	949,000	351,000
	<u>\$ 4,409,000</u>	<u>\$ 3,456,000</u>

**Note D—Debt:**

On October 18, 2005, the Company entered into a \$401 million secured credit facility with The Royal Bank of Scotland (“RBS”) for a term of ten years, with no principal amortization for the first five years. The credit facility consisted of a \$236 million term loan, a \$150 million vessel acquisition facility and a \$15 million working capital facility. The Company is the borrower under the credit facility and each of its Vessel-owning subsidiaries has guaranteed its performance thereunder. The facility is secured by, among other things, first priority mortgages on the Company’s Vessels, assignments of earnings and insurances and the Company’s rights under the 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 million term loan was borrowed upon the completion of the IPO to fund a portion of the purchase price for the Initial Vessels that we acquired from OSG. On November 29, 2007, we amended our secured credit facility to increase the total commitment thereunder by \$19 million to \$420 million. Under the terms of our amended secured credit facility, our previous \$15 million working capital facility and \$150 million vessel acquisition facility were canceled and replaced with a new \$184 million vessel acquisition facility, which we used to fund the entire purchase price of our two Suezmaxes, the *Overseas Newcastle* and the *Overseas London*. Following the increase, the credit facility is repayable with one installment of \$75 million no later than December 31, 2008, and commencing on January 18, 2011 the credit facility is repayable with 27 quarterly installments of \$9,075,000. A final payment of \$99,975,000 will be payable with the last quarterly installment.

Borrowings under the initial \$236 million term loan bears interest at an annual rate of the London interbank offered rate (“LIBOR”) plus a margin of 0.70%. Borrowings under the vessel acquisition facility and working capital facility bear interest at an annual rate of LIBOR plus a margin of 0.85%. To reduce our exposure to fluctuations in interest rates, we entered an interest rate swap on October 18, 2005, pursuant to which we fixed the interest rate for five years on the full amount of our \$236 million term loan at 5.60%. On October 16, 2007, we entered into a floating-to-fixed interest rate swap with a notional amount of \$100,000,000 (of which \$92.7 million was effective as of December 31, 2007) pursuant to which the Company pays a fixed rate of 5.95% and receives a floating rate based on LIBOR. The swap expires on January 18, 2013. This swap was entered into to fix the interest on the borrowings to fund the acquisition of the *Overseas Newcastle* and the *Overseas London* (see Note F).

We were required to pay a \$1.5 million fee in connection with the arrangement of our credit facility in October 2005 and a commitment fee of 0.3% per annum, payable quarterly in arrears, on the undrawn

portion of the facility. We were required to pay an arrangement fee of \$95,000 in October 2007 in connection with the increase in our credit facility from \$401 million to \$420 million.

The effective interest rate for debt outstanding at December 31, 2007 and 2006 was 5.7% and 5.6%, respectively as a result of related interest rate swaps (see Note F).

As of December 31, 2007 and 2006, all of the net book amount of the Company's 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 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 E—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 F—Derivatives:**

As of December 31, 2007, the Company is party to two floating-to-fixed interest rate swaps that are being accounted for as cash flow hedges with notional amounts of \$236,000,000 and \$100,000,000 (of which \$92.7 million was effective as of December 31, 2007), respectively, pursuant to which the Company pays a fixed rate of 5.6% and 5.95%, respectively and receives a floating rate based on LIBOR. The swaps expire on October 18, 2010 and January 18, 2013, respectively. As of December 31, 2007, the Company has recorded a liability of \$10,218,056 in gain/(loss) on interest rate swap relating to the fair value of the swaps. This unrealized loss 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 G—Accumulated other comprehensive income/(loss):**

All of other comprehensive income (loss) for the periods relates to changes in the fair value of interest rate swaps. At December 31, 2007 and 2006 accumulated comprehensive income consisted of the unrealized gains and losses on interest rate swaps.

**Note H—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 I—Stock Compensation:**

In connection with the IPO, the Company awarded a total of 6,250 shares of restricted common stock to its officers. 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 officers stock options to purchase a total of 69,446 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.

On February 19, 2007, the officers exercised 23,150 options in a "cash-less" exercise and 4,704 shares were issued and on October 23, 2007, the officers exercised 23,148 options in a "cash-less" exercise and 4,380 shares were issued.

The Company awarded a total of 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 was 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 officers 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.

The Company awarded a total of 30,407 shares of restricted common stock to its officers on May 9, 2007, of which 8,989 shares vest in three equal amounts in May 2008, May 2009 and May 2010 subject to continued employment and 21,418 shares vest in three equal amounts in May 2008, May 2009 and May 2010 subject to certain market conditions. At the date of the award, the fair market value of the Company's common stock was \$16.10 per share. The aggregate fair market value of the shares on the grant date is being amortized to expense from May 2007 to May 2010.

The Company awarded a total of 9,861 shares of restricted common stock to its directors on May 9, 2007, of which 3,000 shares vest in three equal amounts in May 2008, May 2009 and May 2010 subject to continued office and 6,861 shares vest in three equal amounts in May 2008, May 2009 and May 2010 subject to certain market conditions. At the date of the award, the fair market value of the Company's common stock was \$16.10 per share. The aggregate fair market value of the shares on the grant date is being amortized to expense from May 2007 to May 2010.

Activity with respect to restricted common stock is summarized as follows:

Nonvested Shares Outstanding at October 18, 2005

6,250

Granted	—
Vested	—
<u>Forfeited</u>	—
Nonvested Shares Outstanding at December 31, 2005	6,250
Granted	38,239
Vested	(4,564)
<u>Forfeited</u>	—
Nonvested Shares Outstanding at December 31, 2006	39,925
Granted	40,268
Vested	(13,308)
<u>Forfeited</u>	—
<u>Nonvested Shares Outstanding at December 31, 2007<sup>(1)</sup></u>	<u>66,885</u>

<sup>(1)</sup> 49,796 shares relate to the officers of the Company and 17,089 shares relate to the board of directors.

Activity with respect to stock options is summarized as follows:

Options Outstanding at October 18, 2005	69,446
Granted	—
Exercised	—
<u>Forfeited</u>	—
Options Outstanding at December 31, 2005	69,446
Granted	—
Exercised	—
<u>Forfeited</u>	—
Options Outstanding at December 31, 2006	69,446
Granted	—
Exercised	(46,298)
<u>Forfeited</u>	—
<u>Nonvested Options Outstanding at December 31, 2007</u>	<u>23,148</u>

Total stock-based compensation expense was \$365,536 in 2007 and \$122,561 in 2006.

#### **Note J—Charters-out:**

The future minimum revenues expected to be received on the time charters and bareboat charters for the Company's eight 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:

	<u>Amount</u>	<u>Revenue Days</u>
2008	82,716,000	2,928
2009	82,745,500	2,920
2010	80,429,700	2,772
2011	52,668,500	1,693
2012	13,869,900	493
Thereafter	17,785,900	703
Net minimum charter payments	<u>\$ 330,215,500</u>	<u>11,509</u>

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. The above also does not include the bareboat charter revenue for the *Overseas London* which was delivered on January 28, 2008.

**Note K—Subsequent events:**

On January 28, 2008, the Company acquired the Suezmax tanker, *Overseas London* for \$90.3 million. On the same day the vessel entered a ten year bareboat charter to OSG at a rate of \$26,600 per day throughout the period. OSG has the right to acquire the vessel at the end of the eighth, ninth and tenth year of the charter term, respectively, at a price of \$71 million, \$67 million and \$60 million, respectively. If OSG elects to exercise its purchase option, the Company will, in addition to the purchase option price, receive an amount equal to 40% of the difference between the market price of the vessel at the time the purchase option is exercised and the purchase option price. The acquisition was funded by the credit facility provided by RBS which RBS agreed to increase by \$19 million to \$420 million to accommodate the acquisition of this vessel. Following the increase, the credit facility is repayable with one installment of \$75 million no later than December 31, 2008, and commencing on January 18, 2011 the credit facility is repayable with 27 quarterly installments of \$9,075,000. A final payment of \$99,975,000 will be payable with the last quarterly installment.

On February 7, 2008, the Company declared a dividend of \$10,510,783 or \$0.35 per share payable on March 11, 2008 to stockholders of record as of February 26, 2008.