ELETSON HOLDINGS INC.

ANNUAL REPORT 2017

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RISK FACTORS

i) Risks Relating to Our Industry

Global economic instability has negatively impacted, and may continue to negatively impact, the tanker industry and our business.

Global economic downturn that commenced in previous years led to a significant adverse shift in the business facing tight credit, weak demand for goods and services, deteriorating international liquidity conditions and declining markets. While the global economy has since improved, any future decline may create downward pressure on charter rates. If the global economy worsens, we may be, or may continue to be, negatively affected in the following ways:

- we may not be able to employ our vessels at charter rates as favourable to us as historical rates or operate our vessels profitably;
- the market value of our vessels could decrease significantly, which may cause us to recognise losses if any of our vessels are sold or if their values are impaired. In addition, such a decline in the market value of our vessels could prevent us from borrowing under our credit facilities or trigger a default under their covenants; and
- charterers could seek to renegotiate the terms of their charters with us or have difficulty meeting their payment obligations to us.

Further disruptions in world financial markets and the resulting governmental action in Europe, the United States and in other parts of the world could have a material adverse impact on our ability to obtain financing required to acquire vessels or new businesses. Furthermore, such a disruption would adversely affect our results of operations, financial condition and cash flows.

Global financial markets and economic conditions have been disrupted and volatile in recent years and remain subject to significant vulnerabilities, such as the deterioration of fiscal balances and the rapid accumulation of public debt, continued deleveraging in the banking sector and a limited supply of credit. While the global economy may be improving, it remains subject to downside risk. There can be no assurance that global economic weakness or a recession will not return and that tight credit markets will not continue or become more severe.

In addition, the process of the UK to exit the European Union, as well as continued turmoil and hostilities in the Middle East or potential hostilities elsewhere in the world, could contribute to volatility in the global financial markets. These circumstances, along with the re-pricing of credit risk and the reduced participation of certain financial institutions from financing of the shipping industry, will likely continue to affect the availability, cost and terms of vessel financing. If financing is not available to us when it is needed, or is available only on unfavorable terms, our business may be adversely affected, with corresponding effects on our profitability, cash flows and ability to pay dividends.

Moreover, as a result of the continuing economic crisis in Greece and the related austerity measures implemented by the Greek government, as well as the capital controls in effect in Greece since mid-2015, our operations may be subjected to new regulations that may require us to incur new or additional compliance or other administrative costs and may require that we pay to the Greek government new taxes or other fees or that dividends we pay be subject to withholding taxes. Furthermore, the commitments by the Greek government to the nations' creditors and potential shift in its policies may potentially lead to Greece's exit from the Eurozone, if not satisfied, which could affect our technical and commercial managers' operations located in Greece.

The implementation by the U.S. or other governments of protectionist trade measures, including tariffs or other trade restrictions, could also adversely affect the world oil and petroleum markets.

The cyclical nature of the tanker industry has led and may continue to lead to volatility in charter rates and vessel values which may adversely affect our business, cash flow and financial condition.

Historically, the overall tanker business has been highly cyclical, with attendant volatility in charter rates, profitability and asset values resulting from changes in the supply and demand for vessel capacity. Our ability to employ vessels profitably will depend upon, among other things, economic conditions in the tanker market. Our available cash flow has decreased in the past during periods when the tanker market has been depressed, and if the tanker market is depressed in the future, our available cash flow could decrease again.

A continuous decline in demand and/or increase in supply of tanker capacity could also cause declines in charter rates which could further adversely affect our business, cash flow and financial condition.

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. Ongoing global economic instability has intensified this unpredictability.

The factors that influence demand for tanker capacity include:

- demand for and supply of refined petroleum products and liquefied gas, including LPG and ammonia (NH3) and other petrochemicals, including ethylene;
- global and regional economic conditions;
- increases and decreases in industrial production;
- political changes and armed conflicts;
- developments in international trade;
- changes in seaborne and other transportation patterns;
- regional availability of refining capacity; and
- the distance refined petroleum products, LPG and ammonia (NH3), are to be moved by sea.

The factors that influence the supply of tanker capacity include:

- the number of new vessels built;
- the scrapping of older vessels;
- the efficiency of the world fleet; and
- government and industry regulation of maritime transportation and environmental practices.

A decline in demand for refined petroleum products or LPG, ammonia (NH3), ethylene and other petrochemical gases or a shift in refined petroleum products or LPG, ammonia (NH3), ethylene and other petrochemical gas transport patterns, could materially and adversely affect our business, results of operations and financial condition.

The demand for tanker capacity to transport refined petroleum products or LPG, ammonia (NH3), ethylene and other petrochemical gases depends upon world and regional markets for these products. A number of factors influence these markets, including:

- global and regional economic conditions;
- changes in or reduced energy needs;
- increases and decreases in production of and demand for refined petroleum products, LPG, ammonia (NH3), ethylene and other petrochemical gases;
- developments in international trade;
- changes in seaborne and other transportation patterns;
- environmental concerns and regulations; and
- weather.

Historically, the refined petroleum products and the LPG sector have been volatile as a result of the many conditions and events that can affect the price, demand, production and transport of refined petroleum products, LPG, ammonia (NH3), ethylene and other petrochemical gases, including competition from alternative energy sources and alternative products. Decreased demand for refined petroleum products, LPG and petrochemical gas transportation may have a material adverse effect on our business, results of operations and financial condition.

Spot market rates for product tanker and LPG vessels are highly volatile and while recently having improved, may further decrease in the future, which may adversely affect our earnings in the event that our vessels are chartered-in the spot market.

We expect to deploy the majority of our product tankers and some of our LPG/LEG carriers in the spot market. Although spot chartering is common in the product tanker and LPG/LEG carrier sectors, product tanker and LPG/LEG carrier charter hire rates are highly volatile and may fluctuate significantly based upon demand for seaborne transportation of crude oil and oil products and chemicals, as well as tanker supply. World oil demand is influenced by many factors, including international economic activity, geographic changes in oil production, processing, and consumption, oil price levels, inventory policies of the major oil and oil trading companies, and strategic inventory policies of countries. The successful operation of our vessels in the spot charter market depends upon, among other things, obtaining profitable spot charters and minimising, to the extent possible, time spent waiting for charters and time spent traveling unladen to pick up cargo.

Furthermore, as charter rates for spot charters are fixed for single voyages that may last up to several weeks, during periods in which spot charter rates are rising, we will generally experience delays in realising the benefits from such increases.

Compliance with safety and other vessel requirements imposed by classification societies may be very costly and may adversely affect our business and results of operations.

The hull and machinery of every commercial tanker must be classed by a classification society authorised by its country of registry. The classification society certifies that a tanker is safe and seaworthy in accordance with the applicable rules and regulations of the country of registry of the tanker and certain national and international regulations on safety, environment and security. Our vessels are certified as being "in-class" by Lloyd's Register, which is a member of the International Association of Classification Societies.

Each vessel must undergo annual surveys, intermediate surveys and special surveys. Every vessel is also required to be drydocked every two to five years for inspection of the underwater parts of such vessel. If a vessel in our fleet does not maintain its class and/or fails any survey or inspection it will be unemployable and unable to trade between ports, which would negatively impact our business and results of operations.

Shipping is an inherently risky business and our insurance may not be adequate.

Our vessels and their cargoes are at risk of being damaged or lost because of events such as marine disasters, bad weather, mechanical failures, human error, war, terrorism, piracy and other circumstances or events. In addition, transporting refined petroleum products, LPG, ammonia (NH3), ethylene and other petrochemical gases creates a risk of business interruptions due to political circumstances in foreign countries, hostilities, labour strikes and boycotts. Any of these events may result in loss of revenues, increased costs and decreased cash flows. Future hostilities or other political instability could affect our trade patterns and adversely affect our business, results of operations and financial condition.

We carry insurance to protect against most of the accident-related risks involved in the conduct of our business. We currently maintain protection and indemnity insurance ("P&I insurance") of approximately $1.0 billion in coverage per occurrence for each of our vessels for liability for spillage, leakage or pollution from oil, refined petroleum products or LPG, ammonia (NH3), ethylene and other petrochemical gases. We also carry insurance covering lost revenue resulting from vessel off-hire for all of our vessels and hull damage insurance. Nonetheless, risks may arise against which we are not adequately insured. For example, in certain circumstances, a catastrophic spill could exceed our insurance coverage and have a material adverse effect on our business, results of operations and financial condition. In addition, we cannot guarantee that any particular claim will be paid, and we may not be able to procure adequate insurance coverage at commercially reasonable rates in the future. 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 obtain a replacement ship in the event of a loss in a timely manner.

Terrorist attacks, increased hostilities or war could lead to further economic instability, increased costs and disruption of our business.

Terrorist incidents, such as the attacks that occurred in the United States on September 11, 2001, and the current conflicts in Syria and Afghanistan and other current and future conflicts could lead to further economic instability, may adversely affect our business, operating results, financial condition, ability to raise capital and future growth. Continuing hostilities in the Middle East may lead to additional armed conflicts or to further acts of terrorism and civil disturbance in the United States, Europe or elsewhere, which may contribute further to economic instability.

In addition, oil, refined petroleum and LPG facilities, shipyards, vessels, pipelines and oil and gas fields could be targets of future terrorist attacks. We conduct our vessel operations internationally and despite undertaking various security measures, our vessels may become subject to terrorist acts and acts of hostility. Any such attacks could lead to, among other things, bodily injury or loss of life, vessel or other property damage, increased vessel operational costs, including insurance costs, and the inability to transport oil and other refined products to or from certain locations. Terrorist attacks, war or other events beyond our control that adversely affect the distribution, production or transportation of oil and other refined products to be shipped by us could entitle our customers to terminate our charter contracts, which would harm our cash flow and our business.

Compliance with safety, environmental and other governmental requirements and related costs may adversely affect our operations.

The shipping business and vessel operation, including our operations, are materially affected by government regulation in the form of international conventions, national, state and local laws and regulations in force in the jurisdictions in which vessels operate, as well as in the country or countries of their registration. Governmental regulations, safety or other equipment standards, as well as compliance with standards imposed by maritime self-regulatory organisations and customer requirements or competition, may require us to make capital and other expenditures. Because such conventions, laws and regulations are often revised, we cannot predict the ultimate cost of complying with such conventions, laws and regulations, or the impact thereof on the fair market price or useful life of our vessels. In addition, violations of applicable environmental and safety regulations can result in substantial penalties and, in certain instances, seizure or detention of our vessels.

Conventions, laws and regulations that may adversely affect our operations include:

- the U.S. Oil Pollution Act of 1990 ("OPA"), which imposes strict liability for the discharge of oil into the 200-mile United States exclusive economic zone, the obligation to obtain certificates of financial responsibility for vessels trading in United States waters and the requirements that newly constructed tankers that trade in United States waters be constructed with double hulls and that the use of single-hulled tankers be phased out;
- the International Convention on Civil Liability for Oil Pollution Damage of 1969 entered into by many countries (other than the United States), which imposes strict liability for pollution damage caused by the discharge of oil;
- the Protocol of 1992 amending the International Convention on Civil Liability for Oil Pollution Damage of 1969, which was entered into by many countries (other than the United States) and imposes strict liability for pollution damage caused by the discharge of oil;
- the International Convention for the Prevention of Pollution from Ships ("MARPOL") adopted and implemented under the auspices of the International Maritime Organisation (the "IMO") with respect to strict technical and operational requirements for tankers, including the phase-out of single-hulled oil tankers;
- European Union regulations, which similarly phase out single-hulled tankers in the case of all tankers flying the flag of a member state or entering or leaving EU ports;
- the IMO International Convention for the Safety of Life at Sea of 1974 ("SOLAS"), which imposes crew and passenger safety requirements;
- the International Ship and Port Facilities Securities Code (the "ISPS Code"), which became effective in 2004;
- the International Convention on Load Lines of 1966, which imposes requirements relating to the safeguarding of life and property through limitations on load capability for vessels on international voyages;
- the U.S. Maritime Transportation Security Act of 2002, which imposes security requirements for tankers entering U.S. ports; and
- the International Code for the Construction and Equipment of Ships Carrying Liquefied Gases in Bulk, which prescribes design and construction standards for ships transporting liquefied gases.

New laws or regulations or changes to existing laws and regulations, including laws or regulations relating to climate change, may also be adopted that could limit our ability to do business or increase the cost of our doing business and that could have a material adverse effect on our operations. For example, further rules may be imposed as a result of past oil spills, including the oil spill in November 2002 relating to the loss of the m/t Prestige, a 26-year old single-hull tanker owned by a company not affiliated with us. In response to the 2010 Deepwater Horizon oil incident in the Gulf of Mexico, the U.S. House of Representatives passed and the U.S. Senate considered but did not pass a bill to strengthen certain requirements of the OPA; similar legislation may be introduced in a future United States Congress.

In addition, we are required by various governmental and quasi-governmental agencies to obtain certain permits, licenses and certificates with respect to our operations. Government prosecutions of vessels for violation of environmental and safety laws are increasing, particularly with respect to ballast and waste water discharges, which could result in fines, penalties and potential restrictions on the operation of our vessels in certain jurisdictions. We believe our vessels are maintained in good condition in compliance with present regulatory requirements, are operated in compliance with applicable safety and environmental laws and regulations and are insured against usual risks for such amounts as our management deems appropriate. Our vessels' operating certificates and licenses are renewed periodically during each vessel's required annual survey. However, government regulation of tankers, particularly in the areas of safety and environmental impact may change in the future and require us to incur significant capital expenditures with respect to our ships to keep them in compliance.

Recent changes in environmental and other governmental requirements may adversely affect our operations.

Our business and the operation of our subsidiaries' vessels are subject to extensive international, national and local environmental and health and safety laws and regulations in the jurisdictions in which our vessels operate, as well as in the country or countries of their registration. In addition, major oil companies chartering our vessels impose, from time to time, their own environmental and health and safety requirements. To comply with these requirements and regulations, including the new MARPOL Annex VI sulfur emission requirements instituting a global 0.5% sulfur cap on marine fuels from January 1, 2020 and the IMO ballast water management ("BWM") convention, which requires vessels to install expensive ballast water treatment systems ("BWTS") before the first MARPOL renewal survey conducted after September 8, 2019, for newly constructed vessels after September 8, 2017 to have a BWTS installed by delivery and for all vessels to be certified in accordance with the BWM convention by September 8, 2024, we may be required to incur additional costs to meet new maintenance and inspection requirements, develop contingency plans for potential spills, and obtain insurance coverage.

These and future environmental regulations, which may become stricter, may limit our ability to do business, increase our operating costs and/or force the early retirement of our vessels, all of which could have a material adverse effect on our financial condition and results of operations.

International, national and local laws imposing liability for oil spills are also becoming increasingly stringent. Some impose joint, several, and in some cases, unlimited liability on owners, operators and charterers regardless of fault. We could be held liable as an owner, operator or charterer under these laws. In addition, under certain circumstances, we could also be held accountable under these laws for the acts or omissions of companies that provide technical and commercial management services for our subsidiaries' vessels and us, or others in the management or operation of our subsidiaries' vessels. Although we currently maintain, and plan to continue to maintain, for each of our subsidiaries' vessels' pollution liability coverage in the amount of $1 billion per incident (the maximum amount available), liability for a catastrophic spill could exceed the insurance coverage we have available and result in our having to liquidate assets to pay claims. In addition, we may be required to contribute to funds established by regulatory authorities for the compensation of oil pollution damage or provide financial assurances for oil spill liability to regulatory authorities.

Our vessels may be requisitioned by governments without adequate compensation.

A government could requisition for title or seize our vessels. In the case of a requisition for title, a government takes control of a vessel and becomes its owner. Also, a government could requisition our vessels for hire. Under a requisition for hire, a government takes control of a vessel and effectively becomes its charterer at dictated charter rates. Generally, requisitions occur during a period of war or emergency. The right of Greece, as the flag state of our vessels, to requisition them is limited under the instruments of approval governing the registration of our vessels under Greek law, which requires the payment of compensation equal at least to that payable for the same purpose by the United States government for a similar vessel flying the flag of the United States, and in the absence of such United States flag requisitioned vessels, compensation equal at least to that payable as per the above principle by the British government to British flag requisitioned vessels. Although we, as owner, would be entitled to compensation in the event of a requisition, the amount and timing of payment would be uncertain and could be materially less than the charter rates that would have been payable otherwise. We have obtained insurance to mitigate this risk in the event of a requisition by the Greek government in connection with a war involving a member of the North Atlantic Treaty Organisation; however, we have not obtained insurance with respect to a requisition under any other circumstances. In addition, we would generally bear all risk of loss or damage to a vessel under requisition for hire and would be carrying out the vessel's management without however interfering with the vessel's use. A requisition might trigger a requirement for the prepayment of our loans associated with the relevant vessel mortgaged under our credit facilities.

Arrests of our vessels by maritime claimants could have a material adverse effect on our cash flows for the related off-hire period.

Crew members, sailors, 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 arising through the vessel, the vessel owner, or in some jurisdictions, a person related to the owner or a "sister ship" of the vessel. In many jurisdictions, a maritime lienholder may enforce its lien by "arresting" or "attaching" a vessel through proceedings begun before any judgment has been obtained, or to enforce a judgment that has been obtained. While the release of arrested vessels is typically obtained promptly by a P&I letter of undertaking or letter of bank guarantee, to the extent that the appropriate court of the place of arrest will not accept such letter of undertaking or bank guarantee, the arrest or attachment of one or more of our vessels, if unstayed, could have a material adverse effect on our cash flows for the related off-hire period.

In addition, in jurisdictions where the "sister ship" theory of liability applies, a claimant may arrest both the vessel which is subject to the claimant's maritime lien and any "associated" vessel, which is any vessel owned or controlled, directly or indirectly, by the same or a common owner. In countries with "sister ship" liability laws, claims might be asserted against us, any of our subsidiaries or our vessels for liabilities of other vessels that we own.

ii) Risks Relating to Our Business and Operations

The market value of our vessels may fluctuate significantly, and we may incur losses when we sell vessels following a decline in their market value.

We believe that the fair market value of our vessels may have declined recently, and may fluctuate depending on a number of factors including:

- general economic and market conditions affecting the shipping industry;
- competition from other shipping companies;
- supply and demand for tankers and the types and sizes of tankers we own;
- alternative modes of transportation;
- cost of newbuildings and the ability of shipyards and shipowners to finance the cost of construction of newbuildings;
- governmental or other regulations;
- prevailing level of charter rates; and
- technological advances.

If the fair market value of our vessels declines below their book value and such decline is other than temporary, we may be required to take an impairment charge or may incur losses if we were to sell one or more of our vessels at such time, which would adversely affect our business, results of operations and financial condition. In addition, such a decline in the market value of our vessels could prevent us from borrowing under our credit facilities or trigger a default under their covenants.

The global tanker industry is highly competitive.

We operate our fleet in a highly competitive market. Our competitors include owners of aframax, panamax, handymax and handysize tankers which are other independent tanker companies, as well as national and independent oil companies, some of which have greater financial strength and capital resources than we do. Competition in the tanker industry is intense and depends on price, location, size, age, condition, and the acceptability of the available tankers and their operators to potential charterers.

The market for refined petroleum products and LPG, ammonia (NH3), ethylene and other petrochemical gases transportation services is highly competitive and we may not be able to effectively compete.

Our vessels are employed in a highly competitive market. Our competitors include the owners of other Handymax, Panamax and Aframax product tankers and LPG/NH3/LEG carriers and oil traders and operators of vessel pools. These groups include independent tanker companies as well as oil companies and traders. In addition, competitors with greater resources and larger fleets could enter the markets in which we operate and offer more competitive prices. We do not have a sufficiently large share of the market to influence the market price charged for refined petroleum products or LPG transportation services. We may not be able to compete profitably as we expand our business into new geographic regions or provide new services.

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.

Fuel prices may adversely affect our profits.

While we do not bear the cost of fuel (bunkers) under time and bareboat charters, fuel is the largest, expense in our shipping operations when vessels are under spot charters. Increases in the price of fuel may, as a result, adversely affect our profitability. The price and supply of fuel is unpredictable and fluctuates based on events outside our control, including geopolitical developments.

The shipping industry has inherent operational risks that may not be adequately covered by our insurance.

We believe that we maintain as much insurance on the vessels in the fleet, through insurance companies, including Argosy, a related party company, and P&I clubs, as is appropriate and consistent with industry practice. While we endeavor to be adequately insured against all known risks related to the operation of our subsidiaries' ships, there remains the possibility that a liability may not be adequately covered and we may not be able to obtain adequate insurance coverage for the fleet in the future. The insurers may also not pay particular claims. Even if our insurance coverage is adequate, we may not be able to obtain a replacement vessel in a timely manner in the event of a loss. Our insurance policies contain deductibles for which we will be responsible and limitations and exclusions which may increase our costs or lower our revenue. In addition, some of our insurance coverage is maintained through mutual protection and indemnity associations, and as a member of such associations we may be required to make additional payments over and above budgeted premiums if member claims make an excessive impact on association reserves.

Failure to protect our information systems against security breaches could adversely affect our business and financial results. Additionally, if these systems fail or become unavailable for any significant period of time, our business could be harmed.

The efficient operation of our business is dependent on computer hardware and software systems. Information systems are vulnerable to security breaches by computer hackers and cyber terrorists. We rely on industry-accepted security measures and technology to securely maintain confidential and proprietary information maintained on our information systems. However, these measures and technology may not adequately prevent cybersecurity breaches, the access, capture or alteration of information by criminals, the exposure or exploitation of potential security vulnerabilities, the installation of malware or ransomware, acts of vandalism, computer viruses, misplaced data or data loss. In addition, the unavailability of the information systems or the failure of these systems to perform as anticipated for any reason could disrupt our business and could result in decreased performance and increased operating costs, causing our business and results of operations to suffer. Any significant interruption or failure of our information systems or any significant breach of security could adversely affect our business and financial results, as well as our cash flows available for distribution to our shareholders.

The loss of any key customer may have a material adverse effect on our business, financial condition and results of operations in a given period.

We have derived, and believe that we will continue to derive, a significant portion of our revenues from a limited number of customers. Our top three customers accounted for 20.8% of our consolidated gross voyage revenues during the year ended December 31, 2017, and our top 10 customers accounted for 57.9% of our consolidated gross voyage revenues during this period. If one or more of our significant customers substantially decreases its requested services, is unable to perform under one or more charters with us and we are not able to find a replacement charter, or if a customer exercises certain rights to terminate the charter, or if a customer is unable to make its charter payments in whole or in part, we could suffer a loss of revenues that could materially adversely affect our business, financial condition and results of operations.

We may not be able to renew our charters, or we may not be able to renew our charters at rates as favourable to us as our current charter rates, which may adversely affect our business and cash flows.

We cannot assure you that we will be able to successfully spot charter our vessels in the future or renew our existing time charters at rates sufficient to allow us to meet our obligations, including servicing our debt. Our ability to renew the charters on our vessels upon the expiration or termination of our current charters, the charter rates payable under any replacement charters and vessel values will depend upon, among other things, economic conditions in the tanker industry at that time, changes in the supply and demand for tanker vessel capacity and changes in the supply and demand for the seaborne transportation of refined petroleum products, LPG, ammonia (NH_3), ethylene and other petrochemical gases. If the tanker industry, which has been highly cyclical, is challenged in the future when our current charters expire or at a time when we may want to sell a vessel, our business and results of operations could be adversely affected. If the global economic environment worsens, it may result in a further weakening of charter rates, which could reduce the charter rates for our vessels not then subject to charters and, thereby, negatively impact our business, results of operations, financial condition and cash flows.

The risks and costs associated with preserving the operations of our older vessels could adversely affect our operations.

We must make substantial capital expenditures over the long term to maintain the operating capacity and expansion of our fleet in order to preserve our capital base. Our drydocking expenditures could vary significantly from quarter to quarter and year to year and could increase as a result of changes in: the location and required repositioning of the vessel, the cost of labour and materials, customer requirements, the size of our fleet, the cost of replacement vessels, length of charters, governmental regulations and maritime self-regulatory organisation standards relating to safety, security or the environment, and competitive standards.

In general, the costs to maintain a vessel in good operating condition increase as the vessel ages. Due to improvements in engine technology, older vessels typically are less fuel-efficient than more recently constructed vessels. As of December 31, 2017, the average age of the 21 product tankers in our fleet was 12.9 years, the average age of the 13 Mortgaged Vessels was 14.5 years and the average age of our 11 LPG/LEG carriers was 5.9 years.

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

Our revenues may be adversely affected if we do not successfully employ our vessels.

We deploy the majority of our vessels on a spot charter basis. The spot charter market is highly competitive and spot charter rates are subject to significant fluctuations based upon tanker tonnage and supply and demand for the products to be transported. In addition, adverse market conditions have heightened price competition and adversely affected charter rates and profitability for the tanker industry in general. Although our focus on the spot charter market may enable us to benefit from strengthening tanker industry conditions should they occur, to do so we must consistently procure spot charters.

Factors affecting the volatility of spot charter and time charter rates include the quantity of oil, LPG, ammonia (NH3), ethylene and other petrochemical gases produced globally, shifts in locations where refined petroleum products, LPG, ammonia (NH3), ethylene and other petrochemical gases are produced or consumed, actions by the Organisation of the Petroleum Exporting Countries, the general level of worldwide economic activity, and demand for energy generated from oil, LPG, ammonia (NH3), ethylene and other petrochemical gases, and the development and use of alternative energy sources. We cannot assure you that future spot market voyage charters or that renewals of time charters will be available at rates that will allow us to operate our vessels profitably.

Our growth depends, in part, on continued growth in demand for LPG transport.

A significant portion of our growth strategy focuses on continued expansion in the LPG shipping sector. Expansion of the LPG shipping sector depends on continued growth in world and regional demand for LPG, ammonia (NH3), ethylene and other petrochemical gas and the supply of these products. Demand for LPG shipping could be negatively affected by a number of factors, such as increases in the production of petrochemical gas in areas linked by pipelines to consuming areas, increases in the price of LPG and ammonia (NH3) relative to other energy sources, the availability of new energy sources, and negative global or regional economic or political conditions. Reduced demand for LPG, ammonia (NH3), ethylene and other petrochemical gas would have a material adverse effect on future growth of our LPG carrier operations. If the LPG, ammonia (NH3), ethylene and other petrochemical gas supply chain is disrupted or does not continue to grow, or if a significant LPG explosion or similar incident occurs, it could have a material adverse effect on our growth and/or our ability to successfully implement our strategy, and could negatively impact our business, results of operations and financial condition.

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

The international tanker industry's functional currency is the U.S. Dollar and, as a result, substantially all of our revenues are in U.S. Dollars. We incur a significant portion of our expenses, particularly crew and maintenance costs, in Euro and, to a lesser extent, other currencies. This difference could lead to fluctuations in net income due to changes in the value of the U.S. Dollar relative to other currencies, in particular the Euro. A decline in the value of the U.S. Dollar could lead to higher expenses payable by us.

We are subject to various anti-corruption and sanctions laws and any determination that we violated these laws could have a material adverse effect on our business.

We are subject to various anti-corruption laws that prohibit improper payments or offers of payments to foreign governments and their officials for the purpose of obtaining or retaining business. We conduct business in certain countries and regions that are less developed and are more susceptible to corruption. Our activities in these countries create the risk of unauthorised payments or offers of payments by one of our employees or agents that could be in violation of various anti-corruption laws including the U.S. Foreign Corrupt Practices Act (the "FCPA"). We have implemented safeguards and policies to discourage these practices by our employees and agents. However, our existing safeguards and any future improvements may prove to be less than effective and our employees or agents may engage in conduct for which we might be held responsible. If employees violate our policies or we fail to maintain adequate record-keeping and internal accounting practices to accurately record our transactions we may be subject to regulatory sanctions. In addition, we are subject to export controls and economic sanctions laws and embargoes imposed by various governments or organisations, including the U.S., European Union or its member countries. Changes in trade sanctions laws may change or restrict our business practices, including cessation of business activities in sanctioned countries or with sanctioned entities, and may result in modifications to compliance programs and increase compliance costs, and may subject us to fines, penalties and other sanctions. Violations of anti-corruption or sanctions laws may result in severe criminal or civil sanctions and penalties, and we may be subject to other liabilities, which could have a material adverse effect on our business, results of operations and financial condition. In addition, actual or alleged violations of anti-corruption or sanction laws could damage our reputation and ability to do business. Furthermore, detecting, investigating, and resolving actual or alleged violations is expensive and can consume significant time and attention of our senior management.

Construction of vessels is subject to risks, including delays and cost overruns, which could have an adverse impact on our available cash resources and results of operations.

The Company, through its unrestricted subsidiary Eletson Gas, as of December 31, 2017, has orders in place for the construction of four Handysize with Hyundai Mipo Dockyard Co Ltd. Also, as of December 31, 2017, the Company, through its restricted group subsidiaries, had orders in place for four 109,000 dwt product tanker vessels with Shanghai Waigaoqiao Shipbuilding Co Ltd. The first newbuilding vessel the m/t Salamina delivered in April 2018. The second newbuilding vessel with Hull No 1424 is expected to be delivered in 2018 and the newbuilding vessles with Hull No 1425 and 1426 are expected to be delivered in early 2019.

In September 2016, the construction of the five in total 22,000 cbm semi-ref LPG/LEG carriers was cancelled due to the bankruptcy of the shipyard Nantong Sinopacific Offshore and Engineering Co Ltd and in September 2016 the company collected the refund guarantee of amount $36.8 million. In July 2017, we collected the remaining refund guarantee from Nantong Sinopacific Offshore and Engineering Co Ltd of amount $10.5 million including interest of which $3.3 million repaid the respective SEB loan facility.

These projects and other efforts of this type are subject to risks of cost overruns or delays inherent in any large construction project as a result of numerous factors, including the following:

- shipyard unavailability;
- shortages of equipment, materials or skilled labor for completion of repairs or upgrades to our equipment;
- unscheduled delays in the delivery of ordered materials and equipment or shipyard construction;
- financial or operating difficulties experienced by equipment vendors or the shipyard;
- unanticipated actual or purported change orders;
- local customs strikes or related work slowdowns that could delay importation of equipment or materials;
- engineering problems, including those relating to the commissioning of newly designed equipment;
- design or engineering changes;
- latent damages or deterioration to the hull, equipment and machinery in excess of engineering estimates and assumptions;
- work stoppages;
- weather interference, storm damage or other events of force majeure;
- disputes with shipyards and suppliers;
- shipyard failures and difficulties;
- failure or delay of third-party equipment vendors or service providers;
- unanticipated cost increases; and
- difficulty in obtaining necessary permits or approvals or in meeting permit or approval conditions.

These factors may contribute to cost variations and delays in the delivery of our newbuilding vessels. Delays in the delivery of these newbuilding vessels or the inability to complete construction in accordance with their design specifications may, in some circumstances, result in a delay in employment, resulting in a loss of revenue to us. Additionally, capital expenditures for vessel construction projects could materially exceed our planned capital expenditures. In the event of a shipyard failure or other difficulty, we may be unable to enforce certain provisions under our newbuilding contracts such as our refund guarantee, to recover amounts paid as instalments under such contracts. The occurrence of any of these events may have a material adverse effect on our results of operations, financial condition or cash flows.

In the event our counterparties do not perform under their agreements with us for the construction of our newbuilding vessels and we are unable to enforce certain refund guarantees, we may lose all or part of our investment, which would have a material adverse effect on our results of operations, financial condition and cash flows.

The Company as of December 31, 2017, had paid an aggregate of $108.4 million in shipyard construction advances for the four 12,000 cbm semi-ref LPG/LEG carriers being built at Hyundai Mipo Dockyard in South Korea and the four 109,000 dwt product tanker vessels being built at Shanghai Waigaoqiao Shipbuilding in China. The first newbuilding vessel the m/t Salamina was delivered in April 2018. The second newbuilding vessel with Hull No 1424 is expected to be delivered in 2018 and the newbuilding vessels with Hull No 1425 and 1426 are expected to be delivered in early 2019. In the event our counterparties under the construction contracts discussed above do not perform under their agreements with us and we are unable to enforce certain refund guarantees with third party banks due to an outbreak of war, bankruptcy or otherwise, we may lose all or part of our investment, which would have a material adverse effect on our results of operations, financial condition and cash flows.

We have acquired and may in the future acquire more secondhand vessels. The acquisition and operation of such vessels may result in increased operating costs, which could materially adversely affect our earnings.

We have acquired in the past secondhand vessels and we may acquire more secondhand vessels in the future. Our inspection of secondhand vessels prior to purchase does not provide us with the same knowledge about their condition and cost of any required or anticipated repairs that we would have had these vessels had been built for and operated exclusively by us. In addition, we generally will not receive the benefit of warranties on secondhand vessels. Although we have considered the age and condition of the vessels in budgeting for operating, insurance and maintenance costs, we may encounter higher operating and maintenance costs due to the age and condition of these vessels, or any additional vessels we may acquire in the future.

An increase in costs, including unexpected repair costs for our vessels, could negatively impact our cash flows.

Our vessel operating expenses comprise a variety of costs including crew costs, provisions, deck and engine stores, lubricating oil, fuel, maintenance, repairs, insurance and security costs, many of which are beyond our control and affect the entire shipping industry. A continuous increase in costs could materially and adversely affect our cash flows.

In addition, repair costs are difficult to predict with certainty and may be substantial. Some of these costs may not be covered by our insurance. To the extent not covered by our insurance, repair costs could decrease our cash flows and reduce our liquidity. In addition, to the extent not covered by our loss of hire insurance, our revenues could decrease as a result of our inability to charter vessels that are in need of repair.

Increases in tonnage taxes on our vessels would increase the costs of our operations.

Our vessels, except the m/t Andimilos which operates under the Liberian flag, are currently registered under the flag of Greece pursuant to the provisions of Article 13 of the Greek legislative decree 2687/1953 as interpreted by the Greek legislative decree 2928/1954. Greece imposes taxes based on the tonnage capacity of each of the vessels registered under their flag. The tonnage taxes imposed by Greece could increase, which would cause the costs of our operations to increase.

Our Greek shipowning subsidiaries, such as the Guarantors, may have to pay U.S. federal income tax on U.S. source income, which would reduce our net income and cash flows.

If our Greek shipowning subsidiaries are not exempt from tax under the income tax treaty between the United States and Greece, the shipping income derived from the U.S. sources attributable to such subsidiaries' transportation of cargoes to or from the United States will be subject to U.S. federal income tax. If such subsidiaries were subject to such U.S. federal income tax, our net income and cash flow would be reduced by the amount of such tax. Currently, each of our Greek shipowning subsidiaries claims an exemption under the income tax treaty between the United States and Greece because it is a Greek corporation, its vessels are registered or documented in Greece, and its U.S. source income is income from the international operation of ships. We cannot give any assurance that future changes in tax laws or the income tax treaty between the United States and Greece or changes in our or our subsidiaries' jurisdictions of organisation will not preclude us from being able to satisfy applicable exemption requirements under the income tax treaty between the United States and Greece.

We depend on our key personnel and may have difficulty attracting and retaining skilled employees.

Our success depends to a significant extent upon the abilities and efforts of our key personnel. The loss of the services of any of our key personnel or our inability to successfully attract and retain qualified personnel in the future could have a material adverse effect on our business, financial condition and operating results.

Our success also depends in large part on our ability to attract and retain highly skilled and qualified ship officers and crew. In crewing our vessels, we require technically skilled employees with specialised training who can perform physically demanding work. If we are not able to increase our rates to compensate for any crew cost increases, our business and results of operations may be adversely affected. Any inability we experience in the future to hire, train and retain a sufficient number of qualified employees could impair our ability to manage, maintain and grow our business.

iii) Risks Relating to the Notes and Our Indebtedness

We have not been in compliance with certain of the financial and other covenants contained in certain of our loan and credit facilities, for which we have obtained waivers or amendments or refinanced the affected debt. If we are not in compliance with the original covenants when our existing waivers expire and if we are not successful in obtaining

additional waivers or amendments or refinancing the affected debt, our lenders may declare an event of default and accelerate our outstanding indebtedness, which would impact our ability to continue to conduct our business.

Our loan and credit facilities, which are secured by mortgages on our vessels, require us to maintain specified financial ratios mainly to ensure that the market value of the mortgaged vessels under the applicable credit facility, as determined in accordance with the terms of that agreement, does not fall below a certain percentage of the outstanding amount of the loan, which we refer to as a security cover ratio, and to satisfy certain other financial covenants. In general, these other financial covenants require us to maintain (i) minimum liquidity; (ii) a maximum leverage ratio; (iii) a minimum interest coverage ratio; (iv) a minimum market adjusted net worth; (v) a minimum debt service coverage ratio; (vi) a minimum equity ratio; and (vii) a minimum working capital.

Subsequent to December 31, 2017, the Company failed to pay interest on its 9.625% First Preferred Ship Mortgage Notes due in January 2019, and entered into a forbearance agreement with the majority of the note holders, and agreed in principal to amend the main terms of the indenture governing its 9.625% First Preferred Ship Mortgage Notes due 2022 and defer the interest payments falling due in 2018. Even though as of the date of approval of the consolidated financial statements the note holders did not declare an Event of Default under the respective indenture, such non-payment together with the events of default of the Company's loan agreements, which trigger the cross default provision under the 9.625% First Preferred Ship Mortgage Notes due 2022, constitute events of default and may result in the required minimum percentage of note holders to given notice to the Company and declare the notes due and payable.

All of our debt agreements contain a cross-default provision that may be triggered by a default under one of our other debt agreements. Because of the presence of cross default provisions in all of our debt agreements, the refusal of any one lender to grant or extend a waiver could result in all of our indebtedness being accelerated even if our other lenders have waived covenant defaults under the respective debt agreements. As a result of the cross-default provisions included in our debt agreements, actual breaches existing under our debt agreements could result in defaults under all of our debt and the acceleration of such debt by our lenders and the foreclosure of their liens on our vessels, which would impair our ability to conduct our business and continue as a going concern. If our outstanding indebtedness, accelerated in full or in part, in the current financing environment we may not be able to refinance our debt or obtain additional financing. Moreover, any refinancing or additional financing may be more expensive and carry more onerous terms than those in our existing debt agreements. In addition, if we find it necessary to sell our vessels at a time when vessel prices are low, we will recognize losses and a reduction in our earnings, which could affect our ability to raise additional capital necessary for us to comply with our debt agreements.

As a result of the above and according USGAAP presentation requirement, the Company has classified its bank loans, its lease obligation and the outstanding principal amount under its 9.625% First Preferred Ship Mortgage Notes as current liabilities. (see also to the Note 3 of accompanying Financial Statements)

We have incurred significant indebtedness which could affect our ability to finance our operations, pursue desirable business opportunities and successfully run our business in the future, and therefore make it more difficult for us to fulfil our obligations under the notes.

We have incurred substantial debt. We currently have indebtedness outstanding, or the ability to incur indebtedness, under the following credit facilities:

- $300.0 million Senior Secured First Priority Ship Mortgage Notes dated December 13, 2013 (under which $300.0 million was outstanding as of December 31, 2017);
- $204.8 million syndicated secured reducing revolving credit facility with Unicredit Bank AG dated December 30, 2009 (under which $54.9 million was outstanding as of December 31, 2017);
- Two secured term loan agreements dated October 17, 2013 with DVB Bank SE in an aggregate amount of $150.3 million (under which $97.9 million was outstanding as of December 31, 2017);
- $66.0 million secured term loan with Crédit Agricole dated June 10, 2009 (under which $31.8 million was outstanding as of December 31, 2017);
- $65.5 million secured finance lease agreement with China Shipbuilding Industry Corporation ("CSIC") dated August 24, 2017 (under which $63.2 million was outstanding as of December 31, 2017);
- Secured term loan agreement regarding the financing of the four LPG newbuilding vessels with BNP Paribas dated April 22, 2016 (under which $31.6 million was outstanding as of December 31, 2017);
- Secured finance lease of amount $80.6 million regarding the financing of the first two Aframax Newbuilding vessels with Bank of Communications ("Bocomm") dated December 30, 2016 (under which $20.7 million was outstanding as of December 31, 2017);
- Secured finance lease of amount up to $82.4 million regarding the financing of the last two Aframax Newbuilding vessels with Oriental Fleet International Company Limited ("COSCO") dated November 01, 2017 (under which $20.6 million was outstanding as of December 31, 2017);

- $12.0 million syndicated secured term loan with Citibank International plc. as agent, dated August 31, 2017 (under which $11.0 million was outstanding as of December 31, 2017).
- $2.5 million term loan secured with cash collateral with China Shipbuilding Industry Corporation ("CSIC") dated August 24, 2017 (under which $2.3 million was outstanding as of December 31, 2017).
- $20.0 million secured revolving credit facility with Piraeus Bank SA dated August 09, 2017 (under which $20.0 million was drawn as of December 31, 2017)
- $7.0 million secured revolving credit facility with Piraeus Bank SA dated July 29, 2002 (under which $7.0 million was drawn as of December 31, 2017);
- $4.0 million secured revolving credit facility with Alpha Bank SA dated March 31, 2014 (under which $4.0 million was drawn as of December 31, 2017);
- $4.0 million secured revolving credit facility with Aegean Baltic Bank SA dated October 9, 2014 (under which $4.0 million was drawn as of December 31, 2017).

For more information, see "Description of Other Indebtedness."

Our substantial indebtedness and interest expense could have important consequences to our company and debt holders, including:

- limiting our flexibility and our ability to capitalise on business opportunities, and to react to competitive pressures and adverse changes in government regulation, our business and our industry;
- limiting our ability to use a substantial portion of our cash flow from operations in other areas of our business, including for working capital, capital expenditures and other general business activities, because we must dedicate a substantial portion of these funds to service our debt;
- limiting our ability to obtain additional financing in the future for working capital, capital expenditures, debt service requirements, acquisitions and the execution of our growth strategy, and other expenses or investments planned by us;
- requiring us to seek to incur further indebtedness in order to make the capital expenditures and other expenses or investments planned by us to the extent our future cash flows are insufficient;
- limiting our ability to satisfy our obligations under the notes or other indebtedness (which could result in an event of default if we fail to comply with the requirements of our indebtedness);
- increasing our vulnerability to a downturn in our business and to adverse economic and industry conditions generally;
- placing us at a competitive disadvantage as compared to those of our less leveraged competitors;
- limiting our ability, or increasing the costs, to refinance indebtedness; and
- limiting our ability to enter into hedging transactions by reducing the number of counter-parties with whom we can enter into such transactions as well as the volume of those transactions.

In addition, we pay interest on outstanding borrowings under our credit facilities at interest rates that fluctuate based upon changes in various base interest rates. Although we may use interest rate swap agreements to hedge against these interest rate fluctuations, there can be no assurance that we will continue to be able to enter into such agreements on commercially reasonable terms, or that our hedging strategy will be successful in the future. As a result, an adverse change in the base rates upon which our interest rates are determined could have a material adverse effect on our results of operations and financial condition.

We may incur significantly more indebtedness, which could further increase the risks associated with our indebtedness and prevent us from fulfilling our obligations under the notes.

Subject to certain limitations under our credit facilities and the indenture governing the notes, we may be able to incur significant additional indebtedness in the future. Although the terms of our credit facilities and the indenture contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions, and indebtedness incurred in compliance with these restrictions could be substantial. To the extent new indebtedness is added to our currently anticipated debt levels, the substantial leverage related to the risks described above would increase.

An increase or volatility in interest rates would increase the cost of servicing our indebtedness and could reduce our cash flow.

Interest rates under certain of our existing debt facilities fluctuate with changes in the London Interbank Offered Rate, or "LIBOR". In addition, we may also incur indebtedness in the future with variable interest rates. As a result, an increase in market interest rates would increase the cost of servicing our indebtedness and could materially reduce our cash flow and financial condition. Because the interest rates under our existing and future debt facilities may fluctuate with changes in

LIBOR, if LIBOR volatility were to increase, it could affect the amount of interest payable on our debt, which in turn, could have an adverse effect on our cash flow and financial condition.

Noteholders will not have direct claims against any of our existing or future subsidiaries that do not guarantee the notes.

Some, but not all, of our subsidiaries are guaranteeing the notes. As a result, holders of the notes are creditors of only the Co-Issuers and the Guarantors. In the case of subsidiaries that are not Guarantors, including Eletson Gas and its subsidiaries, all of the existing and future liabilities of those subsidiaries, including any claims of trade creditors, debt holders and preferred shareholders, if any, are effectively senior to the notes and the Guarantees. Subject to limitations in our credit facilities and the indenture, non-Guarantor subsidiaries may incur additional indebtedness in the future. In the event of a bankruptcy, insolvency, liquidation, dissolution, reorganisation or similar proceeding of any of our non-Guarantor subsidiaries, their creditors will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to EHI or the Guarantors.

As of and for the twelve-month period ended December 31, 2017, our subsidiaries (including, without limitation, Unrestricted Subsidiaries) that do not guarantee the notes (other than the co-issuer) had approximately $494.6 million of indebtedness outstanding (excluding intercompany liabilities) and generated 54.2% of our consolidated revenues, 55.5% of our consolidated EBITDA and 63.1% of our consolidated assets.

We may not be able to generate sufficient cash to satisfy covenants under our financing arrangements or service our indebtedness.

We expect our cash flow to vary significantly from year to year due to the cyclical nature of our industry. As a result, the amount of debt that we can manage in some periods may not be appropriate for us in other periods. Additionally, our future cash flow may be insufficient to meet our debt obligations and commitments, including the notes, and satisfy financial covenants contained in our credit facilities. Any insufficiency could negatively impact our business and may result in a default under our credit facilities. A range of economic, competitive, financial, business, industry and other factors will affect our future financial performance, and, as a result, our ability to generate cash flow from operations and to pay our debt, including the notes. Many of these factors, such as charter rates, economic and financial conditions in our industry and the global economy or competitive initiatives of our competitors, are beyond our control. If we do not generate sufficient cash flow from operations to satisfy our debt obligations, we may have to undertake alternative financing plans, such as:

- refinancing or restructuring our debt, including the notes;
- obtaining waivers or amendments under relevant credit facilities;
- selling tankers or other assets;
- reducing or delaying investments and capital expenditures; or
- seeking to raise additional capital.

However, we cannot assure you that undertaking alternative financing plans, if necessary, would be successful in allowing us to meet our debt obligations. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. The terms of existing or future debt instruments and the indenture governing the notes may restrict us from adopting some of these alternatives. In addition, any failure to make payments of interest and principal on our outstanding indebtedness on a timely basis would likely result in a reduction of our credit rating, which could harm our ability to incur additional indebtedness. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. Our inability to generate sufficient cash flow to satisfy our debt obligations, including our obligations under the notes, or to obtain alternative financing, could materially and adversely affect our business, financial condition, results of operations and prospects.

The indenture and the terms of our credit facilities impose significant operating and financial restrictions that may limit our ability to operate our business.

The notes and our credit facilities impose significant operating and financial restrictions on us and our subsidiaries. These restrictions will limit our ability and the ability of our restricted subsidiaries to, among other things, as applicable:

- incur additional debt and provide additional guarantees;
- pay dividends or make other restricted payments, including certain investments;
- create or permit certain liens;
- purchase or sell tankers or other assets;

- pay dividends or make other distributions;
- engage in certain transactions with affiliates; and
- consolidate or merge with or into other companies, or transfer all or substantially all of our assets or the assets of our restricted subsidiaries.

These restrictions could limit our ability to finance our future operations or capital needs, make acquisitions or pursue available business opportunities. In addition to limiting our flexibility in operating our business, a breach of the covenants in the indenture could cause a default under the terms of our other financing agreements, causing all the debt under those agreements to be accelerated. If this were to occur, we can make no assurance that we would have sufficient assets to repay our debt.

We may require additional financing to acquire vessels or businesses and such financing may not be available.

In the future, we may be required to make substantial cash outlays to acquire vessels or business. We may seek to cover the cost of such items with new debt collateralised by the vessels to be acquired, if applicable, but there can be no assurance that we will generate sufficient cash or that debt financing will be available. Moreover, the covenants in our credit facilities, the indenture or other debt, may make it more difficult to obtain such financing by imposing restrictions on what we can offer as collateral.

Fluctuations in the market value of our fleet may adversely affect our liquidity and may result in breaches under our financing arrangements and sales of vessels at a loss.

The market value of vessels fluctuates depending upon general economic and market conditions affecting the tanker industry, the number of tankers in the world fleet, the price of constructing new tankers, or newbuildings, types and sizes of tankers and the cost of other modes of transportation. The market value of our fleet may decline as a result of a downswing in the historically cyclical shipping industry or as a result of the aging of our fleet. Declining tanker values could affect our ability to raise cash by limiting our ability to refinance vessels and thereby adversely impact our liquidity. In addition, declining vessel values could result in the reduction in lending commitments, the inability to borrow under existing credit facilities, the requirement to repay outstanding amounts or a breach of loan covenants, which could give rise to an event of default under our credit facilities.

Our credit facilities require us to comply with financial maintenance covenants relating to our net worth, minimum liquidity, maximum leverage and interest coverage, among others. If we are unable to maintain specified financial covenant ratios, we may be prevented from borrowing additional money under our credit facilities, or we may default under our credit facilities. If a default occurs and is uncured or not waived, the lenders could elect to declare the debt, together with accrued interest and other fees, to be immediately due and payable and proceed against the collateral securing the debt, which constitutes a majority of our assets. We cannot assure you that we will obtain waivers necessary to prevent such acceleration. If the lenders were to accelerate the debt outstanding, a default may result under our other debt obligations that may exist at such time, including the notes. In addition, due to the cyclical nature of the tanker market, the market value of one or more of our vessels may at various times be lower than their book value, and sales of those vessels during those times would result in losses.

If we default on our obligations to pay our other indebtedness, we may not be able to make payments on the notes.

Any default under the agreements governing our indebtedness, including a default under our credit facilities, that is not waived by the required lenders or holders of such indebtedness, and the remedies sought by the holders of such indebtedness, could prevent us from paying principal, premium, if any, and interest on the notes and substantially decrease the market value of the notes. If we are unable to generate sufficient cash flow or are otherwise unable to obtain funds necessary to meet required payments of principal, premium, if any, and interest on our indebtedness, or if we otherwise fail to comply with the various covenants in any agreement governing our indebtedness, including the covenants contained in our credit facilities, we would be in default under the terms of the agreements governing such indebtedness. As a result of such default and any actions the lenders may take in response thereto, we could be forced into bankruptcy or liquidation.

We are a holding company, and we depend on the ability of our subsidiaries to distribute sufficient funds to us to satisfy our financial and other obligations.

We are a holding company, and our subsidiaries conduct all of our operations and own all of our operating assets. We have no significant assets other than the equity interests in our subsidiaries. Indebtedness under our credit facilities is secured by mortgages on all vessels owned by our vessel-owning subsidiaries, other than the Collateral (including the Mortgaged Vessels) that secures our obligations under the notes. As a result, our ability to service our debt obligations, including the notes, depends on the performance of our subsidiaries and their ability to distribute sufficient funds to us, including (without limitation) the ability of Eletson Gas LLC (a joint venture and an unrestricted subsidiary under the indenture that will govern the notes) to make distributions to us. The ability of our subsidiaries to generate sufficient cash flow from operations or distribute funds or assets to allow us to make scheduled payments on our debt obligations, including the notes, may be restricted by, among other things, restrictions under our credit facilities, or other debt facilities, applicable corporate and limited liability company laws of the jurisdictions of our subsidiaries' incorporation or organisation, and other laws and regulations, and will also depend on their future financial performance, which will be affected by a range of economic, competitive and business factors, many of which are outside of our control. If we are unable to obtain sufficient funds from our subsidiaries, we may have to undertake alternative financing plans, such as refinancing or restructuring our debt, selling assets, reducing or delaying capital investments or seeking to raise additional capital. We cannot assure you that any such alternative refinancing would be possible, that any assets could be sold, or, if sold, of the timing of the sales and the amount of proceeds realised from those sales, that additional financing could be obtained on acceptable terms, if at all, or that additional financing would be permitted under the terms of our various debt instruments then in effect. Our inability to generate sufficient cash flow to satisfy our debt obligations, or to refinance our obligations on commercially reasonable terms, would negatively impact our business, financial condition, results of operations and cash flow, as well as on our ability to pay interest or principal on the notes when due, or fund offers to redeem the notes as required by the indenture.

Noteholders should not expect Eletson Finance to participate in servicing the interest and principal obligations under the notes.

Eletson Finance is our wholly-owned subsidiary that was formed solely for the purpose of serving as a co-issuer, co-obligor or guarantor of debt obligations of the Company. Eletson Finance is capitalised only with a minimal amount of common equity and will not receive any proceeds from the issuance of the notes. Other than as a co-issuer, co-obligor or guarantor of the notes and other debt obligations of the Company, Eletson Finance does not have (and is not permitted to have) any assets (other than its equity capital), operations, revenues or debt (other than the notes and other indebtedness permitted to be incurred by the terms of the indenture). As a result, prospective purchasers of the notes should not expect Eletson Finance to participate in servicing the interest and principal obligations under the notes.

The notes are secured only by the Collateral and will be effectively subordinated to the rights of our and the Guarantors' existing and future secured creditors to the extent of the value of any assets securing such other obligations.

The indenture governing the notes permits us to incur additional secured indebtedness, including indebtedness under our credit facilities and future indebtedness to be used for acquisitions of vessels and businesses. The substantial majority of our debt has been and will continue to be secured debt used to purchase vessels. Indebtedness under our credit facilities is secured by mortgages on all vessels owned by our vessel-owning subsidiaries, other than the Collateral (including the Mortgaged Vessels) that will secure our obligations under the notes. The fair market value of the Collateral (including the Mortgaged Vessels) is subject to fluctuations, and there is no guarantee that the value of the Collateral (including the Mortgaged Vessels) will be sufficient to satisfy in full amounts owed to holders of the notes, and to the extent such amounts are insufficient, the obligation of each Guarantor to repay amounts owed on the notes will be effectively subordinated to any other existing or future secured indebtedness of such Guarantor to the extent of the value of any assets securing such other obligations. If an event of default occurs under our credit facilities or under future secured indebtedness, the senior secured lenders will have a prior right to the assets mortgaged in their favour, to the exclusion of the holders of the notes, even if we are in default under the notes. In that event, our assets and the assets of the Guarantors (other than the Collateral) would first be used to repay in full all indebtedness and other obligations secured by them (including all amounts outstanding under our credit facilities), resulting in a portion of our assets being unavailable to satisfy the claims of the holders of the notes and other unsecured indebtedness. Therefore, in the event of any distribution or payment of our assets in any foreclosure, dissolution, winding-up, liquidation, reorganisation, or other bankruptcy proceeding, subject to any preferential treatment afforded to resident creditors of any particular jurisdiction, holders of the notes, after receiving any distribution or payment in respect of the Collateral, will participate in our remaining assets ratably with all holders of our unsecured indebtedness that is deemed to be of the same class as such notes, and potentially with all of our other general creditors, based upon the respective amounts owed to each holder or creditor or other creditors who receive preferential treatment under applicable law. In any of the foregoing events, we cannot assure you that there will be sufficient assets to pay amounts due on our notes. As a result, holders of the notes may receive less, ratably, than holders of other secured indebtedness.

The proceeds of any sale or liquidation of the collateral (including the Mortgaged Vessels) following an event of default may not be sufficient to satisfy payments due on the notes.

Noteholders' rights in any proceeding against a Mortgaged Vessel may depend on the laws of the country where any proceeding is brought, and noteholders may have difficulty enforcing their rights in certain jurisdictions. The Mortgaged Vessels are registered under the flag of Greece. Noteholders rights in any proceeding against a Mortgaged Vessel may depend on the laws of the country where any proceeding is brought, and noteholders may have difficulty enforcing their rights in certain jurisdictions. If the proceeds from a sale of the Mortgaged Vessels and other Collateral are not sufficient to satisfy payments due on the notes, the holders of the notes (to the extent not repaid from the proceeds of the sale of the Mortgaged Vessels and other Collateral) will have only unsecured claims against the remaining assets of the Company and the Guarantors. In addition, the Collateral securing the notes may be subject to liens permitted under the terms of the indenture governing the notes, whether arising before, on or after the date the notes are issued. By operation of law, certain of those liens will have priority over the claims of the trustee and the noteholders in the Collateral securing the notes. The existence of any permitted liens could adversely affect the value of the Collateral as well as the ability of the collateral trustee to realise or foreclose on such Collateral. Additionally, although the Collateral securing the notes will include assignments of the charters and earnings related to the Mortgaged Vessels, if an event of default with respect to the notes were to occur, the ability of the trustee and the noteholders to realise on the value of these charters may be limited in that at such time, one or more defaults may also exist under such charters which may entitle the charter counterparty to terminate the agreement. In addition, charters may provide that if someone other than the approved managers were to manage or operate a vessel (which may be the case if the trustee were to exercise its rights upon an event of default) the charter counterparty would at such time be entitled to terminate the charter. Charter counterparties may also fail to abide by the instructions of the trustee in terms of directing payments to it following an event of default which may further impair the ability of the noteholders to obtain the benefits of the assigned charters. There also can be no assurance that the Collateral will be saleable or that there will be buyers with the financial and regulatory capability to acquire and operate the Collateral, and, even if saleable, the timing of its liquidation is uncertain. To the extent that liens or other rights granted to third parties encumber the Collateral, such third parties have or may exercise rights and remedies with respect to the Collateral subject to such liens that could adversely affect the value of the Collateral and the ability of the collateral trustee to realise or foreclose on the collateral. By its nature, some or all of the Collateral may be illiquid and may have no readily ascertainable market value. In the event that a bankruptcy case is commenced by or against us, if the value of the Collateral is less than the amount of principal and accrued and unpaid interest on the notes and all other senior secured obligations, interest may cease to accrue on the notes from and after the date the bankruptcy petition is filed. In the event of a foreclosure, liquidation, bankruptcy or similar proceeding, we cannot assure you that the proceeds from any sale or liquidation of the Collateral will be sufficient to pay the obligations due under the notes.

The indenture also permits us to designate one or more of our restricted subsidiaries (other than Eletson Finance) as an unrestricted subsidiary. If we designate a subsidiary as an unrestricted subsidiary for purposes of the indenture governing the notes, all of the liens on any Collateral owned by such subsidiary will be released under the indenture. Designation of a subsidiary as an unrestricted subsidiary will reduce the aggregate value of the Collateral securing the notes to the extent that liens on the assets of the unrestricted subsidiary and its subsidiaries are released. In addition, the creditors of the unrestricted subsidiary and its subsidiaries will have a senior claim on the assets of such unrestricted subsidiary and its subsidiaries. Eletson Gas LLC and its subsidiaries are unrestricted subsidiaries.

In the event of a bankruptcy, holders of the notes may be deemed to have an unsecured claim to the extent that their obligations in respect of the notes exceed the fair market value of the Collateral.

In any bankruptcy proceeding with respect to us or any of the Guarantors, it is possible that the bankruptcy trustee, the debtor-in-possession or competing creditors will assert that the fair market value of the Collateral with respect to the notes on the date of the bankruptcy filing was less than the then-current principal amount of the notes. Upon a finding by the bankruptcy court that the notes are under-secured, the claims in the bankruptcy proceeding with respect to the notes would be bifurcated between a secured claim and an unsecured claim, and the unsecured claim would not be entitled to the benefits of security in the Collateral. In such event, the secured claims of the holders of notes would be limited to the value of the Collateral. Other consequences of a finding that the notes are under-secured would be, among other things, a lack of entitlement on the part of the notes to receive post-petition interest and a lack of entitlement on the part of the unsecured portion of the notes to receive other “adequate protection” under the U.S. Bankruptcy Code. In addition, if any payments of post-petition interest had been made at the time of such finding that the notes are under-secured, those payments could be re-characterised by the bankruptcy court as a reduction of the principal amount of the secured claim with respect to the notes.

U.S. Bankruptcy Laws may limit your ability to realise value from the collateral.

To the extent we do become a debtor under U.S. bankruptcy laws, a secured creditor such as a holder of the notes would be prohibited from repossessing its security from a debtor in a bankruptcy case, or from disposing of security repossessed from such debtor, without bankruptcy court approval, which may not be given. Moreover, the U.S. Bankruptcy Code permits the debtor to continue to retain and use collateral even though the debtor is in default under the applicable debt instruments, provided that the secured creditor is given “adequate protection.” The meaning of the term “adequate protection” under the U.S. Bankruptcy Code may vary according to circumstances, but it is generally intended to protect the value of the secured creditor’s interest in the collateral as of the commencement of the bankruptcy case and may include cash payments or the granting of additional or replacement security if and at such times as the bankruptcy court in its discretion determines that the value of the secured creditor’s interest in the collateral is declining during the pendency of the bankruptcy case. A bankruptcy court may determine that a secured creditor may not require compensation for a diminution in the value of its collateral if the value of the collateral exceeds the debt it secures.

In view of the lack of a precise definition of the term "adequate protection" under the U.S. Bankruptcy Code and the broad discretionary power of a bankruptcy court, it is impossible to predict:

- how long payments under the notes could be delayed following commencement of a U.S. bankruptcy case;
- whether or when the collateral agent could repossess or dispose of the collateral;
- the value of the collateral at the time of the bankruptcy petition; or
- whether or to what extent holders of the notes would be compensated for any delay in payment or loss of value of the collateral through the requirement of "adequate protection."

The insolvency laws of Liberia and Greece may not be as favourable to holders of the notes as U.S. insolvency laws or those of other jurisdictions with which you may be familiar.

EHI is incorporated in Liberia, and we conduct most of our business from Greece. Accordingly, insolvency proceedings with respect to us and our subsidiaries may proceed under, and be governed by, Liberian or Greek insolvency law, rather than under U.S. federal bankruptcy law.

Liberia. We, and certain of our subsidiaries, are organised under the laws of Liberia. Our affairs are governed by our articles of incorporation and bylaws and The Business Corporation Act of Liberia 1976, as amended (the "Liberian BCA"), found in the Associations, Law, Title 5 of the Liberian Code of Laws Revised, as amended. While the Liberian BCA resembles provisions of the corporation laws of the States of Delaware and New York, and other states in the United States, Liberian law does not establish your rights and the fiduciary responsibilities of our directors as clearly as the statutes and judicial precedent in some U.S. jurisdictions. While Liberian courts generally follow U.S. court precedent, there have been few judicial cases in Liberia interpreting the Liberian BCA. Liberia also does not have a comprehensive bankruptcy statute applicable to corporate entities, and corporate insolvency proceedings covering non-resident Liberian corporations (such as we are) are rarely brought in Liberian courts. Consequently, the legal framework and precedents a Liberian court would apply to a voluntary or involuntary bankruptcy proceeding is unclear. In addition, Liberia does not have a statutory counterpart to U.S. Chapter 11, reorganisation. A Liberian court could apply general U.S. bankruptcy or reorganisation law, but would not be required to do so. Consequently, the result of any bankruptcy or reorganisation proceeding brought in Liberia by us or by any of our creditors cannot currently be predicted and investors may have more difficulty in protecting their interests in the face of actions by the management, directors or controlling shareholders than would security holders of a corporation incorporated in a U.S. jurisdiction which has developed a substantial body of case law.

Greece. The Guarantors are organised under the laws of Greece. We conduct most of our business in Greece, and our shipowning subsidiaries that are Guarantors are organised as Greek Special Maritime Enterprises. The insolvency laws of Greece may not be as favourable to your interests as those of the United States or other jurisdictions with which you may be familiar. The following is a brief description of certain aspects of insolvency law in Greece. In the event that we or any of the Guarantors experience financial difficulty, it is not possible to predict with certainty the outcome of insolvency or similar proceedings.

If we or a Guarantor are declared bankrupt in Greece, Greek law, and specifically the recently amended Greek Bankruptcy Code, Law 3588/2007 will apply. Under Greek law, upon a declaration of bankruptcy, all the assets of the bankrupt party at the time of such declaration are placed under the control of a receiver appointed by the bankruptcy court to be held for the benefit of all creditors. After a court declaration of bankruptcy, the bankrupt party may, following an application to, and approval by, the bankruptcy court, continue to manage such assets with the cooperation of a receiver. In addition, certain transactions occurring prior to the declaration of bankruptcy may be found by the court to be null and void by operation of law, or may be declared null and void by the court after an examination of the merits of particular transactions if they are executed by the bankrupt party during the so-called "suspect period". Such period is the time between the day of cessation of payments, which is determined by the bankruptcy court and may predate the declaration of bankruptcy by up to two years, and the date of the declaration of bankruptcy.

The following transactions of the bankrupt party will be declared null and void by operation of law:

- any unilateral act by the bankrupt party having the effect of reducing its assets (including, without limitation, making donations, waiving debts and granting interest-free loans) and making any payments other than in cash or commercial paper during the suspect period; and
- any mortgage or pledge over any asset of the bankrupt party granted during the suspect period as security for a previous indebtedness.

The bankruptcy court will declare transactions in the above two categories null and void without taking into consideration any arguments from the parties to such transactions or the merits thereof.

Certain other transactions entered into up to five years prior to the declaration of bankruptcy may be declared null and void by the bankruptcy court if it is concluded by the court that they were entered into with a malicious intent to prevent creditors from satisfying their bona fide claims.

Moreover, the bankruptcy court may declare any payments or transactions (including the issuance of notes or Guarantees or the granting of mortgages or other security documents) during the suspect period null and void if the person who transacted with the bankrupt party knew that the latter was in a state of cessation of payments and if such payments or transactions were detrimental to the creditors of the bankrupt party.

It is expressly provided in all the instruments of approval governing the registration of our vessels under Greek law, which take precedence, that the claims of a mortgagee under a preferred mortgage granted in accordance with the provisions of the relevant instruments shall rank below claims entitled to a maritime lien under the International Convention for the Unification of Certain Rules of Law relating to Maritime Liens and Mortgages of 1926 (the "1926 Brussels Convention") only, provided they are recognised also as maritime liens pursuant to Article 205 of the Greek Code on Private Maritime Law. Claims not included both in said Convention as well as in Article 205 are not recognised as maritime liens under Greek law. Accordingly we consider it unlikely that in as far as the Mortgaged Vessels are concerned, claims other than maritime liens under the 1926 Brussels Convention shall rank prior to the claims of the holders of the notes.

The Guarantees given by the Guarantors, who are our subsidiaries, may be declared invalid on the basis that they are not given in furtherance of corporate purposes.

It is expressly permitted in the instruments of approval governing the registration of our vessels under Greek law and appropriately adopted in the Articles of Incorporation of each of our subsidiaries that our subsidiaries may by unanimous resolution of their Board of Directors guarantee loans granted to other shipowning companies or ship management companies or holding companies for maritime purposes. The Guarantees shall be provided by our subsidiaries in accordance with these provisions. As a general matter under applicable Greek law, a Greek Special Maritime Enterprise has the power to borrow money, and give guarantees in furtherance of its corporate purposes irrespective of corporate benefit. However, under general principles of corporate law in many states of the U.S., including Delaware and New York, actions taken not in furtherance of corporate purposes may be deemed invalid. On this basis, the granting of the Guarantees by the Guarantors, each of which is a wholly-owned subsidiary of EHI, to secure the notes may be attacked by third party creditors of the Guarantors under these general principles if it could be established that no independent corporate purpose of the Guarantors was served in the granting of such Guarantees. However, under Greek law as applicable to our subsidiaries, a guarantee may be given by a Greek Special Maritime Enterprise in accordance with the aforementioned provisions, although not in furtherance of its corporate purposes, and the authorisation of the granting of such guarantee by the shareholders may further safeguard the validity of such guarantees; EHI, as sole, direct owner of all of the existing and outstanding shares of the Guarantors, will explicitly consent to the giving of such Guarantees.

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

EHI is incorporated under the laws of Liberia, and our shipowning subsidiaries are organised under the laws of Greece as Greek Special Maritime Enterprises. Others of our subsidiaries are incorporated under the laws of Liberia, Greece, the United States and England, and we conduct operations in other countries around the world. Consequently, in the event of any bankruptcy, insolvency, liquidation, dissolution, reorganisation or similar proceedings involving us or any of our subsidiaries, bankruptcy laws other than those of the United States could apply. We have limited operations in the United States. If we become a debtor under U.S. bankruptcy laws, bankruptcy courts in the United States may seek to assert jurisdiction over all of our assets, wherever located, including property situated in other countries. There can be no assurance, however, that we would become a debtor in the United States, or that a U.S. bankruptcy court would be entitled to, or accept, jurisdiction over such a bankruptcy case, or that courts in other countries that have jurisdiction over us and our operations would recognise a U.S. bankruptcy court's jurisdiction if any other bankruptcy court determined that it had jurisdiction. Rather, in the event we do experience financial difficulty, it is not possible to predict with certainty in which jurisdiction insolvency proceedings would be commenced or the outcome of such proceedings. The insolvency laws of foreign jurisdictions may vary as to treatment of secured creditors, and such laws may be different from and/or not be as favourable to your interests as the laws of the U.S. or other jurisdictions with which you are familiar.

The Mortgaged Vessels are registered under the flag of Greece. Noteholders rights in any proceeding against a Mortgaged Vessel may depend on the laws of the country where any proceeding is brought, and noteholders may have difficulty enforcing their rights in certain jurisdictions.

Each of the Mortgaged Vessels is, and during the term of the notes will be, registered under the Greek flag. Greek law provides that preferred ship mortgages may be enforced by the mortgagee by a suit in admiralty in a proceeding against the Mortgaged Vessel. Historically, Greek ship mortgages, such as the mortgages on the Mortgaged Vessels, have been enforced in major commercial ports throughout the world, including ports in the United States. However, the Company has been advised by Moratis Passas, counsel to the Company with respect to matters of Greek law, that the priority that any of the mortgages would have against the claims of other lien creditors in an enforcement proceeding is generally determined by, and will vary in accordance with, the laws of the country where the proceeding is brought. A Greek ship mortgage may be enforced against a vessel physically present in the United States, but the claim under any such mortgage would rank behind preferred maritime liens, including those for supplies and other necessaries provided in the United States. Since the Mortgaged Vessels trade primarily outside the territorial waters of Greece and the United States, there is no assurance that, if enforcement proceedings are commenced against a Mortgaged Vessel, the Mortgaged Vessel will be located in a jurisdiction having the same mortgage enforcement procedures and lien priorities as Greece or the United States, although, upon the occurrence of an event of default under the notes, the trustee may be able to effect control over the Mortgaged Vessels to direct them to a desirable jurisdiction to arrest such vessels pursuant to judicial foreclosure proceedings.

Although each of our Mortgaged Vessels are separately owned by our subsidiaries, under certain circumstances a parent company and all of the shipowning affiliates in a group under common control engaged in a joint venture could be held liable for damages or debts owed by one of the affiliates, including liabilities for oil spills under OPA 90 or other environmental laws. Therefore, it is possible that we could be subject to execution upon a judgment against us or any one of our subsidiaries.

We are subject to certain fraudulent transfer and conveyance statutes which may adversely affect holders of the notes.

Our obligations under the notes are guaranteed by the Guarantors. EHI is incorporated under the laws of Liberia, and our shipowning subsidiaries are organised under the laws of Greece as Greek Special Maritime Enterprises. The indenture limits the liability of each Guarantor on its Guarantee to the maximum amount that such Guarantor can incur without risk that its Guarantee will be subject to avoidance as a fraudulent transfer. We cannot assure you that this limitation will protect such Guarantees from fraudulent transfer challenges or, if it does, that the remaining amount due and collectible under the Guarantees would suffice, if necessary, to pay the notes in full when due. In a bankruptcy case in the United States which was recently reinstated by the United States Court of Appeals for the Eleventh Circuit on other grounds, this kind of provision was found to be ineffective to protect guarantees; we cannot provide any assurance that U.S. courts in other Circuits or non-U.S. courts, including courts in Liberia and Greece, would not adopt a similar position.

Liberian courts (as well as a U.S. court presiding over any bankruptcy proceeding) could apply general U.S. principles of fraudulent conveyance to restrict the enforceability of the Guarantees by the Guarantors. Under U.S. state fraudulent transfer or conveyance laws and comparable provisions of U.S. federal bankruptcy law, if any such law were deemed to apply, the notes or the Guarantees (or the Liens granted to secure the obligations thereunder) could be voided as a fraudulent transfer or conveyance if (i) EHI or any of the Guarantors, as applicable, issued the notes or incurred the Guarantees with the intent of hindering, delaying or defrauding creditors, or (ii) EHI or any of the Guarantors, as applicable, received less than reasonably equivalent value or fair consideration in return for either issuing the notes or incurring the Guarantees and, in the case of (ii) only, one of the following is also true at the time thereof:

- EHI or any of the Guarantors, as applicable, were insolvent or rendered insolvent by reason of the issuance of the notes or the incurrence of the Guarantees;
- the issuance of the notes or the Guarantees left EHI or any of the Guarantors, as applicable, with an unreasonably small amount of capital to carry on the business;
- EHI or any of the Guarantors intended to, or believed that EHI or such Guarantor would, incur debts beyond EHI's or such Guarantor's ability to pay as they mature; or
- EHI or any of the Guarantors was a defendant in an action for money damages, or had a judgment for money damages docketed against EHI or such Guarantor if, in either case, after final judgment, the judgment is unsatisfied.

If a court were to find that the issuance of the notes or the Guarantees was a fraudulent transfer or conveyance, the court could void the payment obligations under the notes or such Guarantee, avoid the Liens granted to secure the obligations under the notes or the Guarantees, or further subordinate the notes or such Guarantee to presently existing and future indebtedness of ours or of the related Guarantor, or require the holders of the notes to repay any amounts received with respect to such Guarantee. In the event of a finding that a fraudulent transfer or conveyance occurred, you may not receive any repayment of the notes. Further, the voidance of the notes could result in an event of default with respect to our other debt that could result in acceleration of such debt.

As a general matter, value is given for a transfer or an obligation if, in exchange for the transfer or obligation, property is transferred or an antecedent debt is secured or satisfied. A debtor will generally not be considered to have received value in connection with a debt offering if the debtor uses the proceeds of that offering to make a dividend payment or otherwise retire or redeem equity securities issued by the debtor. In addition, a bankruptcy court may find that a Guarantor received less than fair consideration or reasonably equivalent value for its Guarantee or Lien to the extent that it did not a direct or indirect benefit from the notes.

As courts in different jurisdictions measure insolvency differently, we cannot be certain as to the standards a court would use to determine whether or not EHI or the Guarantors were solvent or rendered insolvent at the relevant time or, regardless of the standard that a court uses, that the issuance of the Guarantees would not be further subordinated to EHI or any of the Guarantors' other debt. Generally, however, an entity would be considered insolvent if, at the time it incurred indebtedness:

- the sum of its debts, including contingent liabilities, was greater than the fair saleable value of all of its assets; or
- the present fair saleable value of its assets was less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or
- it could not pay its debts as they become due.

Noteholders may have difficulty enforcing their rights against us and our directors and officers.

EHI is a Liberian company with principal executive offices located in Greece, and a majority of our directors, executive officers and other key management reside outside of the United States. In addition, a majority of our subsidiaries, a majority of our assets and the source of the majority of our cash flow are located outside the United States. As a result, it may not be possible for you to (i) effect service of process within the United States upon these persons, EHI, the Guarantors or any of their subsidiaries, (ii) enforce, in U.S. courts or in courts outside the United States, judgments obtained against these persons, our Company, the Guarantors or any of their subsidiaries, particularly judgments obtained in U.S. courts predicated upon civil liability provisions of the federal securities laws of the United States and (iii) realise in the United States upon judgments against such persons obtained in such courts predicated upon civil liabilities of such persons, including any judgments predicated upon U.S. federal securities laws, to the extent such judgments exceed such person's U.S. assets.

We have been advised by Holland & Knight LLP, counsel to the Company as to matters of Liberian law, that under the laws of the Republic of Liberia, a final and enforceable judgment granted by a U.S. court of competent jurisdiction against EHI would be recognised and enforced by the courts of Liberia without a further review of the merits, unless the judgment was (i) obtained by fraud, (ii) given in a manner contrary to due process, natural justice, or public policy of the Republic of Liberia, (iii) in a case in which the defendant did not appear or in which an authorised person did not appear on the defendant's behalf, (iv) not for a specific, ascertained sum of money, or (v) not final or conclusive in accordance with the laws of the jurisdiction in which the judgment was obtained.

We have been advised by Moratis Passas, Greek counsel to the Company that under the laws of Greece, a Greek court of competent jurisdiction (i) will, other than under certain limited circumstances, recognise and declare enforceable a final and enforceable judgment of a U.S. court having jurisdiction as determined under the Greek Code of Civil Procedure, which declares a liability on EHI or the Guarantors for a sum of money assessed as compensatory damages and which is sought to be enforced in Greece, and (ii) may, except under certain circumstances, recognise and declare enforceable a final and enforceable judgment of a U.S. court having jurisdiction (as determined under the Greek Code of Civil Procedure) which is predicated upon civil liabilities contemplated by the federal securities laws of the United States (although presently there is no precedent for such enforcement of liabilities contemplated by such securities laws) in each case provided such judgment is not contrary to, *inter alia*, mandatory provisions of Greek law and to the extent no relevant judgment to the contrary has been issued by a Greek court on the same case between the same parties.

The rights of holders of notes to the Collateral may be adversely affected by the failure to perfect security interests in the Collateral and other issues generally associated with the realisation of security interests in collateral.

Applicable law requires that a security interest in certain tangible and intangible assets can only be properly perfected and its priority retained through certain actions undertaken by the secured party. The liens on the Collateral securing the notes may not be perfected with respect to the claims of notes if the collateral trustee is not able to take the actions necessary to perfect any of these liens on or prior to the date of the issuance of the notes. In addition, applicable law requires that certain property and rights acquired after the grant of a general security interest can only be perfected at the time such property and rights are acquired and identified and additional steps to perfect in such property and rights are taken. There can be no assurance that the collateral trustee will monitor, or that we will inform the collateral trustee of, the future acquisition of property and rights that constitute Collateral, and that the necessary action will be taken to properly perfect the security interest in such after-acquired Collateral. The collateral trustee has no obligation to monitor the acquisition of additional property or rights that constitute Collateral or the perfection of any security interest. Such failure may result in the loss of the security interest in the Collateral or the priority of the security interest in favour of notes against third parties.

In addition, the security interest of the collateral trustee will be subject to practical challenges generally associated with the realisation of security interests in collateral. For example, the collateral trustee may need to obtain the consent of third parties (such as the parties to charters and insurers) and make additional filings. If the collateral trustee is unable to obtain these consents or make these filings, the security interests may be invalid and the holders will not be entitled to the Collateral or any recovery with respect thereto. We cannot assure you that the collateral trustee will be able to obtain any such consent. We also cannot assure you that the consents of any third parties will be given when required to facilitate a foreclosure on such assets. Additionally, the ability of the trustee to realise upon the Collateral under the assignments of charters, freights and hires and the assignments of insurance relating to charters and insurance policies, both of which are governed by the laws of the State of New York, will most likely require the collateral trustee to bring enforcement actions in the foreign jurisdictions under which such charters, freights, hires and insurance contracts are governed in order to pursue remedies. Depending on the relevant foreign jurisdiction, the collateral trustee's ability to exercise remedies and realise any recovery on such items of Collateral may be severely limited or may not be possible depending on the facts and circumstances relating to such claim and the foreign jurisdiction in which such claim is being pursued. Accordingly, the collateral trustee may not have the ability to foreclose upon those assets and the value of the Collateral may significantly decrease. In addition, under certain circumstances, Escrow Funds and Trust Monies may be released on an unsecured basis pursuant to the terms of the indenture governing the notes.

We may not be able to satisfy our obligations to holders of the notes upon a change of control.

If we experience a change of control (which is defined in the indenture governing the notes), we will be required to make an offer to repurchase all outstanding notes at 101% of their principal amount, plus accrued but unpaid interest thereon, if any, to the date of repurchase. However, we may be unable to do so because we might not have sufficient available funds, particularly since a change of control could cause part or all of our other indebtedness to become due. As a result, holders of the notes may be required to continue to hold their notes even after a change of control.

A failure to make an offer to repurchase the notes upon a change of control would give rise to an event of default under the indenture governing the notes, and could result in an acceleration of amounts due thereunder. Any such default under the indenture would trigger a default under our credit facilities, which could result in the acceleration of all indebtedness thereunder. In the event of any such acceleration, there can be no assurance that we will have sufficient funds to repay our outstanding indebtedness, including the notes.

Changes in our credit ratings or in the financial and credit markets could adversely affect the market prices of the notes, and our credit ratings may not reflect all the risks of any investment in the notes.

The future market prices of the notes will be affected by a number of factors, including:

- our ratings with major credit rating agencies;
- the prevailing interest rates being paid by companies similar to us; and
- the overall condition of the financial and credit markets.

The condition of the financial and credit markets and prevailing interest rates have fluctuated in the past and are likely to fluctuate in the future. These fluctuations could have an adverse effect on the trading prices of the notes. In addition, credit rating agencies continually revise their ratings for companies that they follow, including us. We cannot assure you that credit rating agencies will continue to rate the notes or that they will maintain their ratings on the notes. The withdrawal of a rating, or a negative change in our rating, could have an adverse effect on the market prices of the notes.

In addition, our credit ratings are an independent assessment of our ability to pay debt obligations as they become due. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of the notes. Our credit ratings, however, may not reflect the potential impact that risks related to structural, market or other factors may have on the value of your notes.

There are significant restrictions on your ability to transfer or resell your notes.

The notes are being offered and sold pursuant to an exemption from registration under United States and applicable state securities laws. Therefore, you may transfer or resell the notes in the United States only in a transaction registered under or exempt from the registration requirements of the United States and applicable state securities laws, and you may be required to bear the risk of your investment for an indefinite period of time.

RESTRICTED GROUP SELECTED FINANCIAL AND OTHER DATA

The following table summarises certain consolidated financial information and other operating data of the restricted group of Companies for the dates and periods indicated below and should be read in conjunction with, and are qualified by reference to, "Management's Discussion and Analysis of Financial Condition and Results of Operations," the consolidated financial statements and the related notes.

	Fiscal Year ended December 31,	
Selected restricted group financial data:	**2016**	**2017**
	(in thousands of US dollars)	
Restricted group voyage revenue	$ 205,201	$ 178,358
Restricted group EBITDA [1]	52,866	18,376
Total assets [2]	712,547	694,152
Cash, restricted cash, cash equiv. and short-term inv	57,216	47,135
Total debt [3]	462,363	505,645

	Fiscal Year ended December 31,	
Restricted group EBITDA reconciliation:	**2016**	**2017**
	(in thousands of US dollars)	
Net profit/(loss)	$ (50,797)	$ (63,072)
Interest and finance expenses	(38,856)	(38,190)
Depreciation expense	(38,893)	(37,921)
Amortisation expense	(4,305)	(3,105)
Gain/(Loss) on sale of vessel	1,241	(4,920)
Other income/(expenses)	(45,774)	975
Restricted group EBITDA	**$ 75,790**	**$ 20,089**

	Fiscal Year ended December 31,	
Restricted group fleet data, at end of period:	**2016**	**2017**
Total dwt of vessels	$ 1,564,709	$ 1,496,477
Number of vessels [4]	22	21
Vessels on order	4	4
Commitments for advances of newbuildings [5]	179,926	144,508
TCE rate [6] per vessel per day [7]		
Handysize	$ 7,600	$ 11,300
Handymax	15,600	11,400
Panamax	17,800	11,400
Aframax	17,000	14,000
Daily operating expenses per vessel [7] [8]		
Handysize	$ 8,000	$ 6,400
Handymax [9]	6,000	6,200
Panamax [9]	7,000	7,100
Aframax [9]	7,100	8,400

(1) EBITDA is defined as net profit from operations before taxes, depreciation expense, amortisation expense and gain/(loss) arising from disposal of vessels and other income / (expenses). EBITDA is used by analysts in the shipping industry as a common performance measure to compare results with peers. We believe that EBITDA is useful to investors as the shipping industry is capital intensive, which often requires significant costs of financing. EBITDA is not an item recognised by U.S.GAAP, and should not be considered as an alternative to net profit, profit from operations, cash flow from operating activity or any other indicator of a company's operating performance or liquidity required by U.S.GAAP.

The definition of EBITDA used here may not be comparable to that used by other companies. As of December 31, 2016, we did not have any goodwill or intangibles on our balance sheet.

(2) *As of December 31, 2017, we did not have any goodwill or intangibles on our balance sheet. Number of vessels that constituted our fleet as of the end of the relevant reporting period.*

(3) *Total debt amount includes short-term and long-term debt, and is presented net of related loan fees of approximately $8.9 million and $8.4 million as of December 31, 2016 and 2017 respectively.*

(4) *Number of vessels that constituted our fleet as of the end of the relevant reporting period. TCE rate and Daily Operating Expenses are presented rounded to the nearest hundred.*

(5) *Commitments for advances of newbuildings are reported gross of committed financing arrangements as of the end of each period (in thousands of dollars). During the twelve month period ended December 31, 2016, none of our vessels underwent planned special survey in drydock. These compare to six Handymax and seven Panamax for the prior year.*

(6) *Time charter equivalent rate ("TCE rate") is a standard industry measure of the average daily revenue performance of a vessel. TCE rate is equal to spot and time charter revenues, less voyage expenses during a period, divided by the number of available days during the period. We do not deduct commission, as commission is payable on all types of charter. Time charter equivalent revenue and TCE rate are not measures of financial performance under US GAAP and may not be comparable to similarly titled measures of other companies.*

(7) *TCE rate and Daily Operating Expenses are presented rounded to the nearest hundred.*

(8) *Daily Operating Expenses, which include crewing, repairs and maintenance, insurance, stores, lube oils and communication expenses, are calculated by dividing vessel operating expenses by the aggregate number of calendar days that we owned each vessel for the relevant time period.*

(9) *During the twelve months period ended December 31, 2017, one Panamax m/t, two Aframax m/ts, one m/v MGC-LPG and one Handymax-LPG of our vessels underwent to planned special survey in drydock. This compares with the lack of Special Surveys during the comparative period of 2016.*

SELECTED CONSOLIDATED FINANCIAL INFORMATION AND OTHER OPERATING DATA

The following table presents selected consolidated financial information and other operating data of the Company for the dates and periods indicated below and should be read in conjunction with, and are qualified by reference to, "Management's Discussion and Analysis of Financial Condition and Results of Operations," the consolidated financial statements and the related notes. The selected consolidated financial information in the table as of December 31, 2016 and 2017 and for each of the previous three years in the period ended December 31, 2017 is derived from our audited consolidated financial statements that are included in this Annual Report beginning on page F-11. The selected consolidated financial information in the table as of December 31, 2013, 2014 and 2015 and for the two years in the period ended December 31, 2014, is derived from our audited consolidated financial statements that are not included in this annual report.

	Fiscal Year ended December 31, (in thousands of dollars)				
	2013	***2014***	***2015***	***2016***	***2017***
Consolidated Group Financial Data:					
Income Statement Data [1]:					
Voyage revenues	$ 290,226	$ 345,304	$ 378,243	$ 295,937	$ 240,666
Charter-in revenues	—	15,134	20,944	9,052	2,403
Voyage expenses	(127,663)	(141,337)	(112,050)	(97,611)	(109,096)
Charter-in voyage expenses	—	(5,047)	(3,423)	(2,927)	(822)
Vessel operating expenses	(70,921)	(83,029)	(80,829)	(81,692)	(82,778)
Charter in hire expenses	—	(6,376)	(12,935)	(15,977)	(3,294)
Depreciation and amortization	(54,989)	(59,936)	(62,449)	(62,074)	(59,771)
General and administrative expenses	(13,504)	(13,541)	(13,313)	(13,365)	(14,349)
Gain/(Loss) on sale of vessel(s)	(3,321)	—	(2,966)	1,241	(4,920)
Operating income/(loss)	$ 19,828	$ 51,172	$ 111,222	$ 32,584	$ (31,961)
Other income/(expenses), net [1]	(5,640)	(1,468)	(1,668)	(3,313)	691
Interest and finance expenses	(24,144)	(47,566)	(45,583)	(48,888)	(49,645)
Net Income/(Loss)	$ (9,956)	$ 2,138	$ 63,971	$ (19,617)	$ (80,915)
Net Income / (Loss) attributable to non-controlling interest	104	7,228	12,231	(659)	(6,664)
Net Income/(Loss) attributable to Eletson Holdings Inc.	$ (10,060)	$ (5,090)	$ 51,740	$ (18,958)	$ (74,251)
Other Financial Data:					
Capital Expenditures:					
Payments for vessels under construction, vessels' acquisitions, improvements and additions	$ 59,061	$ 120,823	$ 137,275	$ 137,056	$ 56,391
Hull and machinery surveys	2,902	8,130	10,594	801	4,276
Other capital expenditures	173	200	21	71	48
Cash Flow Data:					
Net cash provided by/(used in) operating activities	$ 49,461	$ 63,851	$ 115,933	$ 50,752	$ (10,783)
Net cash used in investing activities	(43,279)	(120,972)	(112,548)	(86,571)	(40,153)
Net cash provided by financing activities	11,300	57,413	10,586	35,476	22,593
Balance Sheet Data, at end of period:					
Cash, restricted cash, cash equivalents and short-term investments	$ 128,350	$ 63,587	$ 117,398	$ 81,579	$ 55,009
Working capital [2]	77,392	14,443	2,496	(37,956)	(737,743)
Vessels, vessels under construction and other property, net	969,366	1,036,387	1,087,481	1,114,360	1,106,466
Total assets [3]	1,156,180	1,172,647	1,276,026	1,268,929	1,222,452
Total debt [4]	745,145	719,040	749,958	766,401	787,793
Total shareholders' equity	381,038	407,437	485,424	458,246	361,556
EBITDA	$ 78,138	$ 107,397	$ 172,051	$ 103,269	$ 34,443

(1) Other income/(expenses), net reflects interest and other income, gain/(loss) on derivatives, foreign exchange losses and Eletson Gas funding costs.

(2) Working capital is defined as total current assets less total current liabilities

(3) For all the years presented, we did not have any goodwill or intangibles on the balance sheet.

(4) Total debt amount includes short-term and long-term debt, and is presented net of related financing fees of approximately, \$12.1 million, \$10.7 million, \$9.3 million, \$8.2 million and \$8.0 million as of December 31, 2013, 2014, 2015, 2016 and 2017 respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion of our financial condition and results of operations for the years ended December 31, 2017, 2016 and 2015. You should read this section together with the consolidated financial statements and related notes for these periods appearing elsewhere in this Annual Report, and the following discussion is qualified by reference thereto. This discussion includes forward- looking statements based on assumptions about our future business. Our actual results could differ materially from those contained in the forward-looking statements.

Overview

We are a world leader in international seaborne transportation specialising in the transport of refined petroleum products, liquefied petroleum gas ("LPG") and ammonia (NH3). From our offices in Piraeus, London and Stamford, Connecticut, we charter our versatile, high-quality and modern fleet of 32 vessels to customers, including major international oil, LPG, ammonia (NH3), ethylene and other petrochemical gases (LEG) companies and traders. Our company was founded in 1966, and over the course of more than 50 years we have earned a reputation for commercial, operational and technical excellence. For decades, we have been at the forefront of the tanker sector, often leading innovation and progress within our industry. For example, we commenced the transition of our fleet to double hull tankers in the mid-1980s, well before this was required by law, and by 1996 had become one of the first global tanker companies to own and operate an entirely double-hulled fleet.

We are an integrated owner, operator and manager of a diversified fleet of product tankers and LPG/LEG carriers. Our strategy is to operate our vessels efficiently and thereby realise improved results through operational excellence throughout the vessels' useful life, as opposed to trading our vessels to generate profits from asset sales in the secondhand market.

We are a private company and currently own and operate one of the world's largest fleets of medium and long-range double hull product tankers, consisting of Handymax, Panamax and Aframax size vessels. Our product tanker vessels are capable of carrying a wide range of refined petroleum products, such as fuel oil and vacuum gas oil (often referred to as "dirty products") and gas oil, gasoline, jet fuel, kerosene and naphtha (often referred to as "clean products"), as well as crude oil. Most of the vessels in our fleet are in series of "sister ships," which allows us to capitalise on economies of scale and provides us with operational and scheduling flexibility. We believe that the size and versatility of our product tanker fleet enables us to carry a broad set of refined petroleum products across a diverse range of geographies, and affords us with backhaul and triangulation opportunities not available to many of our competitors. The scale and flexibility of our fleet, our commercial expertise and our long-standing industry relationships have allowed us to sustain high utilisation levels and have led to our strong track record of outperforming the spot market over the last few years.

We are also one of the largest owners globally of handy-sized semi-ref and medium-sized fully ref LPG/LEG carriers, which are gas carriers that transport LPG, ammonia (NH3), ethylene and other petrochemical gases. LPG, which consists of propane and butane, is a clean and efficient source of energy used as a heating, cooking and transportation fuel and as a petrochemical and refinery feedstock, while ammonia is mainly used in the agricultural industry as a fertiliser and ethylene is a feedstock material. In 2006, we strategically diversified our operations through an expansion into the LPG sector, a niche shipping sector with attractive fundamentals and high barriers to entry, given the requirements for long-term relationships with industrial and petrochemical customers and the more complex technical operations of LPG/LEG carriers. We took delivery of our first MGC vessels in 2009 and currently operate, through our unrestricted subsidiary, Eletson Gas, 11 LPG/LEG carriers, which efficiently operate together with our fleet of 21 product tankers.

Pursuant to our expansion strategy, our joint venture with the Blackstone Group ("Blackstone") Eletson Gas has placed orders for the construction of nine Handysize, five already delivered in 2015 and 2016 and the four expected to be delivered in 2018. In total, Blackstone has provided $125 million in contributions, which has been provided in phases, with the first contribution having been made to help finance the acquisition of one secondhand vessel in 2013 and to fund a portion of the equity payments for the construction of the newbuilding vessels. We believe that our targeted expansion into the LPG/LEG sector represents a natural extension of our business and will provide increased stability to our revenue stream, as well as opportunities for continued growth. During the second half of 2015 and first quarter of 2016 the first five Handysize semi-ref LPG/LEG carriers were delivered. In May 2018, we took delivery of the m/v Kalolimnos and upon delivery of the remaining three newbuilding vessels in 2018, we expect that we will be one of the world's largest LPG/LEG transportation companies by capacity.

We have a large and diversified customer base, many of whom have consistently used our shipping services for more than 30 years. Our customers include major international oil companies such as BP, Conoco Phillips, Royal Dutch Shell and

Chevron Corporation, state owned integrated oil companies such as Pemex, Socar, Sabic and Bharat Petroleum, refined oil traders such as Vitol, Trafigura and Glencore and LPG, ammonia (NH3) and petrochemical producers, users, traders and importers, such as Geogas, Kolmar and Petredec, as well as various other entities.

We primarily operate our product tankers in the spot market with three of our five MGC's currently deployed in the time charter market. In addition, our two handysize product tanker vessels are employed in the Hafnia handysize pool and our five handysize LPG/LEG carriers are employed in the E3 pool, jointly owned by Eletson Gas and Evergas A/S. We continually monitor and evaluate economic conditions and market trends to determine the most profitable deployment of our vessels, and in the past have added vessels to our time charter portfolio in order to take advantage of attractive rates and relative revenue stability. Our strong marketing capabilities, operational and technical expertise, established industry relationships and diversified business model have allowed us to maximise vessel utilisation and generate superior returns. As a result, since 2009 when the downturn in shipping started, to the twelve month period ended December 31, 2017, we have grown our revenues and EBITDA by a CAGR of 0.3% and 0.5%, respectively.

For the year ended December 31, 2017, we generated voyage revenues of $243.1 million and EBITDA of $34.4 million on a consolidated basis.

Recent Developments

Product Tanker Business

The product tanker market in 2017 experienced one of its worst years on record. Fundamentally, tonne-mile demand in 2017 was significantly affected by OPEC oil cuts as reduced production resulted in lower volumes bound for sea transit. OPEC cuts averaged approximately 1.45 million bpd which meant oil demand growth was covered by drawing on existing stocks which in turn kept tanker demand low throughout 2017, ignoring the further negative impact of vessel deliveries.

While the overall market was depressed, results were often mixed in the various regions our vessels trade. Also, Chinese imports increased by just over 800k bpd following a similar increase in 2016. Indian oil demand grew by 5% led by clean petroleum products. In the Caribbean basin where we extensively operate, the dirty products market decreased significantly due to a sharp reduction in Venezuelan and Colombian exports to the US. Specifically, crude oil production in Venezuela declined by nearly 30%, thus significantly impacting all crude tanker sectors in the Atlantic basin. Clean markets East of Suez also exhibited substantial weakness due to demand's trade down by 8% for the AG/East as AG naphtha supply dropped and domestic demand increased. A constant stream of newly built suezmaxes also cannibalized a number of LR cargoes reducing the potential for triangulation and efficient use of the LRs.

On the supply side, 2017 had the highest number of crude tanker deliveries on record since 2009. For the clean tanker sector deliveries were also high but at the same level of growth as previous years. More specifically for our sectors, the Aframax and Panamax fleet increased by 10.8% and 8.3% respectively in 2017. The MR fleet increased 4.6%. Vessel additions for product tankers should slow in 2018 for most sectors. Reduced fleet growth should be augmented by increased scrapping as most tanker segments will experience an increased number of ships crossing critical age thresholds.

Liquefied Petroleum Gas Business

In terms of gas production, 2017 was a year of stability in LPG supply with no real additional volumes from either the US Gulf or the Arabian Gulf. There were slight supply gains from renewed Iranian exports, but the amounts were not material enough to add any impetus to the market. Growth in demand from the Far East and India continued at moderate rates similar to 2016, though the increase in VLGC supply more than offset this increase in product demand.

For the MGC sector, 2017 was an extremely difficult year. With little increase in product available to be moved and a large oversupply of VLGCs, added MGC newbuilding deliveries during the year substantially weakened that market resulting in lower rates and a marked increase in idle time across the global fleet. Pressure from struggling MGCs forced a significant number of Handymax vessels into petrochemical gases. This movement was both significant and sustained and put a good deal of pressure on the Handysized vessels severely limiting earnings.

The petrochemical market where our Handysize vessels operate also had significant difficulties during 2017 as that market suffered from vessel oversupply. Also, for most of the year the West to East arbitrage was not enough to promote long haul petrochemical gas trading adding further downward pressure on tonne-mile demand.

During 2017 the fully refrigerated MGC fleet increased by 13.4%, ethylene capable MGCs increased 3.1% (three ships, one of which was built for a dedicated trade). Semi refrigerated and ethylene capable Handymaxes increased 4.5% and 2.7%, respectively. Handysize ethylene capable ships increased 2.7%.

Fleet Deployment Overview

We primarily operate our product tankers in the spot market, while our MGC carriers tend to be mostly deployed in the time charter market. We intend to continue deploying our MGC vessels, our Handymax vessel and our newbuilt LPG/LEG vessels in both the spot and time charter markets and on COAs to maximise revenues and take advantage of market opportunities. We continually monitor and evaluate economic conditions and market trends to determine the most profitable deployment of our vessels and in the past have added vessels to our time charter portfolio in order to take advantage of attractive rates and relative revenue stability. Comprising mainly handy-size and medium-size vessels, our fleet can generally navigate through restricted waters and call on a wide number of ports, bringing cargoes closer to their ultimate destinations than larger vessels. For the year ended, our fleet presence based on port calls was distributed primarily between the Americas (78%), Europe (5%), India (6%), the Black Sea and the Mediterranean (8%) and the Arabian Gulf (3%). We believe that our fleet deployment strategy provides us with the ability to benefit from increases in charter rates while maintaining a measure of stability through cycles in the industry. The following table details the percentage of our fleet operating on time charters and in the spot market during the years ended December 31, 2015, 2016 and 2017:

Time Charter vs. Spot Charter Deployment
(as a percentage of available days)

	For the fiscal year ended December 31,		
	2015	**2016**	**2017**
Percent in time charter days	22%	14%	14%
Percent in spot charter days	78%	86%	86%
Total vessel available days	10,985	12,513	11,618

The following table details the available days, operating days and utilisation levels for each of the years ended December 31, 2015, 2016 and 2017 that we believe may be useful in better understanding our financial position and results of operations:

	For the fiscal year ended December 31,		
	2015	**2016**	**2017**
Total vessel available days	10,985	12,513	11,618
Total operating days	11,553	12,590	12,000
Laden days as a percent (%) of total ballast and laden days	56%	58%	56%
Fleet utilisation	95%	99%	97%

Total vessel availability varies with the size of our fleet. The variance in fleet utilisation is mainly due to number of vessels that need to drydock at any given year. Over the periods presented above, unplanned off-hire time has been stable at less than three hours per ship per year and, otherwise, fleet utilisation typically varies only due to major incidents affecting the vessels.

Fleet Employment-Freight Market Review

The majority of our product tankers were operated in the spot market in 2017, as returns in the spot market exceeded time charter rates significantly for another year. The majority of our fleet continued to trade in the dirty market in the Atlantic Basin although we did take advantage of long-haul voyages from the US to the Far East with our Panamaxes. In the clean market, three of our four Aframaxes traded in the clean market exclusively east of Suez. Additionally, for the second half of the year we switched one of our Handymaxes to the clean market in the Atlantic Basin in order to take advantage favourable conditions.

For the gas fleet, an oversupply of larger tonnage took place during 2017 adding pressure on the market. While LPG shipping demand continued to grow, the oversupply resulted in the extension of existing time charters was at reduced levels for our MGC's, while the vessels trading spot suffered some reduced utilisation. The LPG product market was continued strongly with increased demand particularly in the Far East. However the oversupply of tonnage made 2017 a very difficult year for the VLGC market and by association sectors below in which we operate. Political uncertainty combined with a number of technical outages within the supply chain to make the petrochemical market very turbulent. As a result, the handsized vessels worked in both intra and inter-regional business, making the best possibile utilisation within an inconsistent supply of cargoes.

Total fleet (tanker and LPG) average daily earnings on a time charter equivalent (TCE) basis were as follows:

Year		
2015	2016	2017
26,700	17,000	12,000

In comparison to the prior year, 2017 TCE rates for our Handymax, Panamax, Aframax and LPG fleet were lower by 27%, 36%, 18% and 32% respectively.

Basis of Presentation and General Information

Important Financial and Operational Terms and Concepts

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

Operating days. Operating days are the total number of ownership days in a period. The shipping industry uses operating days to measure the aggregate number of days in a period during which vessels actually incur expenses.

Available days. Available days are the total number of our ownership days less the aggregate number of days that our vessels are off-hire due to scheduled repairs or repairs under guarantee, vessel upgrades or special surveys and the aggregate amount of time that we spend for initial repositioning of our vessels upon delivery. The shipping industry uses available days to measure the number of days in a period during which vessels should be capable of generating revenues.

Off-hire. The period a vessel is unable to perform the services for which it is required under a charter.

Time Charter Equivalent Rate. TCE rate is a standard industry measure of the average daily revenue performance of a vessel. TCE rate is equal to spot and time charter revenues, less voyage expenses during a period, divided by the number of available days during the period. TCE rate is used primarily to compare daily earnings generated by vessels on time charters with daily earnings generated by vessels on spot charters, because charter rates for vessels on spot charters are generally not expressed in per day amounts, and charter rates for vessels on time charters generally are expressed in such amounts. We do not deduct commissions, as commissions are payable on all types of charters. Time charter equivalent revenue and TCE rate are not measures of financial performance under U.S. GAAP and may not be comparable to similarly titled measures of other companies.

Spot charter. A spot charter is an agreement to charter a vessel for an agreed amount of cargo from specified loading port(s) to specified discharge port(s). In contrast to a time charter, the vessel owner is generally required to pay substantially all of the voyage expenses, including port costs, canal charges and fuel expenses, in addition to the vessel operating expenses.

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

Voyage revenues. Voyage revenues primarily include revenues from spot charters and time charters. Our spot market revenues are recognised ratably over the duration of the spot market voyages from loading to discharge of the cargo and time charter revenues over the duration of the time charters. We also generate demurrage revenue, which represents fees charged to charterers associated with our spot market voyages when the charterer exceeds the agreed upon time required to load or discharge a cargo.

Voyage expenses. Voyage expenses are all expenses attributable to a particular voyage, including any bunker fuel expenses, port fees, cargo loading and unloading expenses, canal charges, agency fees and commissions. Voyage expenses are typically paid by the customer under time charters and by us under spot charters, except for commissions which, under both types of charters, we pay to ship brokers and to in-house brokers associated with the charterer, depending on the number of brokers involved in arranging the charter. As a result, substantially all of our voyage expenses relate to spot charters. The amounts of such voyage expenses over a specified period are driven by the mix of charters undertaken during that period.

Vessel operating expenses. Under all types of charters and contracts for our vessels, except for bareboat charters, we are responsible for vessel operating expenses, which include crewing, repairs and maintenance, insurance, stores, lube oils and communication expenses. Our vessel operating expenses, which generally represent fixed costs, have historically changed in line with the size of our fleet. Other factors beyond our control, some of which may affect the shipping industry in general (including, for instance, fluctuations in currency exchange rates, developments relating to market prices for insurance or inflationary increases), may also cause these expenses to increase.

The cost to maintain and operate a vessel also increases with the age of the vessel. Newer vessels are generally more fuel efficient than older vessels, and older vessels cost more to insure and require more frequent upgrades to comply with new regulations. The average age of our product tanker fleet as of December 31, 2017, was 12.9 years, as compared to the average age of 8 years for the world product tanker fleet. The average age of our LPG/LEG fleet as of December 31, 2017 was 5.9 years, as compared to average age of 15 years for the world LPG/LEG fleet. As our fleet ages, or if we expand our fleet by acquiring previously owned and older vessels, our vessel operating expenses would be expected to rise and, assuming all else remains constant, including rates, vessel profitability would be expected to decrease.

Drydocking and related amortisation. We must periodically drydock each of our vessels for inspection, repairs and maintenance and any modifications to comply with industry certification or governmental requirements. We capitalise a substantial portion of the costs incurred during drydocking and for the survey and annual class survey costs, and amortise those costs on a straight-line basis from the completion of a drydocking of special or intermediate survey to the estimated date of the next drydocking. We expense as incurred costs for routine repairs and maintenance performed during drydocking that do not improve or extend the useful lives of the assets. The number of drydockings undertaken in a given period and the nature of the work performed determine the level of drydocking expenditures.

Depreciation. The cost of our vessels is depreciated on a straight-line basis over the expected useful life of each vessel. Depreciation is based on the cost of the vessel less its estimated residual value. We depreciate our product tankers over 25 years, and we depreciate our LPG carriers over 30 years, from the date of delivery by the shipyard, which we believe is common in the shipping industry. We expect that these charges will continue to grow as a result of our acquisitions of additional vessels. Depreciation charges also include the depreciation charge relating to the building where our principal offices are located.

General and administrative expenses. General and administrative expenses are composed of general corporate overhead expenses, including personnel costs, property costs, legal and professional fees and other general administrative expenses. Personnel costs include, among other things, salaries, pension costs, fringe benefits, travel costs and health insurance.

Interest and Finance Expenses. We have historically incurred interest expense and financing costs principally in connection with vessel-specific debt of our subsidiaries. Interest incurred during the construction of a newbuilding is capitalised as part of the construction cost. Interest expense may also change with prevailing interest rates, although the effect of these changes may be reduced by interest rate swaps or other derivative instruments. As of December 31, 2017, we had not swapped any of our floating interest rate debt into fixed interest rates, however we may enter into interest rate swap arrangements in the future, if we believe it is advantageous to do so.

Key Factors Affecting our Results

Our revenues are driven primarily by the number of vessels in our fleet, the number of days during which our vessels operate and the daily rates that our vessels earn under such charters. We believe that the principal factors that affect our results of operations and financial position include:

- the level of rates in the spot charter and time charter markets;

- the duration of the charters;
- the earnings of our vessels in the charter market;
- the aggregate level of supply and demand in the refined petroleum products and the MGC markets;
- vessel expenses;
- administrative expenses;
- depreciation and amortisation;
- decisions relating to vessel acquisitions and disposals;
- interest expenses; and
- foreign exchange rates.

We expect our revenues to increase as we increase the size and diversity of our fleet. We believe that the effectiveness of our operations, including our dedication to vessel maintenance and our experienced and well-trained personnel, will enable us to continue to increase our overall vessel utilisation rates and revenues.

Chartering Policy and Vessel Revenues

Our revenues are also affected by the types of charters on which our vessels are engaged. Our product tankers are primarily deployed on spot charters. During 2017, our MGC vessels fully-ref LPG carriers were mainly deployed on time charters. We intend to continue deploying our MGC vessels, Handymax vessel and the newbuilding LPG/LEG carriers, in both the spot and time charter markets and on COAs to maximise revenues and take advantage of market opportunities. We continually monitor and evaluate economic conditions and market trends to determine the most profitable deployment of our vessels, and in the past have added vessels to our time charter portfolio in order to take advantage of attractive rates and relative revenue stability.

While vessels operating on time charters provide more predictable cash flows, time charters can yield lower profit margins than vessels operating in the spot market during periods characterised by favourable market conditions. Spot charter rates are historically on average higher than time charter rates to compensate for the fact that the spot market is less predictable and because spot charters usually require the vessel owner to pay voyage expenses, as compared to time charters, under which the charterer usually pays voyage expenses. Also, although vessels operating in the spot market generate revenues that are less predictable and exposed to the risk of declining charter rates, our spot market operations have historically enabled us to capture increased profit margins during periods of improvements in tanker rates. We believe that operating our product tankers primarily in the spot market will allow us to take advantage of charter rate increases that we expect to occur in the forthcoming years and take advantage of upward movement of this market.

Fluctuations in the spot tanker market contribute to the volatility of our net operating cash flow and thus our ability to generate sufficient cash flows to meet our short-term liquidity needs. Historically, the tanker industry has been cyclical, experiencing volatility in profitability and asset values resulting from changes in the supply of, and demand for, vessel capacity. Freight and charter rates are strongly influenced by the supply of tanker vessels and the demand for refined petroleum product and LPG transportation services. In addition, spot markets for tankers have historically exhibited some seasonal variations in charter rates. Spot markets for tankers are typically stronger in the winter months as a result of increased oil consumption in countries in the northern hemisphere or disruptions due to weather. We believe that our revenues are not generally affected to any material degree by such seasonal variations in charter rates.

Based on the total available days for our vessels, for the years ended December 31, 2015, 2016 and 2017, 78.3%, 86.3% and 86% respectively, of our vessels operated in the spot charter market.

The following table sets forth the average daily TCE rates earned by our product tanker and LPG fleet for the years ended December 31, 2015, 2016 and 2017:

Average TCE rates in $/day	For the fiscal year ended December 31,		
(rounded to the nearest hundred)	**2015**	**2016**	**2017**
Vessel type			
Handysize	$ —	$ 7,600	$ 11,300
Handymax	19,700	15,600	11,400
Panamax	25,400	17,800	11,400
Aframax	27,900	17,000	14,000
LPG/LEG	33,000	17,900	12,100
Fleet	26,700	17,000	12,000

(1) *The calculation of LPG TCE rate per vessel does not include one-time repositioning voyage expenses of $0.1 million and 23 days in 2016 compared with $0.2 million and 31 days in 2015, required to reposition the vessels to established LPG trading areas.*

Operating Expenses

The following table sets forth the average daily operating expenses per vessel type for the periods indicated:

Average Daily OPEX rates in $/day *(rounded to the nearest hundred)*	*For the fiscal year ended December 31,*		
	2015	**2016**	**2017**
Vessel type			
Handysize	$ —	$ 8,000	$ 6,400
Handymax	7,200	6,000	6,200
Panamax	7,700	7,000	7,100
Aframax	6,500	7,100	8,400
LPG/LEG	7,000	6,600	6,700
Fleet	7,300	6,900	7,000

(1) *The calculation of LPG carrier daily operating expenses does not include expenses of $0.5 million in 2016 compared with $0.5 million in 2015, reflecting one-time initial supply of stores and spares.*

Results of Operations

We report financial information and evaluate our operations by charter revenues. We do not use discrete financial information to evaluate the operating results for each such type of charter. Although revenue can be identified for these types of charters, management does not identify expenses, profitability or other financial information for these charters. As a result, we review operating results solely by revenue per day and operating results of our fleet. For further information, see the notes to the consolidated financial statements included herein.

Year ended December 31, 2017 compared to the year ended December 31, 2016

The following table presents revenue and expense information for the years ended December 31, 2017 and 2016. This information was derived from the Company's audited consolidated financial statements for the years ended December 31, 2017 and 2016.

Consolidated Statements of Comprehensive Income/(Loss)

		Year ended December 31, 2016		Year ended December 31, 2017
Voyage revenue	$	295,937	$	240,666
Charter-in revenue		9,052		2,403
Total revenue	**$**	**304,989**	**$**	**243,069**
Expenses:				
Voyage expenses	$	(97,611)	$	(109,096)
Charter-in voyage expenses		(2,927)		(822)
Vessel operating expenses		(81,692)		(82,778)
Charter-in hire expense		(15,977)		(3,294)
Depreciation		(56,894)		(56,242)
Amortisation of deferred charges		(5,180)		(3,529)
General and administrative expenses		(13,365)		(14,349)
Loss/(Gain) on sale of vessels		1,241		(4,920)
Total expenses	**$**	**(272,405)**	**$**	**(275,030)**
Profit/(Loss) from operations	**$**	**32,584**	**$**	**(31,961)**
Other Income / (Expenses), net:				
Interest and finance expenses	$	(48,888)	$	(49,645)
Other income / (expenses)		(3,147)		(2,109)
Gain from debt extinguishment		—		2,350
Gain / (loss) on derivatives		(81)		130
Foreign exchange gain / (loss)		(85)		320
Total other expenses, net	**$**	**(52,201)**	**$**	**(48,954)**
Net loss	**$**	**(19,617)**	**$**	**(80,915)**
Net loss attributable to non-controlling interest		(659)		(6,664)
Net loss attributable to Eletson Holdings Inc.	**$**	**(18,958)**	**$**	**(74,251)**

Voyage revenues. Gross revenue decreased 20.4% to $243.1 million in 2017, from $305.0 million in 2016. This decrease was due to lower TCE rates which decreased 29.4% year over year and as a result of the decrease in operating days, due to the sale of the m/t Stavronisi in July 2017 and due to the redelivery to her owners in May 2017 of the only one remaining charter-in vessel, the m/v Immanuel Schulte. This decrease was partly offset by the full utilization in 2017 of the two 12,000 cbm semi-ref LPG/LEG vessels the m/v's Kithnos and Dilos that were delivered in January and March 2016 respectively and due to the full utilization in 2017 of the two m/t's Skyros and Sikinos that were delivered February and March 2016 respectively. During 2017, six of our vessels operated under short-term (typically one-year) time charters.

Voyage expenses. Voyage expenses increased by $9.4 million, or 9.4%, to $109.9 million in 2017 from $100.5 million in 2016, entirely due to higher bunker prices. Average pricing for fuel oil in 2017 was $323 per metric tonne, in contrast to the prior year average pricing of $253 per metric tonne, which represents a decrease of 27.67%.

Vessel operating expenses. Operating expenses increased slightly 1.1%, to $82.8 million in 2017 from $81.7 million in 2016 due to the lack of dry dock during 2016 compared to 2017, in part offset by weakening of the US Dollar against the Euro

Charter-in hire expenses. Charter-in hire expenses were 79.4% or $12.7 million lower as the first charter-in vessel, the m/v Gas Oriental, was redelivered to her owners in September 2016 and the second charter-in vessel, the m/v Immanuel Schulte redelivered to her owners in May 7, 2017.

Depreciation and amortisation. Depreciation charges marginally decreased by 1.1% to $56.2 million in 2017 from $56.9 million in 2016. Amortisation for special and intermediate surveys decreased by 31.9%, to $3.5 million in 2017 from $5.2 million in 2016 due to lower capitalized balances from heavy special and intermediate surveys schedule performed in 2017.

General and administrative expenses General and administrative expenses increased by $0.9 million in 2017 to $14.3 million in 2017 compared to $13.4 million in 2016 due to consultant fees paid in 2017.

Gain/(Loss) on sale of vessel. During July 2017, we completed the sale of our oldest vessel, the m/t Stavronisi. Net result from the sale was a book loss of $4.9 million. During March 2016 we completed the sale of vessel, the m/t Velopoula. Net result from the sale was a book gain of $1.2 million.

Interest and finance expenses. Interest and finance expenses increased by 1.5%, to $49.6 million in 2017 from $48.9 million for the prior year. This is due to higher loan balances partly offset by increased imputed capitalised interest for the newbuilding vessels. Amortisation for deferred fees was lower year over year, consistent with debt maturities. During 2017, the Company's weighted average effective interest rate for the year was 6.55% compared to 6.03% in 2016.

Other income / (expenses). Other expenses decreased year over year by $1.0 million. This decrease is due to the loss recorded in year 2016 regarding the result of the Sino project canceled in 2016 amounting to $3.0 million. Foreign exchange gain was $0.3 million in 2017 compared to foreign exchange losses of $0.1 million in 2016.

Net loss attributable to non-controlling interests. Net loss attributable to the non-controlling interests of Eletson Gas for the year ended December 31, 2017, was $6.7 million. This reflects net loss proportional to the contributions of non-controlling interests in the period ended December 31, 2017 compared to a loss of $0.7 million in 2016.

Net loss. As a result of the above, the Company recorded a net loss of $74.3 million for the year ended December 31, 2017. This compares with a net loss of $19.0 million for the year ended December 31, 2016.

Year ended December 31, 2016 compared to the year ended December 31, 2015

The following table presents revenue and expense information for the years ended December 31, 2015 and 2016. This information was derived from the Company's audited consolidated financial statements for the years ended December 31, 2015 and 2016.

		Year ended December 31, 2015		**Year ended December 31, 2016**
Voyage revenue	$	378,243	$	295,937
Charter-in revenue		20,944		9,052
Total revenue	**$**	**399,187**	**$**	**304,989**
Expenses:				
Voyage expenses	$	(112,050)	$	(97,611)
Charter-in voyage expenses		(3,423)		(2,927)
Vessel operating expenses		(80,829)		(81,692)
Charter-in hire expense		(12,935)		(15,977)
Depreciation		(55,050)		(56,894)
Amortisation of deferred charges		(7,399)		(5,180)
General and administrative expenses		(13,313)		(13,365)
Loss/(Gain) on sale of vessels		(2,966)		1,241
Total expenses	**$**	**(287,965)**	**$**	**(272,405)**
Profit/(Loss) from operations	**$**	**111,222**	**$**	**32,584**
Other Income / (Expenses), net:				
Interest and finance expenses	$	(45,583)	$	(48,888)
Other income / (expenses)		(1,552)		(3,147)
Gain from debt extinguishment		—		—
Loss on derivatives		(6)		(81)
Foreign exchange gain / (loss)		(110)		(85)
Total other expenses, net	**$**	**(47,251)**	**$**	**(52,201)**
Net income/(loss)	**$**	**63,971**	**$**	**(19,617)**
Net loss attributable to non-controlling interest	$	12,231	$	(659)
Net income/(loss) attributable to Eletson Holdings Inc.	**$**	**51,740**	**$**	**(18,958)**

Voyage revenues. Voyage revenues decreased by $94.2 million, or 23.6%, to $305.0 million in 2016 from $399.2 million in 2015. This decrease was due to the decrease in Charter-in revenue of 56.8%, to $9.1 million from $20.9 million in 2015. Further contributing were lower TCE rates across all sectors, decreasing 36.3% year over year on a fleet basis. Total available days in 2016 increased by 13.2% versus 2015 due to changes in fleet composition. The last two newbuild semi-ref LPG/LEG carriers, the m/v's Kithnos, Dilos were delivered in January and March 2016, respectively. Also, two secondhand Handysizes the m/t Skyros and Sikinos acquired in February and March 2016, respectively. This fleet growth was offset by the sale of our oldest vessel m/t Velopoula during the March of 2016 and the redelivery of Gas Oriental charter-in vessel to her owners in September 2016. During 2016, five of our vessels operated under short-term (typically one-year) time charters.

Voyage expenses. Voyage expenses decreased by $14.9 million, or 12.9%, to $100.5 million in 2016 from $ 115.5 million in 2015, primarily due to lower bunker prices. Average pricing for bunkers in 2016 was $253 per metric tonne, in contrast to the prior year average pricing of $364 per metric tonne, which represents a decrease of 30.4%. Increased bunkers consumption related mainly to 10.7% higher spot employment days, in part offset this significant decline in voyage expenses.

Vessel operating expenses. Operating expenses increased by $0.9 million, or 1.1%, to $81.7 million in 2016 from $80.8 million in 2015. This increase was largely attributable to increased crew expenses due to 13.2% additional available days, partly offset by lower non-capitalised drydocking expenses.

Charter-in hire expenses. Charter-in hire expenses increased by 23.5% to $16.0 million in 2016 from of $12.9 million in 2015, reflecting the full year employment of m/v Immanuel Schulte which commenced operations in June 2015.

Depreciation and amortisation. Depreciation charges marginally increased by $1.8 million, or 3.3% to $56.9 million in 2016 from $55.1 million in 2015 resulting from two newbuild vessels delivered and two secondhand vessels acquired during the first quarter of the year, in part offset by reduced depreciation from the sale of one vessel in 2016. Amortisation for special and intermediate surveys charges decreased $2.2 million or 30.0% compared to prior year due to lower capitalised balances from heavy special and intermediate surveys schedule performed previous years.

General and administrative expenses. General and administrative expenses marginally increased by 0.4% to $13.4 million in 2016 from $13.3 million in 2015 driven by the weakening of the Euro against the US dollar.

Gain/(Loss) on sale of vessel. During March 2016, we completed the sale of our oldest vessel, the m/t Velopoula. Net result from the sale was a book gain of $1.2 million. During March, August and September 2015 we completed the sale of four vessels, the m/t's Sporades, Kandilousa, Serifos and Serifopoulo. Net result from the sale was a book loss of $3.0 million.

Interest and finance expenses. Interest and finance expenses increased by $3.3 million, or 7.3%, to $48.9 million for the year ended December 31, 2016 from $45.6 million for the prior year. This increase is attributable to higher loan balances year over year and lower imputed capitalised interest. During 2016, the Company's weighted average effective interest rate for the year was approximately 6.03% compared to 6.05% in 2015.

Other income / (expenses). Other expenses increased by $1.6 million to $3.1 million for the year ended December 31, 2016 from $1.6 million for the prior year. Foreign exchange losses of $0.1 million remain at same level reflecting low volatility of the Euro versus USD rate.

Loss on derivatives. Derivatives loss decreased by $0.1 million year over year, reflecting maturity of the last interest rate swap contract.

Net income/(loss) attributable to non-controlling interests. Net loss attributable to the non-controlling interests of Eletson Gas for the year ended December 31, 2016 was $0.7 million. This reflects net loss proportional to the contributions of non-controlling interests in the period ended December 31, 2016 compared to a net gain of $12.2 million in 2015.

Net income/(loss). As a result of the above, the Company recorded a net loss of $19.0 million for the year ended December 31, 2016. This compares with a net income of $51.7 million for the year ended December 31, 2015.

Cash Flow Analysis

The following table shows our sources and uses of cash for the years ended December 31, 2017, 2016 and 2015.

	For the fiscal year December 31,		
	December 31, 2015	**December 31, 2016**	**December 31, 2017**
Net cash provided by/(used in) operating activities	$ 115,933	$ 50,752	$ (10,783)
Net cash used in investing activities	(112,548)	(86,571)	(40,153)
Net cash provided by financing activities	10,586	35,476	22,593
Cash and cash equivalents at beginning of the period	57,354	71,325	70,982
Cash and cash equivalents at end of the period	**$ 71,325**	**$ 70,982**	**$ 42,639**

Operating Activities

Net cash provided by operating activities decreased by $60.7 million, or 119.6%, to negative $10.8 million for the year ended December 31, 2017, compared to $50.8 million for the prior year. This decrease is primarily attributable to lower operating results, driven by lower freight results. This was mainly the result of lower market rates to all segments, 26.9% to Handymaxes, 36.0% to Panamaxes, 17.6% to Aframaxes and 32.4% to LPG vessels.

- Trade accounts receivables decreased by $1.3 million compared to a decrease of $9.9 million for the prior year corresponding period.
- Inventories, prepaid expenses and other assets decreased by $5.4 million compared to an increase of $4.5 million for the prior year.
- Accounts payable, accrued expenses and finance charges increased by $7.9 million compared to an increase of $6.9 million for the prior year corresponding period.

- Deferred revenue increased by $0.6 million compared to a decrease of $3.3 million for the same period last year.
- Deferred charges increased by $4.3 million compared to an increase of $0.8 million in the prior year due to the lack of drydocking during the prior year.

Net cash provided by operating activities decreased by $65.2 million, or 56.2%, to $50.8 million for the year ended December 31, 2016, compared to $115.9 million for the prior year. This decrease is primarily attributable to lower operating results, driven by lower freight results. This was mainly the result of lower market rates to all segments, 20.8% to Handymaxes, 29.9% to Panamaxes, 39.1% to Aframaxes and 45.8% to LPG vessels.

Investing Activities

Net cash used in investing activities was $40.1 million for the year ended December 31, 2017, compared to $86.6 million for the prior year. The change in cash used in investing activities was primarily due to the following:

- During the year ended December 31, 2017 we made pre-delivery payments of amount $36.1 million to the respective shipyard regarding the construction of the four product tanker newbuilding vessels. During the year ended December 31, 2017 we made pre-delivery payments related to construction for the 4 LPG/LEG newbuilding vessels in the aggregate amount of $13.6 million. The total capitalised expenses were in the aggregate amount of $6.1 million. During 2016, payments related to construction and delivery instalments and the related capitalized expensed were of amount $100.0 million.
- During the year ended December 31, 2017, the Company paid $0.6 million in vessels improvements. During the year ended December 31, 2016 we made payments related to acquisition for two secondhand product tanker vessels and capitalised expenses in the aggregate amount of $36.6 million.
- Payments regarding other property improvements remained at $0.1 million during 2017 and 2016.
- During the year ended December 31, 2017, we had net proceeds from the sale of product tanker Stavronisi of amount $5. million. During the year ended December 31, 2017 we had net proceeds from the sale of product tanker Velopoula $8.4 million.
- During the year ended December 31, 2017, we added to our short term investments portfolio securities of $0.4 million. During the year ended December 31, 2016 we had net proceeds from the sale of our short term investments portfolio securities of $5.3 million.
- During the year ended December 31, 2017, we had net proceeds from refund guaranties of $10.5 million for the cancellation of the fifth Sinopacific contract. During the year ended December 31, 2016 we had $36.8 million net proceeds due to the cancelation of the first four vessels.

Net cash used in investing activities was $86.6 million for the year ended December 31, 2016, compared to $112.5 million for the prior year. The change in cash used in investing activities was primarily due to the following:

- During the year ended December 31, 2016 we made payments related to construction and delivery instalments for two LPG/LEG and four product tanker newbuilding vessels and capitalised expenses in the aggregate amount of $100.0 million. During the year ended December 31, 2015 we made payments related to construction and delivery instalments for 14 LPG/LEG and four product tanker newbuilding vessels and capitalised expenses in the aggregate amount of $131.5 million.
- During the year ended December 31, 2016, we made payments related to acquisition for two secondhand product tanker vessels and capitalised expenses in the aggregate amount of $36.6 million. During the year ended December 31, 2015, no vessel acquisition incurred.
- During the year ended December 31, 2016 we made payments for vessel and other property improvements of $0.5 million, as compared to $5.8 million in 2015
- During the year ended December 31, 2016, we had net proceeds from the sale of product tanker Velopoula $8.4 million. During the year ended December 31, 2015, we had net proceeds from the sale of product tankers, the m/ts Sporades, Kandilousa, Serifos and Serifopoulo of $7.5, $8.1, $8.1 and $8.5 million respectively.
- During the year ended December 31, 2016, we had net proceeds from the sale of our short term investments portfolio securities of $5.3 million. During the year ended December 31, 2015, we added $7.4 million to our short term investments portfolio securities.
- During the year ended December 31, 2016, we had net proceeds from refund guaranties of $36.8 million for the cancellation of the first four Sinopacific contracts. We had no such proceeds in 2015.

Financing Activities

Net cash provided by financing activities was $22.6 million for the year ended December 31, 2017, compared to net cash provided by financing activities of $35.5 million for the prior year. The change in cash provided by financing activities was primarily due to the following:

- During the year ended December 31, 2017 movement of the escrow balance was $3.1 million including the sale of product tanker m/t Stavronisi.
- During the year ended December 31, 2017, we drew $41.3 million and $8.6 million from long term loan facilities and sale and leaseback arrangements to partially finance pre-delivery advances of our product tankers newbuilding program and our gas newbuilding program. Also, we drew $80.0 million regarding the refinancing of Citi 200 facility. Furthermore, in 2017 we drew from Piraeus bank an overdraft facility of amount $20.0 million.
- During the year ended December 31, 2017 we repaid $127.6 million of debt associated with our long-term revolving and term credit facilities, including the refinance of Citi 200 loan facility and the repayment of SEB of amount $3.3 million regarding Sino 5, compared to $73.3 million for the prior year.
- During the year ended December 31, 2017 we made payments for loan fees associated with our existing and new term credit facilities of $5.4 million. During the year ended December 31, 2016 we made payments for loan fees associated with our existing and new term credit facilities of $2.3 million.
- During the year ended December 31, 2017 no payments to non-controlling shareholders of Eletson. During the year ended December 31, 2016 we paid $15.3 million to non-controlling shareholders of Eletson.
- During the year ended December 31, 2017 non-controlling shareholders of Eletson contributed $8.4 million as additional paid in capital, as compared to contributions of $10.2 million in 2016.

Net cash provided by financing activities was $35.5 million for the year ended December 31, 2016, compared to net cash provided by financing activities of $10.6 million for the prior year. The change in cash provided by financing activities was primarily due to the following:

- During the year ended December 31, 2016 movement of the escrow balance was $27.9 million including the sale of product tanker m/t Velopoula and utilised proceeds to finance the acquisition of two secondhand tankers. During the year ended December 31, 2015 we escrowed monies of $32.9 million from the sale of product tankers m/ts Sporades, Kandilousa, Serifopoulo and Serifos.
- During the year ended December 31, 2016 we drew $24.7 million from long term loan facilities to partially finance pre-delivery advances of our gas newbuilding programs. During the year ended December 31, 2015 we drew $6.4 million from long term loan facilities to partially finance pre-delivery advances of our gas newbuilding program.
- During the year ended December 31, 2016 we had proceeds from long term loan facilities of $59.2 million related to the delivery instalments of two LPG/LEG newbuilding vessels and repayment of $7.7 million of predelivery financing of the respective vessels. During the year ended December 31, 2015 we had proceeds from long term loan facilities of $88.8 million related to the delivery instalments of three LPG/LEG newbuilding vessels and repayment of $11.5 million of predelivery financing of the respective vessels.
- During the year ended December 31, 2016 we repaid $65.6 million of debt associated with our long-term revolving and term credit facilities, compared to $55.2 million for the prior year.
- During the year ended December 31, 2016 we made payments for loan fees associated with our existing and new term credit facilities of $2.3 million. We had no such payments for the same period last year.
- During the year ended December 31, 2016 we paid $15.3 million to non-controlling shareholders of Eletson. In 2015 we paid $5.0 million of dividends to shareholders of Eletson Holdings and $10.4 million to non-controlling shareholders of Eletson.

During the year ended December 31, 2016 non-controlling shareholders of Eletson contributed $10.2 million as additional paid in capital, as compared to contributions of $30.0 million in 2015.

Liquidity and Capital Resources

As of December 31, 2017, the Company was in breach of certain loan covenants, contained in the Company’s loan agreements. Even though as of the date of approval of the consolidated financial statements none of the lenders have declared an Event of Default under the loan agreements. Furthermore, subsequent to December 31, 2017, the Company failed to pay interest on its 9.625% First Preferred Ship Mortgage Notes due in January 2019, and entered into a forbearance agreement with the majority of the note holders, and agreed in principal to amend the main terms of the indenture governing its 9.625% First Preferred Ship Mortgage Notes due 2022 and defer the interest payments falling due in 2018. Even though as of the date of approval of the consolidated financial statements the note holders have not declare an Event of Default under the respective indenture, such non-payment together with the events of default of the Company's loan agreements, which trigger the cross default provision under the 9.625% First Preferred Ship Mortgage Notes due 2022, constitute events of default and may result in the required minimum percentage of note holders to given notice to the Company and declare the notes due and payable. An exchange offer has been approved and is to close on June 29, 2018.

As a result of the above and according USGAAP presentation requirement, the Company has classified its bank loans, its lease obligation and the outstanding principal amount under its 9.625% First Preferred Ship Mortgage Notes at December 31, 2017, as current liabilities (Financial Statements notes 14, 15 and 16). As a result, the Company reports a working capital deficit of $737.8 million at December 31, 2017.

The Company is at a final stage of discussions with the lending banks regarding amendment of the terms of its debt facilities and has requested from the lending banks to provide waivers or relax existing requirement under the loan agreements in connection with the financial covenants.

Management expects that the lenders will not demand payments of the outstanding loan balances before their maturity and the Company will be successful in amending loan agreements and/or receiving waivers that will cure covenant compliance for the period being at least 12 month subsequent to the date of the issuance of the consolidated financial statements. Furthermore, management also expects that it will reach an agreement with the majority of the holders of its 9.625% First Preferred Ship Mortgage Notes based on the Exchange Offer and that the lessors under its sale and leaseback agreements will not demand payment or foreclose on the related vessels (see also to the Note 3 of accompanying Financial Statements).

Liquidity Needs and Sources of Liquidity

Our liquidity requirements relate to servicing our debt, funding the equity portion of investments in vessels, funding working capital requirements and maintaining cash reserves against fluctuations in operating cash flow. Our current sources of funds are internally generated cash from operations and external borrowing. We have three working capital facilities totalling $35.0 million. As of December 31, 2017, the outstanding principal amount of these facilities were approximately $35.0 million. We believe that, based upon actions taken from the Company's management mentioned above, the current levels of operations and anticipated freight market conditions, cash flow from operations, together with other available sources of funds (in the form of either debt financing or equity), will be adequate to meet required payments of principal and interest on debt, to permit anticipated capital expenditures, including payments for vessel under construction to fund working capital requirements, and to comply with the terms of our financing agreements (see also to the Note 3 of accompanying Financial Statements).

Our business is capital intensive and its future success will depend in part on our ability to maintain a high-quality fleet through the acquisition of newer vessels and the selective sale of older vessels. We have historically financed the purchase of our vessels primarily through a combination of borrowings from commercial banks and cash generated from operations. Consistent with our long-standing and conservative approach to risk and financial management, we have signed sale and leaseback financing for four of our LPG/LEG newbuildings in 2018. The first one delivered in May 2018 and the other three in June and July 2018. On the Aframax newbuildings during 2016 we concluded to a sale and leaseback transaction with Bank of Communications ("Bocomm") regarding the fisrt two Aframax vessels the first of which delivered in April 2018 and the other to be delivered in June 2018. During 2017 we concluded to a sale and leaseback transaction with Oriental Fleet International Company Ltd (Cosco) regarding the last two Aframax vessels that will be delivered in 2019. We will continue to consider strategic opportunities, including the acquisition of additional vessels and expansion into new markets. We may choose to pursue such opportunities through internal growth, joint ventures or business acquisitions. We intend to finance any future acquisitions through various sources of capital, including internally generated cash flow, existing credit facilities, additional debt borrowings and the issuance of additional debt or equity securities or any combination thereof.

As of December 31, 2017, our total cash, cash equivalents, and short-term investments were $55.0 million compared with $81.6 million and $63.6 million as of December 31, 2016 and 2015. As of December 31, 2017, restricted cash amounted to $8.1 million, related to the escrowed proceeds from sale of four mortgaged vessel during 2015, one during 2016, and the sale of m/t Stavronisi in July 2017, decreased by the acquisition of two secondhand Hansysizes product Tankers.

We conduct our funding and treasury activities pursuant to a conservative strategy designed to minimise borrowing costs and maximise investment returns while maintaining the safety of the funds and appropriate levels of liquidity for our purposes. We hold cash and cash equivalents primarily in U.S. Dollars, with some balances held in Euro, British Pounds and other major currencies.

Working capital. We believe that the management will incorporate the adequate initiatives to enhance the liquidity (see also to the Note 3 of accompanying Financial Statements). Working capital is defined as total current assets less total current liabilities. Working capital deficit at December 31, 2017 was approximately $737.7 million as compared to working capital deficit of $38.0 million and to working capital surplus of $2.5 million at year-end 2016 and 2015, respectively.

Capital Expenditures

Our capital expenditures primarily include drydocking, capital improvements and vessel acquisitions.

Drydocking. In addition to vessel acquisitions and newbuilding contracts, other major capital expenditures include funding our drydock program of regularly scheduled in-water survey or drydocking necessary to preserve the quality of our vessels as well as to comply with international shipping standards and environmental laws and regulations. Vessels which are younger than 10 years are required to undergo drydocking every five years and may, in lieu of drydocking, undergo in-water surveys two and a half years after a drydock, while vessels 15 years or older are to be drydocked every two and a half years, in which case the additional drydockings take the place of these in-water surveys. In general, we drydock each of our vessels every two and a half to five years, depending upon their age and in compliance with Class requirements.

For the year ended December 31, 2017, we incurred drydock related costs of $4.2 million, as compared to $0.8 million and $10.6 million for the years ended December 31, 2016 and 2015, related to surveys of 5, nil and 14 vessels respectively. All such drydocking related costs were capitalised in deferred charges.

Capital Improvements. During the year ended December 31, 2017, we capitalised $0.6 million relating to capital projects including vessel and equipment upgrades and for compliance with environmental rules and regulations. During the year ended December 31, 2016, we capitalised $0.5 million relating to such projects, as compared to $5.8 million for the year ended December 31, 2015.

The United States ratified Annex VI to the IMO's MARPOL Convention effective in October 2008. This Annex relates to emission standards for Marine Engines in the areas of particulate matter, NOx and SOx, and establishes Emission Control Areas ("ECAs"). The emission program is intended to reduce air pollution from ships by establishing a new tier of performance-based standards for diesel engines on all vessels and stringent emission requirements for ships that operate in coastal areas with air-quality problems. On October 10, 2008, the IMO adopted a new set of amendments to Annex VI. These new amendments will affect vessels built after the year 2000 and could affect vessels built between 1990 and 2000. As of August 1, 2012, the ECA for North America was established under MARPOL Annex VI which requires, with limited exceptions, all vessels operating within the geographic boundaries of the ECA to comply with fuel sulfur requirements. We may incur costs to comply with these, and other, newly defined standards.

Vessel Acquisitions. During 2017, we had no vessels acquisitions, where as in February, and March 2016 we acquired two secondhand Handysize product Tankers amounting of $ 18.3 million each.

Newbuilding deliveries. No delivery of vessel took place during 2017. On the other hand, in January and March 2016 two Hyundai Mipo Handysize 12,000 cbm LPG/LEG newbuildings were delivered to Eletson Gas. During the year ended December 31, 2017 we made pre-delivery payments of amount $36.1 million to the respective shipyard regarding the construction of the four product tanker newbuilding vessels. Also, during the year ended December 31, 2017 we made pre-delivery payments related to construction for the 4 LPG/LEG newbuilding vessels in the aggregate amount of $13.6 million.

Long-Term Debt Financings and Credit Arrangements

We continue to seek ways to further increase our financial flexibility, reduce our interest expense and employ our cash resources more effectively. To this end, we monitor developments in both conventional lending and in the capital markets with the aim of securing financially optimal solutions at any given time in order to help us best meet our overall strategic objectives. See "Description of Other Indebtedness" for additional discussion of our outstanding indebtedness other than the notes. Notes 14,15 and 16 to the consolidated financial statements discusses Eletson Holdings' significant judgements and plans in connection with its debt covenants compliance and refinancing.

The following table provides certain information with regard to our indebtedness as of December 31, 2017:

Facility	Final maturity date	Facility type	Balance December 31, 2017	Undrawn amount
Senior Notes	January 15, 2022		$ 300.0	$ -
Citibank 200 Facility	September 13, 2017	Reducing Revolving	0.0	-
CSiC $65.5 m S&L	September 5, 2025	Sale & Leaseback	63.2	-
CSiC $2.5 m S&L	August 7, 2022	Term	2.3	-
Citibank $12 m Facility	December 4, 2020	Term	11.0	-
Crédit Agricole Facility	January 7, 2020	Term	31.9	-
DVB Bank Facility (MR)	August 23, 2019	Term	31.5	-
Bocomm Sale & Leaseback Facility . .	10 years upon vessels delivery	Sale & Leaseback	20.7	-
Cosco Sale & Leaseback Facility	10 years upon vessels delivery	Sale & Leaseback	20.6	
Piraeus Bank Facility	09 August 2022	Reducing Revolving	20.0	-
Piraeus Bank Facility	November 30, 2016	Reducing Revolving	4.9	-
Alpha Bank Facility	May 5, 2018	Reducing Revolving	4.0	-
Aegean Baltic Bank Facility	December 31, 2017	Revolving	4.0	-
Unicredit Facility	June 4, 2021	Revolving	54.9	-
DVB Bank Facility (LPG)	February 14, 2019	Term	66.4	-
SEB Facility	March 29, 2021 - 23	Term	128.3	-
BNP Paribas Facility	5+2 years upon last delivery drawdown	Term	31.6	106.4
Piraeus Bank Facility	May 5, 2018	Reducing Revolving	2.1	-
Total Eletson Holdings			**$ 797.4**	**$ 106.4**
Cash, cash equivalents, restricted cash and short-term investments			(55.0)	55.0
Net Borrowings/Available liquidity			**$ 742.4**	**$ 161.4**

Debt Repayment Schedule

The table below reflects the principal payments of all credit facilities and notes outstanding as of December 31, 2017, for the next five years and thereafter, based on the principal repayment schedule of the respective credit facilities discussed in "Description of Other Indebtedness" assuming debt is not accelerated, and does not incorporate the result of the management’s subsequent initiatives.

Debt repayment schedule including notes
(in thousands of dollars)

	2018	2019	2020	2021	2022	2023 and onwards	Total
Senior Notes	$ -	$ -	$ -	$ -	$ -	$ 300,000	$ 300,000
Citibank $12 m Facility	4,000	4,000	3,000	-	-	-	11,000
Total CSIC $65.5 million	6,838	6,838	6,838	6,646	6,262	29,799	63,221
Total CSIC $2.5 million	500	500	500	500	333	-	2,333
Crédit Agricole Facility	3,640	28,209	-	-	-	-	31,849
DVB Bank Facility (MR)	3,600	27,908		-	-	-	31,508
BOCOMM Facility (Afra NBs)	982	1,683	1,575	1,498	1,498	13,443	20,678
COSCO Facility (Afra NBs)	-	1,250	1,363	1,363	1,363	15,270	20,609
O/D Piraeus	2,000	4,000	4,000	-	-	10,000	20,000
Total Eletson Holdings Inc.	**$ 21,560**	**$ 74,388**	**$ 17,276**	**$ 10,007**	**$ 9,456**	**$ 368,512**	**$ 501,198**
Unicredit Facility	$ 6,920	$ 6,920	$ 6,920	$ 34,140	$ -	$ -	$ 54,900
DVB Bank Facility	9,200	57,175	-	-	-	-	66,375
SEB Facility	9,872	9,872	68,119	40,477	-	-	128,340
BNP Paribas Facility (Handy NBs)	1,484	2,109	2,109	2,109	2,109	21,715	31,634
Total Eletson Gas LLC	**$ 27,476**	**$ 76,076**	**$ 77,148**	**$ 76,726**	**$ 2,109**	**$ 21,715**	**$ 281,249**
Total	**$ 49,036**	**$ 150,464**	**$ 94,424**	**$ 86,732**	**$ 11,565**	**$ 390,226**	**$ 782,447**

(1) *The facility will be refinanced through a sale and leaseback transaction.*

Contractual Obligations

As of December 31, 2017, Eletson Holdings had commitments of future contractual obligations for shipbuilding activity, as described below. We expect Eletson Gas and its subsidiaries obligations to be funded by the committed equity from Blackstone, our joint venture partner in Eletson Gas and additional debt. Commitments of Eletson Holdings or its restricted group subsidiaries are expected to be funded through operating cash flows and additional financing.

	Contract Price	Adittional Cost	Total
2018	$ 190,521	$ 1,560	$ 192,081
2019	72,132	—	72,132
Total	**$ 262,653**	**$ 1,560**	**$ 264,213**

(1) *As per contractual agreements of Eletson Holdings with Shanghai Waigaoqiao Shipbuilding (SWS) for the construction of four newbuilding Aframax vessels.*

(2) *As per contractual agreements of Eletson Gas with Hyundai Mipo and Sinopacific for the construction of four newbuilding LPG vessels.*

Off-Balance Sheet Arrangements

As of December 31, 2017, we did not have any significant off-balance sheet arrangements.

Derivative Financial Instruments

Bunker Derivatives

As of December 31, 2017, we were not party to any bunker derivative contracts.

Currency Derivative Contracts

The U.S. Dollar is the functional currency of the international tanker industry and almost all of our revenue and most of our operating costs are in U.S. Dollars. However, we incur certain operating costs, such as crew expenses and overhead costs in foreign currencies, the most significant of which is the Euro (which accounted for approximately $65.0 million of our annual costs for the year ended December 31, 2017).

As of December 31, 2017, we had $0.1 million forward foreign exchange contracts outstanding compared to nil forward foreign exchange contracts outstanding for the previous year.

Interest Rate Derivatives

As of December 31, 2017, we were not party to any interest rate swap agreements.

The interest rate swap agreement outstanding as of December 31 was almost nil for 2017 and 2016.

Interest expense under all of our credit facilities (not including the Senior Notes) and interest rate swaps aggregated $20.8 million, $20.0 million and $15.5 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Quantitative and Qualitative Disclosure about Market Risk

We are exposed to market risk from foreign currency fluctuations and changes in interest rates, spot market rates for vessels and bunker fuel prices. We use forward foreign currency contracts, foreign currency option contracts and interest rate swaps to manage currency and interest rate risks. In general, we do not use these financial instruments for trading or speculative purposes.

Interest Rate Risk

We are exposed to various market risks, including changes in interest rates. The exposure to interest rate risk relates primarily to our debt. At December 31, 2017, we had approximately $482.4 million of floating rate debt with margins over LIBOR ranging from 2.45% to 6.0% compared to December 31, 2016, when we had approximately $477.2 million of floating rate debt with margins over LIBOR ranging from 2.45% to 6.0%.

Foreign Exchange Rate Risk

The international tanker industry's functional currency is the U.S. Dollar and, as a result, nearly all of our revenue is in U.S. Dollars. A significant portion of our expenses, particularly general and administrative expenses, crew expenses, drydocking expenses and a minor portion of port expenses, are incurred in Euros, while a significant portion of the remaining expenses are incurred in U.S. Dollars and British Pounds and, to a lesser extent, other currencies. Over the last three years, we have typically incurred approximately $65.0 million of Euro-denominated expenses annually. We have a policy of continuously monitoring and managing our foreign exchange exposure. Unless hedged, a hypothetical 10.0% adverse movement in the Euro to U.S. Dollar exchange rate would result in an added expense of approximately $6.5 million.

During the year ended December 31, 2017, approximately 54% of our vessel operating expenses, 73% of our general and administrative expenses and 77% of our capitalised expenses were denominated in Euros. During the year ended December 31, 2016, approximately 55% of our vessel operating expenses, 76% of our general and administrative expenses and 78% of our capitalised expenses were denominated in Euros.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements which have been prepared in accordance with U.S. GAAP. The preparation of those financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues, expenses and related disclosure of contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions and conditions.

Critical accounting policies are those that reflect significant judgments of uncertainties and potentially result in materially different results under different assumptions and conditions. We have described below what we believe are our most critical accounting policies, because they generally involve a comparatively higher degree of judgment in their application. For a description of all our significant accounting policies, see Note 2 to our consolidated financial statements included in the F-pages of this Annual Report.

Although, the current financing situation (see also to the Note 3 of accompanying Financial Statements) the consolidated financial statements have been prepared assuming that the Company will continue as a going concern. Accordingly, the consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, the amounts and classification of liabilities, or any other adjustments that might result in the event the Company is unable to continue as a going concern. Management expects that the lenders will not demand payments of the outstanding loan balances before their maturity and the Company will be successful in amending loan agreements and/or receiving waivers that will cure covenant compliance for the period being at least 12 month subsequent to the date of the issuance of the consolidated financial statements. Furthermore, management also expects that it will reach an agreement with the majority of the holders of its 9.625% First Preferred Ship Mortgage Notes based on the Exchange Offer and that the lessors under its sale and leaseback agreements will not demand payment or foreclose on the related vessels.

Principles of Consolidation

The accompanying consolidated financial statements in the F-pages of this Annual Report have been prepared in accordance with accounting principles generally accepted in the United States and include the accounts and operating results of Eletson Holdings Inc., its wholly owned subsidiaries and its Variable Interest Entity, Eletson Gas LLC. All intercompany balances and transactions have been eliminated upon consolidation.

A reporting entity shall consolidate a Variable Interest Entity (VIE) when a reporting entity has a variable interest that provides the reporting entity with a controlling financial interest in the VIE, thus is the VIE's primary beneficiary.

As of December 31, 2017, 2016 and 2015, Eletson GAS LLC, in order to finance its fleet expansion through the signed ship building commitments, will required and will require significant financing, and accordingly it was determined that Eletson Gas LLC met the applicable criteria in ASC 810, *Consolidation*, to be a VIE. Management periodically evaluates the applicability of the criteria required to determine if Eletson Gas falls under the definition of a VIE, considering evolving factors circumstances affecting Eletson Gas' performance and financial condition.

A reporting entity is deemed to be the primary beneficiary in a VIE, when a company has the power to direct the activities of a VIE that most significantly impact the entity's economic performance and absorbs a majority of an entity's expected losses, receives a majority of an entity's expected residual returns, or both.

As of December 31, 2017, Eletson Holdings Inc. (EHI) consolidated 100% Eletson Gas LLC, a VIE, as EHI is deemed to be the primary beneficiary. EHI, as arising from the LLC agreement and the individual management agreements, has the power over operating decisions, which deemed to be the most significant activity to impact Eletson Gas LLC's economic performance.

Vessel Impairment

The carrying values of our vessels may not represent their fair market values at any point in time because the market prices of secondhand vessels tend to fluctuate with changes in charter rates and the cost of newbuildings. Historically, both charter rates and vessel values tend to be cyclical. We record impairment losses only when events occur that cause us to believe that future cash flows for any individual vessel will be less than its carrying value. The carrying amounts of vessels held and used by us are reviewed for potential impairment whenever events or changes in circumstances indicate that the carrying amount of a particular vessel may not be fully recoverable. In these instances, an impairment charge would be recognised if the estimate of the undiscounted future cash flows expected to result from the use of the vessel and its eventual disposition is less than the vessel's carrying amount. This assessment is made at the individual vessel level because separately identifiable cash flow information for each vessel is available. Measurement of the impairment loss is based on the fair value of the asset. We determine the fair value of our assets based on management estimates and assumptions and by making use of available market data and taking into consideration third party valuations.

In developing estimates of future cash flows, we must make assumptions about future charter rates, ship operating expenses, the residual value of our vessels and the estimated remaining useful lives of the vessels. These assumptions are based on historical trends as well as future expectations. Although management believes that the assumptions used to evaluate potential impairment are reasonable and appropriate, these assumptions are highly subjective.

No impairment loss was identified in any of the three years ended December 31 2017, 2016 and 2015.

Vessel Lives and Depreciation

We depreciate our vessels based on a straight line basis over the expected useful life of each vessel, which is 25 years for our product carriers and 30 years for our LPG/NH3/LEG carriers from the date of delivery by the shipyard, which we believe is within industry standards and represents the most reasonable useful life for each of our vessels. Depreciation is based on the cost of the vessel less its estimated residual value at the date of the vessel's acquisition. Secondhand vessels are depreciated from the dates of their acquisitions through their remaining estimated useful lives. A decrease in the useful life of a vessel or in its residual value would have the effect of increasing the annual depreciation charge. When regulations place limitations over the ability of a vessel to trade on a worldwide basis, its useful life is adjusted to end at the date such regulations become effective.

Accounts Receivable

Revenue is based on contracts with charter parties, and although our business is with customers who are believed to be of the highest standard, there is always the possibility of a dispute over the terms of a contract. In such circumstances, we will assess the recoverability of amounts outstanding and a provision is estimated if there is a possibility of non-recoverability. Although we may believe that our provisions are based on fair judgment at the time of their creation, it is possible that an amount under dispute will not be recovered and the estimated provision for doubtful accounts would be inadequate. If any of our revenues become uncollectible, these amounts would be written off at that time.

Revenue Recognition

We generate a majority of our revenue from voyage charters. Revenue from voyage charters is accounted for ratably over the estimated length of each voyage. During 2017, the company proceeded to the early adoption of the new revenue standard using the modified retrospective method. Under this method, voyages may be calculated on load-to-discharge basis. In applying its revenue recognition method, management believed that the load-to-discharge basis of calculating voyages more accurately.

Accounting for Debt Modifications and Extinguishments

We account for debt modifications or restructuring as troubled debt restructuring when a lender for economic or legal reasons related to our financial situation grants a concession that it would not otherwise consider. These concessions may include a reduction in the interest rate, principal or accrued interest, extension of the maturity date or other actions intended to minimise potential losses. We consider a lender to have granted a concession if the effective interest rate on the restructured debt is less than the effective interest rate of the old debt immediately before the restructuring. We consider the total future cash flows (defined as principal plus interest) of the restructured debt in comparison with the carrying value of the original debt. If a debt modification or restructuring is determined to be a troubled debt restructuring, we reduce the carrying amount of the debt when the debt balance is greater than the total future cash flows under the new terms, in which case a gain is recognised. When the total future cash flows of the restructured debt are greater than the carrying value at the date of amendment, the carrying value of the original debt is not adjusted. In a troubled debt restructuring in which we agree to transfer assets to fully settle the debt, we recognise a gain on restructuring for the difference between the carrying amount of the debt and the more clearly evident of: (a) the fair value of the transferred assets or (b) the fair value of the settled debt.

Accounting for Derivative Instruments and Hedging Activities

A derivative instrument is recorded in the balance sheet as either an asset or liability measured at its fair value, with changes in the derivatives' fair value recognised currently in earnings. If hedge accounting criteria are met, any gains or losses are taken directly in a separate component of Shareholders' Equity under the caption "Other Comprehensive Income." Effectiveness in offsetting either changes in fair value or cash flows is evaluated on a retrospective and prospective basis based on quantitative measures of correlation at each financial statement date. If a hedge relationship becomes ineffective it no longer qualifies as a hedge. Any excess gains or losses attributable to such ineffectiveness, as well as subsequent changes in the fair value of the derivative, are recognised in earnings.

Voyage Expenses

Voyage costs, primarily consisting of brokerage commission, port, canal and bunker expenses that are unique to a particular charter, are paid by the Company. Following the adoption of ASC 606 and the implementation of ASC 340-40 Other assets and deferred costs for contract costs, these costs are considered incremental costs of obtaining the contract or fulfilment costs since they are costs that not have incurred if the contract had not been obtained and are directly related to the performance of the voyage contract. Those costs are expensed as incurred with the exception of those costs incurred from the conclusion of the contract and prior to the commencement of loading the cargo on the relevant vessel, which are capitalized to the extent they meet the required capitalization criteria. These capitalized costs are amortized on a straight-line basis as the related performance obligations are satisfied.

Fair Value Measurements

For assets and liabilities required or permitted to be measured at fair value, the information used to measure fair value is according to a fair value hierarchy that prioritises the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, the reporting entity's own data. The effect of fair value measurements is recognised on earnings.

BUSINESS

Overview

We are a world leader in international seaborne transportation specialising in the transport of refined petroleum products, liquefied petroleum gas ("LPG") and ammonia (NH3). From our offices in Piraeus, London and Stamford, Connecticut, we charter our versatile, high-quality and modern fleet of 32 vessels to customers, including major international oil, LPG, ammonia (NH3), ethylene and other petrochemical gases (LEG) companies and traders. Our company was founded in 1966, and over the course of more than 50 years we have earned a reputation for commercial, operational and technical excellence. For decades, we have been at the forefront of the tanker sector, often leading innovation and progress within our industry. For example, we commenced the transition of our fleet to double hull tankers in the mid-1980s, well before this was required by law, and by 1996 had become one of the first global tanker companies to own and operate an entirely double-hulled fleet.

We are an integrated owner, operator and manager of a diversified fleet of product tankers and LPG/LEG carriers. Our strategy is to operate our vessels efficiently and thereby realise improved results through operational excellence throughout the vessels' useful life, as opposed to trading our vessels to generate profits from asset sales in the secondhand market.

We are a private company and currently own and operate one of the world's largest fleets of medium and long-range double hull product tankers, consisting of Handymax, Panamax and Aframax size vessels. Our product tanker vessels are capable of carrying a wide range of refined petroleum products, such as fuel oil and vacuum gas oil (often referred to as "dirty products") and gas oil, gasoline, jet fuel, kerosene and naphtha (often referred to as "clean products"), as well as crude oil. Most of the vessels in our fleet are in series of "sister ships," which allows us to capitalise on economies of scale and provides us with operational and scheduling flexibility. We believe that the size and versatility of our product tanker fleet enables us to carry a broad set of refined petroleum products across a diverse range of geographies, and affords us with backhaul and triangulation opportunities not available to many of our competitors. The scale and flexibility of our fleet, our commercial expertise and our long-standing industry relationships have allowed us to sustain high utilisation levels and have led to our strong track record of outperforming the spot market over the last few years.

We are also one of the largest owners globally of handy-sized semi-ref and medium-sized fully ref LPG/LEG carriers, which are gas carriers that transport LPG, ammonia (NH3), ethylene and other petrochemical gases. LPG, which consists of propane and butane, is a clean and efficient source of energy used as a heating, cooking and transportation fuel and as a petrochemical and refinery feedstock, while ammonia is mainly used in the agricultural industry as a fertiliser and ethylene is a feedstock material. In 2006, we strategically diversified our operations through an expansion into the LPG sector, a niche shipping sector with attractive fundamentals and high barriers to entry, given the requirements for long-term relationships with industrial and petrochemical customers and the more complex technical operations of LPG/LEG carriers. We took delivery of our first MGC vessels in 2009 and currently operate, through our unrestricted subsidiary, Eletson Gas, 11 LPG/LEG carriers, which efficiently operate together with our fleet of 21 product tankers.

Pursuant to our expansion strategy, our joint venture with the Blackstone Group ("Blackstone") Eletson Gas has placed orders for the construction of nine Handysize, five already delivered in 2015 and 2016 and the four expected to be delivered in 2018. In total, Blackstone has committed to provide $125 million in contributions, which will be provided in phases, with the first contribution having been made to help finance the acquisition of one secondhand vessel in 2013 and to fund a portion of the equity payments for the construction of the newbuilding vessels. We believe that our targeted expansion into the LPG/LEG sector represents a natural extension of our business and will provide increased stability to our revenue stream, as well as opportunities for continued growth. During the second half of 2015 and first quarter of 2016 the first five Handysize semi-ref LPG/LEG carriers were delivered. In May 2018, we took delivery of the m/v Kalolimnos and upon delivery of the remaining three newbuilding vessels, we expect that we will be one of the world's largest LPG/LEG transportation companies by capacity.

We have a large and diversified customer base, many of whom have consistently used our shipping services for more than 30 years. Our customers include major international oil companies such as BP, Conoco Phillips, Royal Dutch Shell and Chevron Corporation, state owned integrated oil companies such as Pemex, Socar, Sabic and Bharat Petroleum, refined oil traders such as Vitol, Trafigura and Glencore and LPG, ammonia (NH3) and petrochemical producers, users, traders and importers, such as Geogas, Kolmar and Petredec, as well as various other entities.

We primarily operate our product tankers in the spot market with three of our five MGC's currently deployed in the time charter market. In addition, our two handysize product tanker vessels are employed in the Hafnia handysize pool and our five handysize LPG/LEG carriers are employed in the E3 pool, jointly owned by Eletson Gas and Evergas A/S. We continually monitor and evaluate economic conditions and market trends to determine the most profitable deployment of our vessels, and in the past have added vessels to our time charter portfolio in order to take advantage of attractive rates and relative revenue stability. Our strong marketing capabilities, operational and technical expertise, established industry relationships and diversified business model have allowed us to maximise vessel utilisation and generate superior returns. As a result, since 2009 when the downturn in shipping started, to the twelve month period ended December 31, 2017, we have grown our revenues and EBITDA by a CAGR of 0.3% and 0.5%, respectively.

For the year ended December 31, 2017, we generated voyage revenues of $243.1 million and EBITDA of $34.4 million on a consolidated basis.

Our Fleet

We believe we have developed one of the world's best maintained double-hulled fleets through our in-house technical and operational expertise and proactive vessel maintenance and management. Our overall fleet has a combined carrying capacity of approximately 1.7 million deadweight tonnes ("dwt"), and, as of December 31, 2017, was comprised of 32 vessels, including two Handysize, four Handymax, 11 Panamax and four Aframax product tankers - with a combined capacity of approximately 1.5 million dwt - and 11 LPG carriers (including one chartered-in vessel), with a combined capacity of approximately 257,500 cubic meters ("cbm"), or 227,680 dwt. As all of our MGCs were newbuildings delivered in 2009, 2010 and 2012, and our first newbuilt LPG/LEG carriers were delivered in 2015, we believe our LPG/LEG carrier fleet is amongst the youngest in the world as the average age of the world LPG/LEG carrier fleet is approximately 15 years.

We believe Eletson Gas, our joint venture with Blackstone, will provide us with a platform for further expansion in the LPG/LEG sector. Initial proceeds from Blackstone's equity contribution were used to acquire a secondhand 22,500 cbm Handymax semi-ref LPG carrier and to fund a portion of the equity payments for the construction of nine newbuilding LPG/LEG carriers. Eletson Gas as of December 31, 2017, had four 12,000 cbm semi-ref LPG/LEG carriers under construction at Hyundai Mipo Dockyard in South Korea. Eletson Holdings, as of December 31, 2017, had four 109,000 dwt product tanker vessels under construction at Shanghai Waigaoqiao Shipbuilding in China.

In accordance with our long-standing conservative approach to risk and financial management, we have in place signed bank financing for the contracts signed in 2015 with Hyundai Mipo. For the two product tanker newbuilding contracts signed in 2015 with SWS we have in place signed financing from Bank of Communications ("Bocomm") and for the rest two from Oriental Fleet International Company Ltd ("COSCO"). The first newbuilding vessel was delivered in May 31, 2017 and the next two will be delivered in June 2017 and the last newbuilding LPG/LEG will be delivered in July 2017. Regarding our tanker newbuilding program, on Aril 26, 2018 we took delivery of the first newbuilding vessel. The second will be delivered in June 2018 and the two remaining newbuildings will be delivered in 2019. These additional LPG/LEG vessels are expected to increase the current capacity of our gas fleet from 257,500 cbm as of December 31, 2017 to 305,500 cbm and the four 109,000 dwt product tankers, will increase our fleet's total combined carrying capacity to more than 1.9 million dwt. Upon delivery of our newbuilding LPG/LEG carriers, we expect that we will be one of the world's largest LPG/LEG transportation companies by capacity.

Our Competitive Strengths

Our long and reputable operating history, earned over the course of nearly five decades in the product tanker market, has established us as a premier operator in this market. We believe that we are favourably positioned in our market vis-à-vis our competitors due to our modern, diversified and versatile fleet, our strong relationships with a "blue chip" customer base, our proven commercial expertise, our high quality operations, our strong corporate governance and our experienced management team.

Our Modern, Diversified and Versatile Fleet

High quality asset base. We believe that our fleet is among the most advanced and modern in the world. The quality of our vessels allows us to operate in waters with restrictive regulations relating to environmental compliance, which we believe provides us with a significant competitive advantage. In fact, we were a leader in environmental compliance by being among the first product tanker fleets to be entirely double-hulled in the 1990s. We enhance our operational strategy by ordering our newbuilding vessels as "sister ships" in order to benefit from the advantages inherent in standardisation, such as ease of maintenance, greater familiarity for the crew with the type of vessel, and the ability to substitute vessels for different voyages in order to provide flexibility to our customers.

Diversified and versatile fleet. We believe that our diversified and versatile fleet permits us to enter into a variety of charters, depending on our view of future market trends, in order to maximise vessel utilisation and profitability. We actively manage our fleet profile, and our vessel renewal strategy is intended to maintain our fleet in accordance with market demand to enhance profitability. The large majority of our product tankers permits a wide range and flexibility in cargo carriage, which allows us to alternate among clean petroleum products, such as gasoline, jet fuel or gas oil, dirty petroleum products, such as fuel oil and vacuum gas oil, and other cargoes, such as crude oil, butane, propane, which comprised approximately 5%, 46% and 49% of our fleet cargo, respectively for year ended December 31, 2017. Our four medium range product tankers delivered in 2009 and 2010 can also carry easy chemicals, vegetable oils and palm oils. Our LPG/LEG carriers can transport a wide variety of cargoes, including LPG, ammonia, ethylene and petrochemical gases. Comprising mainly handy-size and medium-size carriers, our fleet can generally navigate through restricted waters and call on a wide number of ports, bringing cargoes closer to their ultimate destinations than larger vessels. For the year ended December 31, 2017, our fleet presence based on port calls was distributed primarily between the Americas (78%), Europe (5%), India (6%), the Black Sea and the Mediterranean (8%) and the Arabian Gulf (3%).

Our Strong Relationships with a Diversified "Blue Chip" Customer Base

High quality and diverse customer base. We have long-standing relationships with a diverse "blue chip" customer base that includes major international oil companies such as BP, Conoco Phillips, Royal Dutch Shell and Chevron Corporation, state owned integrated oil companies such as Petrobras and Pemex, refined oil traders such as Vitol and Glencore International AG, LPG and ammonia producers, users, traders and importers, such as Sunoco, Total and Indian Oil Corporation, as well as various other entities. We believe that the quality and diversity of our customer base allows us to operate with minimised counterparty risk.

Long-term relationships with customers. We have maintained many long-term customer relationships, with an average continuous relationship length among our top five customers by revenue of more than 30 years. Our customers increasingly demand the highest level of operational excellence, fleet maintenance and environmental policy compliance from their business partners, and we have consistently satisfied their rigorous vetting processes. These stringent customer demands have also created increased barriers to entry into our industry. We believe that our solid customer relationships stem from our long history of dependable delivery of high-quality transportation services and that these long-term customer relationships and customer familiarity with our fleet aided our resilience during the recent global economic downturn by providing repeat business and more consistent revenues from our vessels. These relationships also provide insight into our customers' businesses and help us identify and anticipate changes in their seaborne transportation needs at an early stage, so that we can fill gaps in the market in a timely and efficient manner.

Our Proven Commercial Expertise

Strategic expertise in the spot market. We generally operate our product tankers in the spot market, which tends to be a higher margin business than the time charter market. Over the past 10 years, an average of approximately 73% of our fleet has been deployed in the spot market. Through our long-standing experience in spot market operations, we believe that we have developed strategic expertise that, combined with our strong marketing capabilities, operational expertise, established industry relationships and diversified business model, has led to our strong track record of outperforming this market for the past several years in terms of achieved TCE rates. We believe this has enhanced our ability to select the most desirable business while minimising ballast time and maximising utilisation of our vessels, which has been above 95% over the past five years. This is particularly significant in a challenging operating environment as was prevalent over the last few years in the product tanker sector. In 2015 our performance almost mirrored that of the market, while in 2016 we overperformed the average spot market TCE rates for product tankers 21.4% and in 2017 our performance was 15.9% compared to the world spot TCE rates for product tankers. Our utilisation rate for 2017, 2016 and 2015 was 97%, 99% and 95%, respectively. Given our employment strategy, we believe that we are well positioned to benefit from increases in tanker spot market rates that we expect in 2017 and beyond.

Active management of our fleet deployment. We actively manage the deployment of our fleet and analyse the markets in which we operate in order to identify profitable opportunities resulting from *fluctuations* in charter rates and other market conditions. Depending on market conditions, we may deploy our vessels on time charters to maximise our revenues and profitability, and to satisfy the needs of our customers. For the past three years, we deployed on average 14% of our vessels on time charters in order to maintain our cash flow and maximise vessel utilisation, because time charters historically have provided more revenue visibility (albeit typically lower margins) compared to spot market charters.

International presence. Our marketing offices in Piraeus, London and Stamford, Connecticut allow us to maintain an international network of contacts with customers and brokers to provide us critical, real-time information on fluctuations in spot market rates and general market dynamics. In conjunction with our continuous presence in the spot market, our seasoned management team uses this information and our considerable industry experience to maximise vessel utilisation at rates and on terms that are most favourable to us.

Our High Quality Operations

High operating standards. We are committed to the highest operating, technical, environmental and safety standards. We were among the first in our industry to transition to an entirely double-hulled fleet, and our record reflects our commitment to operational and commercial excellence. In 2015, the U.S. Coast Guard had awarded "Qualship 21" certificates to 11 out of 21 of our product tanker vessels and to their manager, Eletson Corporation. The Qualship 21 program is the U.S. Coast Guard's quality incentive program and reduces inspection requirements for qualified tanker vessels, thereby reducing the overall cost of operating those vessels calling in U.S. ports. Fewer than 10% of all foreign-flagged ships that operate in the U.S. meet Qualship 21 eligibility requirements, placing our vessels in an elite class. Nearly all of our vessels are purpose built to our specifications, with special features we have developed and refined based on our long operating experience. For our newbuildings, we have dedicated personnel in South Korea and China providing on-site supervision of newbuilding construction. Recent audits of our operations by major oil companies, such as Shell, BP and Chevron, have led us to believe that we belong to a preferred group of accredited suppliers of seaborne transportation. As a result, we are able to engage our vessels on time and spot charters with these companies. All of our vessels operate under the Greek flag with Greek captains and nearly all Greek officers. By emphasising operational safety and quality maintenance for all of our vessels, we are generally able to appeal to customers who seek to minimise their liability by engaging high quality transport operators.

Integrated business model and long-term operation of our vessels. Unlike many of our competitors, we take an industrial approach to shipping, whereby we own, manage and operate our own purpose-built fleet. We strive to realise profits by operating our vessels throughout their useful lives, rather than engaging in asset trading of vessels in the secondhand market. Our commitment to vessel maintenance and the retention of our highly trained and qualified personnel allow us to meet the rigorous vessel and operational standards required by many major oil companies, and to compete successfully in heavily regulated oil transportation markets, such as those of Europe and the United States. Our long-term and high-quality approach to maintenance allows us to operate our vessels more reliably and at generally lower costs. We maintain automated monitoring of the servicing of our vessels, which we believe allows us to ensure the quality and timeliness of planned maintenance and repair services.

Experienced personnel. We believe that by seeking to provide opportunities for continuous training and development for our officers and crew in all aspects of ship operations, we have cultivated one of the most highly skilled workforces within the industry, and fostered a culture of operational excellence and loyalty. We conduct internal training at our offices in Piraeus, and we maintain cadet programs in Greece, Georgia and the Philippines in order to develop officers and crew for future manning requirements and to maintain the high quality of our operations. Our ongoing crew training focus is based on three pillars: (i) in-house seminars; (ii) on board training; and (iii) outsourced training to reputable third-party institutions. We believe that our high officer retention rate running average of 95.0% over the last five years is a testament to our culture of employee empowerment and opportunity. Twenty one members of our sixty - person land-based marine management team have an average of 11.4 years of seagoing experience.

Our Strong Corporate Governance and Experienced Management Team

Strong corporate governance. Although we are a private company, we have implemented a robust corporate governance structure intended to ensure a high level of transparency and accountability. We believe that our multi-family ownership structure offers balance, perspective and diversity utilising an owner-manager model. Our accounts have been maintained according to U.S. GAAP and have been audited by major international accounting firms since 1986. EHI's board of directors (the "Board of Directors") includes three independent directors with significant shipping experience, in addition to directors who are relatives of the beneficial owners of our common stock. The Board of Directors has appointed an investment committee, an audit committee and a compensation committee, which provide focused strategic, budgetary and personnel oversight.

Experienced management. We are controlled and managed by the second generation of our founders, and our managers are highly experienced and well-respected in our industry. Our management has been involved in tanker operations for decades, and many have significant experience as sea captains or engineers. Our senior management team has also gained expertise through previous experience amongst top tier shipping companies and others through valuable expertise outside the industry with some of the world's largest industrial companies. Members of our management team have extensive experience across commercial, technical and management areas of our business, promoting a focused marketing effort, stringent quality and cost controls, technological innovation, effective operations and safety monitoring.

Our Business Strategy

The foundation of our commercial strategy is our established reputation for high-quality operations, which provides us with strong and lasting relationships with our premier "blue chip" customer base. Our goal is to continue our leadership of the product tanker market and become a global leader in the small to medium size LPG/LEG markets. The key components of our strategy include maintaining our proven commercial and operational business model, further optimising our fleet deployment and entering into new markets, building on our strong reputation and operational base to expand our presence in the LPG/LEG market and maintaining a stable financial structure.

Maintaining Our Proven Commercial and Operational Business Model

As we grow our business, we strive to maintain the highest levels of technical and operational excellence, thereby strengthening and expanding our customer base by satisfying their needs for high-quality and flexible seaborne transportation solutions. Our management team continuously evaluates market conditions to determine the most profitable deployment of our vessels. Through our long-standing experience in spot market operations, we have developed strategic expertise that we believe has led to our track record of outperforming this market for the past several years in terms of TCE rates, and we intend to continue and refine this strategy over time.

We operate a global marketing strategy supported by a strong presence in Europe and the Americas, with offices in Piraeus, London and Stamford, Connecticut. Our strategy is to continue to establish, develop and maintain relationships with the largest and most respected oil and gas companies and traders, and fulfill their marine transportation requirements. We are committed to providing quality transportation services to all of our customers and to developing and maintaining long-term relationships with the major charterers of product tankers and LPG vessels. We are focused on maintaining our strong position in the product tanker market while expanding and integrating our LPG operations, and leveraging our existing customer relationships into new opportunities for our LPG operations. Additionally, we continuously look for ways to improve our operational infrastructure and internal processes, while driving innovation across all areas of our business.

Further Optimising Our Fleet Deployment and Entering New Markets

We strive to maintain a high-quality fleet through the acquisition of newer vessels and the selective sale of older vessels. We expect to capitalise on the quality and diversity of our fleet by taking advantage of synergies related to the activities of our charterers. For example, certain of our customers transporting cargoes in the Atlantic Basin on our Handymax product tankers also charter our larger, Panamax product tankers to transport similar cargoes in the same market. We intend to continue to take advantage of such opportunities in the future, and expect that such opportunities will increase as we further organically expand our business and the size and profile of our fleet.

We plan to expand our presence and enter additional emerging high-growth markets for product tanker and LPG operations, including China, India, Southeast Asia and South America, as well as to optimise vessel utilisation by reviewing the positioning of our older double hull product tankers into these markets.

Building on Our Strong Reputation and Operational Base to Expand into the LPG, Ammonia (NH3) and Petrochemical Market

The further expansion of our LPG fleet is consistent with our strategy of capitalising on our strong commercial, technical and operational platforms to achieve increased revenues and earnings in a variety of market sectors and market conditions, by providing flexible seaborne transportation options to both new and existing customers. We believe the LPG sector is an attractive market for us for the following reasons:

- The fundamentals of the LPG market are positive and have a resilient outlook, with a relatively stable time charter-oriented rate environment.
- The LPG market is generally a relationship driven, non-commoditised industry sector, which will allow us to leverage our existing customer base and sound reputation.
- Our opportunities in the LPG market will be enhanced due to the modest number of Handysize and Handymax LPG/LEG semi-ref carriers currently under construction, the limited number of shipyards with the capabilities to construct such vessels, the decommissioning of older tonnage and strong demand for additional transportation capacity.
- The high levels of technical and operational knowledge required to operate and manage MGC, Handysize and Handymax LPG carriers generally serves as a considerable barrier to entry into the mid-sized and Handysize and Handymax sector of the LPG market, thereby reducing the number of our potential competitors.
- The LPG market is currently occupied by a relatively small group of owners, and we believe that this relative lack of competition presents a more stable rate environment when compared to the refined petroleum products transportation market.

We intend to continue deploying our existing fleet of LPG/LEG carriers, and in the future the newbuilding vessels for which we have construction contracts, in both the spot and time charter markets and on COAs to maximise revenues and take advantage of market opportunities. We believe that our expansion into the LPG/LEG market will complement our substantial product tanker operations and enhance our strategy of solidifying existing customer relationships while developing new relationships in new markets. We continually monitor and evaluate economic conditions and market trends to determine the most profitable deployment of our vessels, and in the past have added vessels to our time charter portfolio in order to take advantage of attractive rates and relative revenue stability. Our strong marketing capabilities, operational and technical expertise, our established industry relationships and diversified business model have allowed us to maximise vessel utilisation and generate superior returns.

Maintaining a Stable Financial Structure that is Sustainable through Various Economic Cycles

Since our inception, our goal has been to employ a prudent and responsible fiscal management strategy, which has allowed us to develop a sustainable credit profile and achieve steady growth and renewal of our fleet, while maintaining long and positive relationships with our lenders. Throughout our 50-year history, we have successfully weathered various economic cycles and periods of industry volatility by maintaining strong banking relationships, preserving liquidity and adhering to conservative operating and financial strategies. In 1993, Eletson issued first preferred ship mortgage notes due 2003 in the aggregate principal amount of $140.0 million, making us the first European shipping company to access the Yankee bond market. We repaid those notes at par two years ahead of their maturity date. To strengthen our capital position, during the period of October 2008 through the end of 2009, we successfully obtained fully committed bank financing for all of our newbuildings at the time, despite the global financial crisis. More recently, in 2013, we issued first preferred ship mortgage notes in the aggregate principal amount of $300.0 million. We will continue to adhere to this proven strategy which we believe will continue to position us to achieve favourable returns in a broad range of market conditions in the future. We generally strive to maintain conservative leverage ratios during the business cycle. We expect that our cash flows will further enhance our liquidity and capital resources, affording us significant flexibility to efficiently conduct our operations and pursue our business strategy. Consistent with our long-standing and conservative approach to risk and financial management, we have signed financing for the four LPG/LEG newbuildings and for the four Aframax newbuildings.

Corporate History

EHI was founded in 1966 by Vassilis G. Hadjieleftheriadis together with his two sons, Apostolos and Gregory, and two sons-in-law, John Karastamatis and Erric Kertsikoff. EHI is a holding company incorporated under the laws of the Republic of Liberia. Our shipowning subsidiaries, including the Guarantors, are incorporated under the laws of Greece as Greek Special Maritime Enterprises. We are currently controlled and operated by the second generation of our founders and have become a world leader in international seaborne transportation specialising in the transport of refined petroleum products and liquefied petroleum gas.

Customers

We have a large and diversified customer base, many of whom have used our shipping services consistently for more than 30 years. Our customers include major international oil companies such as BP, Conoco Phillips, Royal Dutch Shell and Chevron Corporation, state owned integrated oil companies such as Pemex, Socar, Sabic and Bharat Petroleum, refined oil traders such as Vitol, Trafigura and Glencore International AG, LPG, ammonia (NH3), ethylene and other petrochemical gases (LEG), users, traders and importers, such as Geogas, Kolmar and Petredec, as well as various other entities. None of our customers accounted for more than 10% of the Company's consolidated revenues in 2017 and 2016. Our top 10 customers collectively accounted for 58% and 55% of the Company's consolidated gross voyage revenues in 2017 and 2016, respectively. We believe that our high operating standards, technical expertise and professional management have enabled us to develop strong relationships with this “blue chip” customer base, and that the quality and diversity of our customer base allows us to operate with minimised counterparty risk. For more information on the types of customer contracts we generally use, please see “Management’s Discussion and Analysis - Overview.”

Fleet Overview

Our current fleet consists of 34 vessels, including two Handysize product tankers, four Handymax product tankers, 11 Panamax product tankers, and five Aframax product tankers with a combined capacity of approximately 1.5 million dwt, and 12 LPG/LEG carriers with a combined capacity of approximately 269,500 cbm, or 242,680 dwt. As all of our newbuilding LPG/LEG vessels were delivered in years after 2009, we believe that our LPG/LEG fleet is the youngest in the world. As of December 31, 2017, the average age of the world LPG/LEG carrier fleet was 15 years and the average age of our 11 LPG/LEG carriers was 5.9 years. The average age of our product tanker as of December 31, 2017 was approximately 12.9 years, compared to average age of the world product tanker fleet of approximately 8 years.

The following table provides certain information about our vessels as of December 31, 2017.

Our Fleet

Vessel	Year built	Builder	DWT	Current employment status
Product tanker fleet				
Handysize				
m/t Skyros (1)	2006	Hyundai Mipo	36,660	Hafnia Pool
m/t Sikinos (1)	2006	Hyundai Mipo	37,620	Hafnia Pool
Handymax				
m/t Kinaros	2009	Hyundai Mipo	51,601	Spot
m/t Kimolos	2010	Hyundai Mipo	51,601	Short Term Timecharter (4)
m/t Kastos	2010	Hyundai Mipo	51,601	Spot
m/t Fourni	2010	Hyundai Mipo	51,601	Spot
Panamax				
m/t Pelagos (1)	1999	Halla	76,020	Spot
m/t Angistri (1)	2000	Halla	76,002	Spot
m/t Erikoussa (1)	2003	Hyundai	70,146	Spot
m/t Skopelos (1)	2003	Hyundai	70,146	Spot
m/t Antikeros	2004	Daewoo	69,714	Spot
m/t Dhonoussa	2005	Daewoo	69,714	Spot
m/t Polyaigos	2005	Daewoo	69,714	Spot
m/t Strofades	2006	Daewoo	69,714	Spot
m/t Keros (1)	2004	Hyundai	74,999	Spot
m/t Antimilos (1)	2004	Samsung	72,514	Spot
m/t Meganisi (1)	2004	Samsung	72,514	Spot
Aframax				
m/t Agathonissos (1)	2002	Hyundai	106,149	Spot
m/t Makronissos (1)	2002	Hyundai	106,149	Spot
m/t Alonissos (1)	2004	Hyundai	106,149	Spot
m/t Megalonissos (1)	2004	Hyundai	106,149	Spot
Operating product tanker fleet vessels: 21			**1,496,477**	

Newbuildings	Expected delivery year	Builder	DWT	Current employment status
Aframax (Hull No. H1423)	2018	SWS	109,900	Spot (5)
Aframax (Hull No. H1424)	2018	SWS	109,900	n/a
Aframax (Hull No. H1425)	2019	SWS	109,900	n/a
Aframax (Hull No. H1426)	2019	SWS	109,900	n/a
Total tanker newbuildings: 4			**439,600**	

Vessel	Year built	Builder	Cargo capacity	Current employment status
LPG/LEG fleet				
Handysize				
m/v Othoni [3]	2015	Hyundai Mipo	12,000 cbm	E3 Pool
m/v Astipalea [3]	2015	Hyundai Mipo	12,000 cbm	E3 Pool
m/v Paros [3]	2015	Hyundai Mipo	12,000 cbm	E3 Pool
m/v Kithnos [3]	2016	Hyundai Mipo	12,000 cbm	E3 Pool / Timecharter
m/v Dilos [3]	2016	Hyundai Mipo	12,000 cbm	E3 Pool
Handymax				
m/v Mathraki [3]	2003	Namura	22,500 cbm	Short Term Timecharter [4]
MGC				
m/v Anafi [2]	2009	Hyundai Mipo	35,000 cbm	Short Term Timecharter [4]
m/v Nisyros [2]	2009	Hyundai Mipo	35,000 cbm	Short Term Timecharter [4]
m/v Tilos [2]	2009	Hyundai Mipo	35,000 cbm	Short Term Timecharter [4]
m/v Telendos [2]	2010	Hyundai Mipo	35,000 cbm	Short Term Timecharter [4]
m/v Symi [2]	2012	Hyundai Mipo	35,000 cbm	Short Term Timecharter [4]
Operating LPG/LEG fleet vessels: 11			**257,500 cbm**	

Newbuildings	Expected delivery year	Builder	Cargo capacity	Current employment status
Handysize (Hull No. 8209) [3]	2018	Hyundai Mipo	12,000 cbm	n/a
Handysize (Hull No. 8210) [3]	2018	Hyundai Mipo	12,000 cbm	n/a
Handysize (Hull No. 8213) [3]	2018	Hyundai Mipo	12,000 cbm	n/a
Handysize (Hull No. 8214) [3]	2018	Hyundai Mipo	12,000 cbm	Spot [5]
Total LPG/LEG newbuildings: 4			**48,000 cbm**	

(1) *Mortgaged vessels. Denotes vessels that are mortgaged in favour of the trustee to secure the notes and the obligations of each Guarantor under the indenture and the security documents*

(2) *Fully-ref vessel*

(3) *Semi-ref LPG/LEG vessel*

(4) *We define "Short term Timecharter" as the timecharter with duration up to one year.*

(5) *According to shipbuilding contract amendment signed in July 2016, the two MGC fully-ref LPG vessels were swapped with two Handysize semi-ref LPG/LEG vessels, scheduled for delivery in 2018.*

Eletson Gas as of December 31, 2017 had four 12,000 cbm semi-ref LPG/LEG carriers under construction at Hyundai Mipo Dockyard Co. Ltd in South Korea. Eletson Holdings, as of December 31, 2017, had four 109,000 dwt product tanker vessels under construction at Shanghai Waigaoqiao Shipbuilding in China.

In accordance with our long-standing conservative approach to risk and financial management, we have in place signed financing for the contracts with Hyundai Mipo vessels. Also, in respect of the four contracts signed in 2015 with SWS we have also in place fully committed financing for all of the four newbuilding vessels.

In May 31, 2018 we took delivery of the first LPG/LEG newbuilding vessel the m/v Kalolimnos and the remaining three will be delivered during 2018. In April 26, 2018 we took delivery of the first Aframax newbuilding vessel the m/t Salamina, the second Aframax newbuilding vessel will be delivered during 2018 and the two remaining newbuilding vessels will be delivered in 2019. These additional LPG/LEG vessels are expected to increase the current capacity of our gas fleet from 257,500 cbm to 305,500 cbm and the four 109,000 dwt product tankers, will increase our fleet’s total combined carrying capacity to more than 2.2 million dwt. Upon delivery of our newbuilding LPG/LEG carriers, we expect that we will be one of the world’s largest LPG/LEG transportation companies by capacity.

All vessels in our fleet are double-hulled, registered under the Greek flag with Greek captains and nearly all Greek officers. Nearly all our vessels are purpose built to our specifications, with special, improved features that we have developed and refined based on our long operating experience. These special features generally exceed international standards and include:

- integrated bridge control consoles fitted with the latest technology and additional radar and navigation equipment that enhance navigation safety;
- continuous performance monitoring equipment to enhance operational reliability, maintenance efficiency, and help control costs; and

- improved pollution control features, such as incinerators and garbage compactors.

Operations and Ship Management

We are committed to the highest operating, technical, environmental and safety standards. We were among the first in our industry to transition to an entirely double-hulled fleet, and our record reflects our commitment to operational and commercial excellence. For example, since 2002, we have specially ordered double hull arrangements in the bunker tanks of each of our newbuildings, whereas the IMO regulations requiring such bunker tank arrangements did not go into effect until August 2010. Nearly all our vessels are purpose built to our specifications, with special, improved features that we have developed and refined based on our long operating experience.

We employ experienced management in all functions critical to our operations, in order to conduct focused marketing efforts, tight quality and cost controls and effective operations and safety monitoring. Similar to structures commonly used by other shipping companies, all of our vessels are owned by separate subsidiaries of the Company. These subsidiaries are organised as Greek Special Maritime Enterprises, and all of our vessels operate under the Greek flag with Greek captains and nearly all Greek officers. Pursuant to management agreements, our restricted subsidiary, Eletson Corporation, provides management services for our product tanker fleet at cost, and financial management services for our product tanker fleet is provided, at cost, by EMC Investment Corporation, another of our restricted subsidiaries. Commercial and certain financial management services for our LPG fleet are provided, at cost, by our unrestricted subsidiary, EMC Gas Corporation. Eletson Corporation also provides, for a fee, other management services for our LPG fleet.

Crewing and Employees

As of December 31, 2017, we employed 110 personnel in Piraeus, London, South Korea, China and Stamford, Connecticut. Ninety five of these employees manage the administrative, commercial, financial and technical operations of our business, and are located in Piraeus. These employees are subject to Greece’s collective bargaining agreement for shipping companies, which covers the terms and conditions of their employment. We have four employees located in Stamford, Connecticut and five employees located in London, who provide marketing and customer relations services. We have one employee located in Ulsan, South Korea and five employees located in Shanghai, China, who provide technical supervision for the newbuidings. In addition to employing a full complement of officers and crew, each of our vessels has six to eight additional crewmembers who engage in support functions. As of December 31, 2017, we employed approximately 980 seagoing personnel to crew our vessels.

Inspection by Classification Societies

Every oceangoing 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, maintained and inspected 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 such surveys on application or by official order, acting on behalf of the authorities concerned.

The classification society also undertakes, on request, other surveys and inspections that are required by regulations and requirements of the flag state. These surveys are subject to agreements made in each individual case and 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. 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 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 drydocked 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 shipowner 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. All new and secondhand vessels that we purchase must be certified prior to their delivery under our standard purchase contracts and memoranda of agreement. If the vessel is not certified on the scheduled date of closing, we have no obligation to take delivery of the vessel.

In addition to the classification society inspections, many of our customers regularly inspect our vessels as a precondition to chartering them for voyages. We believe that our well-maintained, high-quality vessels provide us with a competitive advantage in the current environment of increasing regulation and customer emphasis on quality.

Competition

Competition for charters is intense in both the product tanker and LPG/LEG market sectors and is based in part upon price, location, size, age, condition and acceptability of the vessel and the manager. Competition is also affected by the availability of other size vessels to compete in the trades in which the Company engages. In addition to the competitors listed below, there are also numerous, smaller vessel operators in the refined petroleum products and, to a lesser extent, in the LPG/LEG markets.

Product Tanker Business

The market for international seaborne refined petroleum products transportation services is highly fragmented. We own and operate one of the largest product tanker fleets in the world. Seaborne refined petroleum products transportation services generally are provided by two main types of operators: major oil company captive fleets (both private and state-owned) and independent shipowner fleets. In addition, several owners and operators pool their vessels together on an ongoing basis, and such pools are available to customers to the same extent as independently owned and operated fleets. Many major oil companies and other oil trading companies, the primary charterers of the vessels owned or controlled by us, also operate their own vessels and use such vessels not only to transport their own refined petroleum products, but also to transport refined petroleum products for third party charterers in direct competition with independent owners and operators in the tanker charter market. Other independent, significant operators of vessels carrying crude oil and other petroleum products with which we compete include AP Moller, Torm, Minerva, Avin, ST Shipping, Heidmar, Panamax International, Golden Energy, Jacob, Scorpio Tankers, Dynacom and Trafigura.

Liquefied Petroleum Gas, Ammonia, Ethylene and Petrochemicals Business

The LPG/LEG market is currently occupied by a small pool of owners and, as a result, it is generally a relationship driven, non-commoditised market. Currently, our principal competitor in the LPG market is Exmar and Navigator Gas, as well as LPG and ammonia (NH_3) producers, traders and importers that have time charter fleets which can be made available to directly compete with independent owners and operators. Ethylene is a feedstock material that requires specialized ships that operate within a market constrained by the existing infrastructure. Our principal competitors are Unigas and Evergas, who run similar sized vessels, and Navigator who operate the larger vessels within the sector.

Insurance

The operation of any ocean-going vessel carries an inherent risk of catastrophic marine disasters and property losses caused by adverse weather conditions, mechanical failures, human error, war, terrorism and other circumstances or events. In addition, the transportation of refined petroleum products, LPG, ammonia and other cargoes that we transport are subject to the risk of spills, and business interruptions due to political circumstances in foreign countries, hostilities, labour strikes and boycotts. OPA has made liability insurance more expensive for vessel owners and operators by imposing potentially unlimited liability upon owners, operators and bareboat charterers for oil pollution incidents in the territorial waters of the United States. We believe that our current insurance coverage is adequate to protect us against the principal accident-related risks that we face in the conduct of our business.

Our P&I insurance covers, subject to customary deductibles, policy limits and extensions, third-party liabilities and other related expenses from, among other things, injury or death of crew, passengers and other third parties, claims arising from collisions, damage to cargo and other third-party property and pollution arising from oil or other substances. Our current P&I insurance coverage for pollution is the maximum commercially available amount of $1.0 billion per vessel per incident and is provided by mutual protection and indemnity associations. Our current P&I insurance coverage for non-pollution losses is approximately $3.1 billion per vessel per incident. Each of the vessels currently in our fleet is entered in a protection and indemnity association which is a member of the International Group of Protection and Indemnity Mutual Assurance Associations (the "International Group"). The 13 protection and indemnity 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 protection and indemnity association has capped its exposure to this pooling agreement at slightly more than $10.0 billion. As a member of protection and indemnity associations, which are, in turn, members 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 protection and indemnity associations comprising the International Group.

Our hull and machinery insurance covers actual or constructive total loss from covered risks of collision, fire, heavy weather, grounding and engine failure or damages from same. Our war risk insurance covers risks of confiscation, seizure, capture, vandalism, sabotage and other war related risks. Our loss-of-hire insurance covers loss of revenue for up to 60/90 days resulting from vessel off hire for each of our vessels, with a 20/30-day deductible. We insure each vessel purchased under financing agreements for at least the value stipulated in the financing agreement, and in all circumstances for no less than its market value.

Property, Plant and Equipment

In addition to our vessels, the Company owns, through our subsidiaries, the building that houses our headquarters in Piraeus and the building that houses our operations in London. A subsidiary of the Company also leases 1,500 square feet of office space in Stamford, Connecticut for such subsidiary's services in the United States.

Legal Proceedings

We may, from time to time, be involved in legal proceedings and claims that arise in the ordinary course of business. These claims, even if lacking merit, could result in the expenditure of significant financial and managerial resources. We are not aware of any legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse effect on us.

MANAGEMENT

Directors and Executive Officers

Our vessels are managed by a wholly-owned subsidiary, Eletson Corporation. The financial management services for each of EHI's shipowning subsidiaries (including the Guarantors) are provided, at cost, by EMC Investment Corporation, another of our wholly-owned subsidiaries.

The directors and executive officers of EHI are listed below:

DIRECTORS AND EXECUTIVE OFFICERS OF EHI	AGE	POSITION
Lascarina J. Karastamati	55	President and Director
Vasilis A. Hadjieleftheriadis	45	Vice President, Treasurer and Director
Vassilis E. Kertsikoff	52	Vice President and Director
Constantine E. Kertsikoff	51	Director
Konstantine A. Hadjieleftheriadis	44	Director
Ioannis N. Zilakos	43	Director
Eleni J. Karastamati	42	Director
George J. Moratis	80	Director
Gerhard E. Kurz	79	Director
Panagiotis I. Konstantaras	68	Director
Emmanouil S. Andreoulakis	51	Secretary
Elena P. Vandorou	50	Assistant Secretary

The business address of each of the directors and executive officers listed above is c/o Eletson Corporation, 118 Kolokotroni Street, GR 185 35, Piraeus, Greece.

Certain biographical information about each of the directors and executive officers of EHI and Eletson Corporation is set forth below:

Lascarina J. Karastamati is President (since 2012), Secretary, and director (since 1997) of EHI. She is also a Secretary and director of each of Eletson Corporation and EMC Investment Corporation. She joined the legal department of Eletson Corporation in 1989 until her appointment in 1996 as Senior Manager of the Legal Department, a position she held until 2006. Ms. Karastamati has previously worked for law firms and financial institutions. She holds a Bachelor of Laws degree from the University of Athens Law School and a Master of Laws degree in Maritime Law from the University College London.

Vasilis A. Hadjieleftheriadis is a Vice President, Treasurer (since 2004) and director of EHI. He is also the Vice President, Treasurer and director of Eletson Corporation and is the President, Treasurer and director of EMC Investment Corporation. He has been employed by Eletson Corporation since 1998 and from 2000 to 2007 he served as its Chief Financial Officer. Mr. Hadjieleftheriadis is also a President and director of Naftilos Shipyards S.A. Mr. Hadjieleftheriadis holds a Bachelor of Science degree in Management Engineering from the Worcester Polytechnic Institute and a Master of Science degree in Shipping, Trade and Finance from City University London.

Vassilis E. Kertsikoff is a Vice President and director of EHI. He previously served as Chief Financial Officer of Eletson Corporation from 1993 until 2000. He is also President and CEO of Eletson Gas LLC. He is a member of the boards of Directors of various real estate entities in Greece and abroad. Mr. Kertsikoff holds a Bachelor of Arts degree in International Relations from Princeton University's Woodrow Wilson School of Public and International Affairs and a Master of Business Administration degree in Finance from New York University.

Constantine (Costis) E. Kertsikoff is a director (since 2003) of EHI and Vice President and a director of EMC Investment Corporation (since 2006). He is also the Chief Executive Officer of Eletson Corporation (since 2006). He previously worked in the Chartering Department of Eletson Corporation in Stamford, Connecticut, serving as Chartering Manager from 1995 to 1997 and in Piraeus as Marketing Manager from 1997 until his appointment in 2006 as Chief Executive Officer of Eletson Corporation. From 2003 to 2006 he was involved in all aspects of Eletson Corporation's marine operations. Mr. Kertsikoff is a director of the UK P&I Club and a member of its Strategy Committee. He is a member of the Lloyd's Register of Shipping Hellenic Committee and the Intertanko Council. In 2007 he was elected Chairman of the Intertanko Hellenic Forum and in 2008 a member of the Intertanko Executive Committee. Mr. Kertsikoff holds a Bachelor of Arts degree in Politics from Princeton University and a Master of Science degree in Ocean Systems Management from The Massachusetts Institute of Technology.

Konstantine (Kostis) A. Hadjieleftheriadis is a director of EHI (since 2001). He joined Eletson Corporation in 1999 as a Chartering Manager, a position he continues to hold. He holds a BA in Maritime Transportation from the State University of New York (SUNY) Maritime College.

Eleni J. Karastamati is a director of EHI (since 2012). Mrs. Karastamati is also a director of Suntip S.A., a company that grows, packs and exports Greek agricultural products to the European markets. Mrs. Karastamati holds a MA degree in psychology and sociology from New York University.

Ioannis N. Zilakos is a director of EHI (since 2016) and a representative of Elafonissos Shipping Corporation, one of the shareholding corporations of EHI. He joined the Eletson Corporation in 2006 and is currently the CSO and the Bunker Procurement Officer of the Company. He holds a bachelor degree in Finance and Economics from Syracuse University and an MBA from City University.

George J. Moratis is a director of EHI. He has served as legal counsel to the Company and its principals for the past 35 years. He is a member of the Athens Bar and a Senior Partner in the Greek Law firm of Moratis Passas. Mr. Moratis holds a Bachelor of Laws degree from the University of Athens and a Master of Laws D.E.S in Private Law from the University of Paris.

Gerhard E. Kurz is a director of EHI (since 2006). He previously served as Chief Executive Officer and a director of Seabulk International from 2000 until 2002 when he was named President and Chairman of the Board, positions he held until 2005. Mr. Kurz also served as President of Mobil Shipping and Transportation Company (MOSAT), a Mobil Oil-affiliated company, from which he retired in 2000. He also served as Chairman of the Marine Preservation Association (MPA), and the Oil Companies International Marine Forum (OCIMPF). From 2001 to 2006 Mr. Kurz also served on the Board of Directors of the American Bureau of Shipping, where he chaired its Audit and Finance Committees. He is the recipient of numerous awards and honours presented in recognition of his leadership role and efforts on behalf of the maritime industry. Mr. Kurz holds a Bachelor of Arts degree from the University of Wales and a Master of Business Administration degree from New York University.

Panagiotis (Takis) I. Konstantaras is a director of EHI (since 2011). Previously he held the position of Shipping Head at the Piraeus office of Citibank Greece from 2001 until 2011. Mr. Konstantaras also serves as board member and chairs the Audit Committee of CBC Holding Ltd.- a Ceres Group affiliated company engaged in the ownership and management of dry cargo vessels. He is also a board member of Aegean Baltic Bank, a specialised Greek shipping bank emphasising in the arrangement, structuring and management of syndicated shipping loans. He holds a Bachelor of Arts degree from the Athens University of Economics and Business and a M.Sc. degree from the London School of Economics.

Emmanouil S. Andreoulakis is a secretary and director of EHI and a representative of Keros Shipping Corporation, one of the shareholding corporations of EHI. He has served as Eletson Corporation's legal advisor on matters primarily of maritime labor law and admiralty law since 1996. Mr. Andreoulakis holds a Bachelor of Laws degree from the University of Athens Law School, a Master of Laws degree in Admiralty Law from Tulane University Law School, and a Master of Science degree in Shipping, Trade and Finance from City University (Cass) Business School in London, England.

Elena P. Vandorou is an Assistant Secretary of EHI. She has served in the Legal Department of Eletson Corporation since May 1994. Mrs. Vandorou has also worked at various law firms. She holds a Bachelor of Laws degree from the University of Athens Law School and a Master of Laws degree from the University of Southampton.

Peter G. Kanelos is the Chief Financial Officer of Eletson Corporation (since June 2007). Prior to joining Eletson, Mr. Kanelos was the European Chief Accounting Officer for CNH Global N.V. (Fiat Group), a leading worldwide manufacturer of agricultural and construction equipment. Before joining CNH, he was employed with Tenneco where his final position was Director, Financial Planning and Analysis for Tenneco Europe. Mr. Kanelos has extensive experience managing international automotive and industrial companies. He began his finance career with Tenneco at their Newport News Shipbuilding division. Mr. Kanelos holds a Bachelor of Arts degree in Economics from Hampden-Sydney College and a Masters of Business Administration degree from Virginia Commonwealth University.

Nikolaos S. Makris is the Chief Operating Officer of Eletson Corporation (since 2007). Prior to his appointment as Chief Operating Officer, Mr. Makris worked for Eletson Corporation as Senior Technical Manager (2001-2007), Technical Manager (1990-2001) and Port Engineer (1980-1990), and Seagoing Engineer and assistant Port Engineer since 1977. In addition, Mr. Makris has been involved with the Company's newbuildings program since 1987. Mr. Makris has 35 years of experience in the maritime industry, including four years sailing experience as an engine officer aboard product tankers. Mr. Makris holds a Bachelor of Science degree with honors from the University of Newcastle upon Tyne and a Master of Science in Ship Production Technology degree from the University of Strathclyde. He is a member of Lloyd's Register of Shipping Greek Committee.

Familial Relationships

Mr. Zilakos is cousin of Mr. Andreoulakis, the Messrs. Hadjieleftheriadis, who are brothers, the Ms. Karastamati, who are sisters, and the Messrs. Kertsikoff, who are brothers. All the foregoing are beneficial owners and representatives of the corporate shareholders of EHI.

Board Practices

As provided in EHI's organisational documents, each elected director of EHI holds office for one year terms until a successor is elected or until such director's earlier death, resignation or removal. Officers are elected from time to time by a vote of the Board of Directors and hold office until a successor is elected.

The Board of Directors has established an audit committee, presently consisting of two directors, Vassilis E. Kertsikoff, and Emmanuel Andreoulakis, who is also an attorney at law, and George Cambanis, was a partner in an audit firm, who is independent from the Company. The audit committee is governed by a written charter, which was approved by the Board of Directors. The audit committee, among other things, reviews our external financial reporting, engages our external auditors, approves all fees paid to auditors and oversees our internal audit activities and procedures and the adequacy of our internal accounting controls.

The Board of Directors has established an investment committee, presently consisting of Vassilis E. Kertsikoff, Vasilis A. Hadjieleftheriadis and Ioannis N. Zilakos. This committee is governed by a written charter, which was approved by the Board of Directors. The investment committee is responsible for oversight of the Company's investment policies and objectives, and the financial management of EMC Investment Corporation.

The Board of Directors has established a compensation committee, presently consisting of Lascarina J. Karastamati, George J. Moratis and Gerhard Kurz, two of whom, Messrs Moratis and Kurz, are independent directors. The compensation committee is governed by a written charter, which was approved by the Board of Directors. The compensation committee is responsible for reviewing and approving the compensation of executive officers, for establishing, reviewing and evaluating, in consultation with senior management, the long-term strategy of employee compensation and approving any material change to existing compensation plans.

Executive Officer and Director Compensation

The aggregate annual compensation paid to the executive officers and directors of the Company and Eletson Corporation listed above for the year ended December 31, 2017, was approximately $1.0 million. Each of the directors of EHI, other than Mr. Kurz and Mr. Konstantaras, is an executive officer of EHI or its subsidiaries and receives no additional compensation for his or her service as a director of EHI. As a result, Mr. Kurz and Mr. Konstantaras are the only directors that receive compensation for such service as a Director of EHI.

SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Shareholders

As of December 31, 2017, a total of 10,000 shares of EHI's Class A common stock were outstanding. EHI does not have any other class or series of capital stock outstanding. EHI's Class A common stock is entitled to one vote per share. The following table sets forth certain information regarding the ownership of EHI's Class A common stock as of December 31, 2017.

SHAREHOLDER [(1)]	SHARES OWNED	PERCENTAGE OWNERSHIP
Lassia Investment Company	3,072	30.72%
Family Unity Trust Company	3,072	30.72%
Glafkos Trust Company	3,072	30.72%
Elafonissos Shipping Corporation	392	3.92%
Keros Shipping Corporation	392	3.92%

(1) Each of our shareholders is an entity organised under the laws of Liberia.

Related Party Transactions

We engage in certain transactions with affiliated entities. We believe that these transactions are conducted on terms substantially equivalent to those we would have negotiated on an arms-length basis with third parties. Set forth below is a summary of these transactions since January 1, 2017:

- Certain of the Company's shareholders are beneficial owners of Naftilos, a ship repair facility in Greece, where the Company's vessels are repaired from time to time. The Company believes that its commercial dealings with Naftilos are on an arms-length basis on terms no less favourable to the Company than could be obtained from independent, third party suppliers of shipyard service. The Company paid approximately $0.2 million to Naftilos for ship repair services in 2017, compared to $0 million in 2016 and $0.3 million in 2015. The Company estimates that half of the balance amounting $3.6 million will be collected during 2018. . The Company's shareholders have committed to undertake any loss that may be incurred by the Company as a result of potential non realisation of the amounts due from this affiliated company. Certain shareholders are directors and executive officers of the Company and receive no fees or other compensation, either directly or under any other arrangement.

- In connection with the joint venture arrangement, three of our affiliates, Eletson Corporation, EMC Gas Corporation and EMC Investment Corporation, entered into contracts with Eletson Gas and its subsidiaries to provide operating and technical management and financial management services with respect to Eletson Gas's existing and future-acquired LPG/LEG carriers (collectively, the "Ship Management Agreements"). In 2017, the aggregate charged amount under the Ship Management Agreements from Eletson Gas for the current fleet of LPG/LEG carriers was $3.0 million, and amounts paid under the Ship Management Agreements are subject to annual increases of 2% per year.

George J. Moratis, a Director of EHI, serves as outside legal counsel to the Company. We paid Mr. Moratis $40,000 for his services as legal counsel in 2017 and $40,000 in 2016.

Eletson Gas

In October 2013, the Company entered into an agreement with affiliates of the Blackstone Group ("Blackstone") to pursue targeted acquisitions in the LPG sector. The Company contributed its five existing LPG vessels and $1,000 of cash to Eletson Gas LLC, the new legal entity, and Blackstone has committed to provide $125,000 in contributions, which will be provided in phases, in exchange for 40% membership interest of Eletson Gas, upon contribution of all committed funds. Blackstone's membership interest is accounted for as non-controlling interest as of December 31, 2014. According to the agreement, contributions will fund (i) part of the acquisition cost of a secondhand vessel m/v Mathraki, a 22,500 cbm LPG carrier, (ii) a portion of the equity payments for the construction of nine newbuilding vessels, and (iii) provide cash for general corporate purposes.

Eletson Gas LLC, through its subsidiaries, has placed order for the construction of five 12,000 cbm semi-ref LPG/LEG carriers with Hyundai Mipo Dockyard Co Ltd (Note 8c). In 2015, Eletson Gas LLC, through its subsidiaries, placed orders for the construction of two 12,000 cbm semi-ref LPG/LEG carriers and two 38,000 cbm fully-ref LPG carriers with Hyundai Mipo Dockyard Co Ltd. Three 12,000 cbm semi-ref LPG/LEG carriers were delivered in 2015 and two 12,000 cbm semi-ref LPG/LEG carriers were delivered in 2016. According to shipbuilding contract amendment signed in July 2016, the two MGC fully-ref LPG vessels were swapped with two Handysize semi-ref LPG/LEG vessels. All four newbuilding vessels are scheduled for delivery in 2018.

In April 2014, Eletson Gas LLC, through its subsidiary Eletson Gas Chartering Inc., entered into a charter-in agreement for the m/v Gas Oriental for a twelve month period, with an extension option of eighteen months which was declared by Eletson Gas LLC in October 2015. In June 2015, Eletson Gas Chartering Inc. entered into a second charter-in agreement for the m/v Immanuel Schulte for a twenty four month period. In September 2016, the charter-in agreement for the m/v Gas Oriental expired and redelivered to her owners whereas the charter-in vessel the m/v Immanuel Schulte redelivered to her owners in May 2017.

In December, 2017, the company entered into a new agreement with Blackstone for an additional capital commitment of amount $23.4 million with expiration date on June 30, 2018. In December 2017, Blackstone contributed as additional paid in capital the amount of $8.4 million, as part of its original $125 million equity commitment, which used for the repayment of the third pre delivery instalment regarding the newbuilding vessel Hull 8210 and the remaining used for working capital purposes.

The company did not pay any dividend during 2017. The accrued dividend of amount $20.3 million as of December 31, 2017, payable to Blackstone is not expected to be paid within the next 12 months. Total dividend paid to Blackstone during the year ended December 31, 2016 was $15.3 million.

DESCRIPTION OF OTHER INDEBTEDNESS

Our credit facilities contain customary ship finance covenants, including restrictions as to changes in management and ownership of the mortgaged vessels, the incurrence of additional indebtedness, the mortgaging of vessels and the maintenance of certain ratios of our asset (including vessel) values compared to our consolidated debt, minimum net worth, minimum liquidity, maximum leverage and interest coverage, among others. As of the date of this Annual Report, we were not in compliance with certain of the financial and other covenants contained in certain of our loan and credit facilities, for which we have requested to obtain waivers or amendments or requested to refinance the affected debt. If we are not successful in obtaining additional waivers or amendments or refinancing the affected debt, our lenders may declare an event of default and accelerate our outstanding indebtedness, which would impact our ability to continue to conduct our business.

All of our debt agreements contain a cross-default provision that may be triggered by a default under one of our other debt agreements. Because of the presence of cross default provisions in all of our debt agreements, the refusal of any one lender to grant or extend a waiver could result in all of our indebtedness being accelerated even if our other lenders have waived covenant defaults under the respective debt agreements. As a result of the cross-default provisions included in our debt agreements, actual breaches existing under our debt agreements could result in defaults under all of our debt and the acceleration of such debt by our lenders and the foreclosure of their liens on our vessels, which would impair our ability to conduct our business and continue as a going concern. If our outstanding indebtedness, accelerated in full or in part, in the current financing environment we may not be able to refinance our debt or obtain additional financing. Moreover, any refinancing or additional financing may be more expensive and carry more onerous terms than those in our existing debt agreements. In addition, if we find it necessary to sell our vessels at a time when vessel prices are low, we will recognize losses and a reduction in our earnings, which could affect our ability to raise additional capital necessary for us to comply with our debt agreements.

As a result of the above non-compliance with covenants and cross-default provisions contained in loan agreements, lease financing arrangements and Senior Notes indenture, and according USGAAP presentation requirement, the Company has classified its bank loans, its lease obligation and the outstanding principal amount under its 9.625% First Preferred Ship Mortgage Notes as current liabilities (see also to the Note 3 of accompanying Financial Statements).

Our indebtedness is summarised as follows:

The Notes

In December 2013, Eletson Holdings Inc. and Eletson Finance (US) LLC, have offered First Priority Ship Mortgage Notes in an aggregate principal amount of $300.0 million bearing an interest rate of 9.625% per annum, payable semi-annually in arrears, on January 15 and July 15 of each year, commencing on July 15, 2014, which notes are due to mature on January 15, 2022. The aggregate net proceeds from this offering of $295.9 million was used to repay certain amounts of our credit facilities, to fund an escrow account for the purpose of acquiring qualified product tankers and for general corporate purposes. The notes are fully and unconditionally guaranteed, jointly and severally, on a senior secured basis by our existing and future restricted subsidiaries that own Mortgaged Vessels (as defined below). Concurrently with the closing of the offering of the notes, we deposited into an escrow account $65.0 million of the proceeds of the offering (the "Escrow Proceeds"). Subject to certain conditions, the Escrow Proceeds will be released from escrow from time to time to enable us to purchase qualified vessels. As of December 2013, the notes and the guarantees were secured by first preferred ship mortgages on 14 of our vessels and certain related assets, the Escrow Proceeds, and any vessel acquired after the consummation of this offering with the Escrow Proceeds (all such vessels, collectively, the "Mortgaged Vessels"), in each case subject to permitted liens Upon a change of control of Eletson Holdings Inc., the holders of the notes may require us to purchase their notes, in whole or in part, at a purchase price of 101 of the principal amount of such notes, plus accrued and unpaid interest, if any to the date of purchase. At any time prior to January 15, 2017, we could have redeemed up to 35%, at 109.625% of the principal amount of such notes, plus accrued and unpaid interest, if any, to the date of the purchase with the proceeds of equity offerings. In addition, at any time prior January 15, 2018, the Co-Issuers could have redeemed all or part of the notes at a redemption price equal to 100% of the principal amount thereof plus the Applicable Redemption Premium as defined in the indenture governing the notes) and accrued and unpaid interest to the redemption date, subject to the rights of holders on the relevant record date to receive interest on the relevant interest payment date. During the twelve months following each of January 15, 2018 and 2019, we may redeem some or all of the notes at 104.813% and 102,406%, respectively, of the principal amount of such notes, plus accrued and unpaid interest, if any, to the date of purchase. Thereafter, we may redeem some or all of the notes at 100.0% of the principal amount of such notes, plus accrued and unpaid interest, if any, to the date of purchase. If certain taxation laws adversely change, we may redeem, but only wholly, at 100%, of the principal amount of such notes, plus accrued and unpaid interest, if any, to the date of purchase and any additional amounts specified in the indenture governing the notes.

During 2014, we used the entire escrowed amount and additional own funds to acquire three secondhand qualified Panamax tankers. During 2015, we sold our four oldest Mortgaged Vessels for combined net sale proceeds of $32.9 million. The funds were deposited into the escrow account with intention to renew our fleet purchasing qualified vessels. During 2016, we sold one more of our oldest Mortgaged Vessel for combined net sale proceeds of $8.6 million and utilize escrow funds for the acquisition of two secondhand Handysize product Tankers on $18.3 million each. The remaining funds as of December 31, 2016 of $5.0 million were deposited into the escrow account. During 2017, we sold our oldest vessel the m/t Stavronisi and $3.0 million of the net sale proceeds transferred to the escrow account.

Subsequent to December 31, 2017, the Company failed to pay interest on its 9.625% First Preferred Ship Mortgage Notes due 2022 (the "Existing Notes") due in January 2018, and entered into a forbearance agreement with the majority of the holders of the Existing Notes, and agreed in principal to amend the main terms of the indenture governing the Existing Notes pursuant to an offer to exchange the Notes for new First Preferred Ship Mortgage Notes due 2022 (the "New Notes") and amend the indenture governing its Notes to remove most of the covenants and to release all collateral securing the Notes. The New Notes provide that the interest payments due in 2018 would be converted into an equal principal amount of New Notes issued to holders of the Notes that exchange for the New Notes. The terms of the indenture governing the New Notes provides for additional collateral and covenant protections for the holders of the New Notes. Even though as of the date of approval of the consolidated financial statements the holders of the Notes did not declare an Event of Default under the respective indenture, such non-payment of interest due on the Notes together with the events of default of the Company's loan agreements which trigger the cross default provision under the Notes, constitute events of default under the indenture for the Notes. The exchange offer was accepted by approximately 99% of the holders of the Existing Notes and is expected to close on June 29, 2018. Upon consummation of the exchange offer for the Notes, the Company intends to pay all overdue cash interest on the Notes at the default rate set forth in the indenture for the Notes.

Citibank Facility

Eletson Holdings Inc (EHI) is the borrower under a $12.0 million syndicated term loan facility with Citibank NA as agent. The facility bears an interest rate of LIBOR plus 4.5% per annum and is repayable in twelve quarterly installments through August, 2019. The facility is secured by second preferred mortgages on two vessels subject to first preferred mortgages under the DVB facility (described above) and the two vessels subject to first preferred mortgages under the Crédit Agricole facility (described below), and subject to second assignments of vessel earnings and insurances. The facility contains customary conditions precedent to borrowing, and representations, warranties and covenants, including a collateral maintenance covenant and certain limitations on the incurrence of debt and liens by the borrower. The facility requires EHI, among other things, to comply with certain covenants relating to minimum liquidity, maximum leverage and interest coverage. The four restricted subsidiaries that provided the second mortgages have guaranteed payment under the facility. The aggregate outstanding principal balance of the facility was $11.0 million as of December 31, 2017. As of December 31, 2017 we have not been in compliance with certain financial covenants required us to maintain a maximum group leverage ratio and a minimum interest coverage ratio.

DVB Bank Facilities

Three of our unrestricted subsidiaries are borrowers under a $102.0 million term loan facility with DVB Bank. The loan is repayable in twenty-two repayment quarterly instalments through February 14, 2019, plus a balloon payment of $48.4 million in relation to draws made by two of the borrowers and $6.5 million in relation to draws made by the third borrower. As of October 17, 2013, the facility bears an interest rate of LIBOR plus 2.45% per annum on the portion of the facility relating to two vessels, and 3.35% per annum on the portion of the facility relating to the third vessel. The facility is secured by a first preferred mortgage on each of the respective vessels owned by the subsidiaries that are party to the agreement and a general assignment of the earnings, insurances and requisition compensation of those vessels. The facility contains customary conditions precedent to borrowing, and representations, warranties and covenants, including a collateral maintenance covenant, and certain limitations on the incurrence of debt and liens by the borrowers. Our unrestricted subsidiary, Eletson Gas, has guaranteed payment under the facility. The aggregate outstanding principal balance of the facility was $66.4 million as of December 31, 2017.

Two of our restricted subsidiaries are borrowers under a secured term loan facility of up to $48.3 million with DVB Bank. The facility is repayable in twenty-five quarterly installments through August, 2019, plus a balloon installment of $25.2 million payable with the last installment. The facility bears an interest rate of LIBOR plus 3.35% and 2.85%, respectively, per annum on the respective portions of the facility allocated to each of the two subsidiaries. The facility is secured by a first preferred mortgage on each of the respective vessels owned by the subsidiaries that are parties to the agreement and a general assignment of the earnings, insurances and requisition compensation of those vessels. The facility contains customary conditions precedent to borrowing, and representations, warranties and covenants, including a collateral maintenance covenant and certain limitations on the incurrence of debt and liens by the borrowers. EHI has guaranteed payment under the facility. The facility requires EHI, as guarantor, among other things, to comply with certain covenants relating to minimum liquidity and maximum leverage. The aggregate outstanding principal balance of the facility was $31.5 million as of December 31, 2017.

The aggregate outstanding principal balance under the DVB facilities was $97.9 million as of December 31, 2017. As of December 31, 2017 we have not been in compliance with certain financial covenants required us to maintain a maximum group leverage ratio and a minimum account balance for restricted group and to maintain a minimum liquidity for unrestricted group.

Unicredit Facility

Three of our unrestricted subsidiaries are borrowers under a $204.8 million syndicated secured reducing revolving credit facility with Unicredit Bank AG, which was reduced to a $84.3 million facility by an amendment on October 17, 2013. The facility provides for 11 mandatory quarterly reductions of the available amount by June 4, 2016 plus a balloon payment of $65.3 million. As of October 17, 2013, the facility bears interest at a rate of LIBOR plus 3.0%, and is secured by a first preferred mortgage on each of the respective vessels owned by the subsidiaries that are party to the agreement and a general assignment of the earnings, insurances and requisition compensation of those vessels. The facility contains customary conditions precedent to borrowing, and representations, warranties and covenants, including a collateral maintenance covenant and certain limitations on the incurrence of debt and liens by the borrowers.

On May 25, 2016, Eletson signing of supplement agreement for 5-year extension and reduced margin to 2.95% from 3.00%. Repayment schedule as before, with 20 quarterly instalments of $1.7m and a $30.7m balloon payment due June 2021. Our unrestricted subsidiary Eletson Gas has guaranteed payment under the facility. The aggregate outstanding principal balance of the facility was $54.9 million as of December 31, 2017. As of December 31, 2017 we have not been in compliance with certain financial covenants required us to maintain a minimum interest coverage ratio, a minimum account balance in the bank and to maintain a minimum liquidity for Gas group.

Crédit Agricole Facility

Two of our restricted subsidiaries are borrowers under a secured term loan agreement of up to $66.0 million with Crédit Agricole. The outstanding facility is repayable in quarterly installments of $0.9 million through August 2019, plus a balloon payment of approximately $25.5 million payable after the last installment. The facility bears interest at a rate of LIBOR plus 2.5%, and is secured by a first priority mortgage on each of the respective vessels owned by the subsidiaries that are party to the agreement and a general assignment of the earnings, insurances and requisition compensation of those vessels. The facility contains customary conditions precedent to borrowing, and representations, warranties and covenants, including a collateral maintenance covenant, minimum liquidity and certain limitations on the incurrence of debt and liens by the borrowers. Eletson Holdings Inc (EHI) has guaranteed payment under the facility. The facility requires EHI, as guarantor, among other things, to comply with certain covenants relating to minimum liquidity, maximum leverage, net worth and interest coverage. The aggregate outstanding principal balance of the facility was $31.8 million as of December 31, 2017. As of December 31, 2017 we have not been in compliance with certain financial covenants required us to maintain a maximum group leverage ratio and a minimum interest coverage ratio.

SEB Facility

Seven of our unrestricted subsidiaries are borrowers under a syndicated secured credit facility agreement for up to $254.2 million with Skandinaviska Enskilda Banken AB, as agent. The purpose of the facility is to partly finance the construction and delivery of the five 12,000 cbm semi-ref LPG/LEG carriers from Hyundai Mipo Dockyard that delivered in 2015 and 2016 and the last two 22,000 cbm semi-ref LPG/LEG cancelled newbuildings carriers at Sinopacific Offshore and Engineering. The facility includes both pre-delivery and delivery commitments, with the pre-delivery advances for each vessel scheduled to be repaid in full upon drawdown of the delivery commitment for each respective vessel. Each delivery advance is repayable in twenty quarterly instalments plus a balloon payment of $19.7 million for each of the five Hyundai vessels. The facility bears interest at a rate of LIBOR plus 3.25%. The facility is secured by a first preferred mortgage on each of the five vessels delivered in 2015 and 2016. The facility contains customary representations, conditions precedent to borrowing, warranties and covenants. The aggregate outstanding principal balance of the facility was $128.3 million as of December 31, 2017. As of December 31, 2017 we have not been in compliance with certain financial covenants required us to maintain a minimum interest coverage ratio, a minimum debt service coverage ratio and a Gas group minimum liquidity.

BNP Paribas Facility

Four of our unrestricted subsidiaries are borrowers under a syndicated secured credit facility agreement for up to $138.0 million with BNP Paribas ("BNP"), Citibank N.A. ("Citibank"), and Skandinaviska Enskilda Banken AB ("SEB"). The purpose of the facility is to partly finance the construction and delivery of the four 12,000 cbm semi-ref LPG/LEG carriers under construction at Hyundai Mipo Dockyard. The facility includes both pre-delivery and delivery commitments, with the pre-delivery advances for each vessel scheduled to be repaid in full upon drawdown of the delivery commitment for each respective vessel. Each delivery advance is repayable in nineteen instalments plus a balloon payment for each of the four Hyundai vessels. The facility bears interest at a rate of LIBOR plus 2.85%. The facility is secured by first pre-delivery security assignments, ship-building contracts and the refund guarantees on the four vessels under construction. The facility contains customary representations, conditions precedent to borrowing, warranties and covenants. Our unrestricted subsidiary Eletson Gas has guaranteed payment under the facility. The aggregate outstanding principal balance of the facility was $31.6 million as of December 31, 2017. As of December 31, 2017 we have not been in compliance with certain financial covenant required us to maintain a minimum liquidity.

Bocomm Facility

One restricted subsidiary is a party to a financial lease as Lessee. Bocomm, as Lessor, has acquired two newbuilding contracts for two Aframax vessels from the Shanghai Waigaoqiao Shipbuilding Co. Ltd. (SWS) shipyard pursuant to a novation agreement and will bareboat charter the vessels to the Lessee upon delivery. According to the terms of lease agreement, the Lessor shall pay to the Shipyard all installments of the relevant shipbuilding contract in the amount and at the time set out in such shipbuilding contract, other than the initial and final equity installments paid by the Lessee directly to the Builder. EHI will provide a joint and several performance guarantee in relation to the Lessee's performance under the Lease agreement. The Lessee or its nominees have the obligation to purchase the vessels from the Lessor at the end of the ten year lease at 20% of the vessel's purchase price. The aggregate outstanding principal balance of the facility was $20.7 million as of December 31, 2017. Furthermore, according to the cross default provisions contained in the lease agreements, default under loan agreements constitute a termination event under the lease agreements, even though as of the date of approval of the consolidated financial statements none of the lessors have served written notice and declared termination of the lease, such cross default constitute a termination event under the lease agreements and may result in the lessors requiring immediate payment of outstanding balances under lease arrangements.

Piraeus Bank Facility

One of our restricted subsidiaries is the borrower under a $5.0 million revolving credit facility with Piraeus Bank SA. The facility, originally maturing on September, 2014, was extended up to August 2022. The facility bears interest at a rate of LIBOR plus 1.0%. It is secured by a first mortgage on other non-vessel related collateral owned by a restricted subsidiary. EHI has guaranteed payment under the facility. The facility contains customary conditions precedent to borrowing, and representations, warranties and covenants. The facility requires EHI to comply with certain covenants relating to minimum liquidity, maximum leverage and interest coverage. The aggregate outstanding principal balance of the facility was $4.9 million as of December 31, 2017.

Also, one of our restricted subsidiaries is the borrower under a $20.0 million credit facility with Piraeus Bank SA. The facility matures on August, 2022. The available amount of $20.0 million will decrease by $2.0 million in August 2018 and $2.0 million every 6 month thereafter. The facility bears interest at a rate of LIBOR plus 2.75% and reduced 20 bps after the first reduction and every 6 month therafter. The facility contains customary conditions precedent to borrowing, and representations, warranties and covenants. The facility requires that the borrower maintains a minimum liquidity amount in a pledged account up to $10.0 million. EHI has guaranteed payment under the facility. The aggregate outstanding principal balance of the facility was $20.0 million as of December 31, 2017.

Eletson Gas LLC, an unrestricted subsidiary, is a party to an unsecured revolving credit facility with Piraeus Bank SA. The facility bears interest at a rate of LIBOR plus 1.0%. The facility contains customary conditions precedent to borrowing, and representations, warranties and covenants. The facility requires EHI to comply with certain covenants relating to minimum liquidity, maximum leverage and interest coverage. The facility, originally maturing on September 30, 2014, was extended up to August 2022 with an available amount up to a maximum of $7.0 million. EHI has guaranteed payment under the facility. The aggregate outstanding principal balance of the facility was $2.1 million as of December 31, 2017.

Alpha Bank Facility

One of our restricted subsidiaries is the borrower under a $4.0 million revolving credit facility with Alpha Bank SA. The facility bears interest at a rate of LIBOR plus 5.5% and has duration of one year from the first drawdown, annually renewable. The facility contains customary conditions precedent to borrowing, representations and warranties. EHI has guaranteed payment under the facility. The aggregate outstanding principal balance of the facility was $4.0 million as of December 31, 2017.

Aegean Baltic Bank Facility

One of our restricted subsidiaries is the borrower under a $4.0 million revolving credit facility with Aegean Baltic Bank

SA. The facility bears interest at a rate of LIBOR plus 5.5% and has duration of one year from the first drawdown annually renewable. The facility contains customary conditions precedent to borrowing, representations and warranties. EHI has guaranteed payment under the facility. The aggregate outstanding principal balance of the facility was $4.0 million as of December 31, 2017.

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Letter to the Shareholders of Eletson Holdings Inc.

In 2017 we encountered the worst market and subsequent financial performance in the Company's history. The impact of this bad market in 2017 was further exacerbated, especially in product tankers, as it represented an even more significant downturn from 2016's low levels. Reduced OPEC oil output and continued vessel deliveries were the main factors supressing the market. OPEC's strategy of reduced output was implemented against a backdrop of increased inventories; as a result, increased oil demand was met by drawing on existing inventories which in turn further suppressed tanker demand throughout 2017.

While product tankers were at historic lows, the LPG market was also very weak. The Gas sector continued to suffer from an oversupply of VLGC's which negatively affected MGC cargoes and rates. In fact, the severity of the VLGC market put downward pressure on all sectors. While approximately 40% of our Gas fleet was in timecharter employment and separately 44% of the fleet participated in the E3 Pool, the weakness of the LPG market could not be avoided as none of our segments enjoyed any strong market periods.

Employment exposure in our product tankers was also quite vulnerable, as the fleet was effectively operating within the spot market with very limited time charter coverage during the year. As a result of the aforementioned, Company liquidity fell substantially -- cash burn in 2017 totalled $33 million for Tankers and $26 million for our Gas business, or a total of $59 million for the consolidated group. The strained liquidity increased the challenge to ensure availability of required funding for delivery of the eight 2018 newbuilds.

Whilst we consolidate group results we are effectively managing two distinct businesses, our product tanker group and the gas joint venture. Correspondingly, the cash strain caused by the weak market required enormous management time and effort to address the liquidity and refinancing issues of each distinct business group. The tanker side of our business was most seriously impacted in terms of liquidity but also further restricted due to the overall weakness of the asset market.

For that reason, we began discussion early in the third quarter with our bondholders to seek relief from the 2018 coupon payments. In parallel, we approached our tanker financiers to request debt relief for 2018. As an update to these very important initiatives, we reached agreement in June 2018 with our bondholders to forego 2018 interest payments of $29 million and we also agreed in principal with our banks and lease financier for deferral of principal amortization payments for periods affecting portions of 2018 and 2019.

On the Gas side of our business, our management action plan included drawdown of the remaining equity from our partner Blackstone of $8.4 million representing the final portion of their initial commitment of $125 million investment, refinancing of the Unicredit facility to release up to $33 million of liquidity and refinancing of the BNP newbuild facility to reduce the Company's final equity required upon delivery. The above management action plans have essentially been completed and we are finalising negotiations with our gas sector banks to also provide debt amortisation relief for a twelve month period.

Other important events taking place in our tanker segment were the following.

- Sale for scrap of our oldest Panamax product tanker, the m/t Stavronisi for $6 million.
- Refinancing of the $83 million balloon of the Citi $200 million facility through a Sale and Leaseback transaction with a leading Chinese lessor and a Citi led supplemental credit facility.
- Financing with a leading Chinese financier of the last two newbuilding Aframaxes in an $82 million Sale and Leaseback transaction.
- To bolster liquidity, an additional $20 million overdraft credit facility was signed with Piraeus Bank.

The above actions in our gas business have enabled us to begin taking delivery of all four LEG newbuilds. On the tanker side, we have taken delivery of the first Aframax newbuild with the second delivery planned a few days after issuance of this report. Delivery of the newbuilds fulfils a key strategic goal given our positive market outlook.

Eletson Holdings Inc.

We believe the culmination of our actions during the year will allow us to exit this negative environment in what is generally predicted as a brighter future. As we communicate each year, it is important to summarise the culmination of our efforts in terms of our safety performance. Operationally, 2017 was another year without serious incident or injury. We wish to thank our employees both on-board our ships and ashore for their commitment and dedication towards the continuous improvement of our performance and the success of our company.

Lascarina J. Karastamati	Costantine E. Kertsikoff
President	President & CEO
Eletson Holdings Inc.	Eletson Corporation

Piraeus, June 25, 2018

Product Tanker Business

The product tanker market in 2017 experienced one of its worst years on record. Fundamentally, tonne-mile demand in 2017 was significantly affected by OPEC oil cuts as reduced production resulted in lower volumes bound for sea transit. OPEC cuts averaged approximately 1.45 million bpd which meant oil demand growth was covered by drawing on existing stocks which in turn kept tanker demand low throughout 2017, ignoring the further negative impact of vessel deliveries.

While the overall market was depressed, results were often mixed in the various regions our vessels trade. Also, Chinese imports increased by just over 800k bpd following a similar increase in 2016. Indian oil demand grew by 5% led by clean petroleum products. In the Caribbean basin where we extensively operate, the dirty products market decreased significantly due to a sharp reduction in Venezuelan and Colombian exports to the US. Specifically, crude oil production in Venezuela declined by nearly 30%, thus significantly impacting all crude tanker sectors in the Atlantic basin. Clean markets East of Suez also exhibited substantial weakness due to demand's trade down by 8% for the AG/East as AG naphtha supply dropped and domestic demand increased. A constant stream of newly built suezmaxes also cannibalized a number of LR cargoes reducing the potential for triangulation and efficient use of the LRs.

On the supply side, 2017 had the highest number of crude tanker deliveries on record since 2009. For the clean tanker sector deliveries were also high but at the same level of growth as previous years. More specifically for our sectors, the Aframax and Panamax fleet increased by 10.8% and 8.3% respectively in 2017. The MR fleet increased 4.6%. Vessel additions for product tankers should slow in 2018 for most sectors. Reduced fleet growth should be augmented by increased scrapping as most tanker segments will experience an increased number of ships crossing critical age threshold.

Liquefied Petroleum Gas Business

In terms of gas production, 2017 was a year of stability in LPG supply with no real additional volumes from either the US Gulf or the Arabian Gulf. There were slight supply gains from renewed Iranian exports, but the amounts were not material enough to add any impetus to the market. Growth in demand from the Far East and India continued at moderate rates similar to 2016, though the increase in VLGC supply more than offset this increase in product demand.

For the MGC sector, 2017 was an extremely difficult year. With little increase in product available to be moved and a large oversupply of VLGCs, added MGC newbuilding deliveries during the year substantially weakened that market resulting in lower rates and a marked increase in idle time across the global fleet. Pressure from struggling MGCs forced a significant number of Handymax vessels into petrochemical gases. This movement was both significant and sustained and put a good deal of pressure on the Handysized vessels severely limiting earnings.

The petrochemical market where our Handysize vessels operate also had significant difficulties during 2017 as that market suffered from vessel oversupply. Also, for most of the year the West to East arbitrage was not enough to promote long haul petrochemical gas trading adding further downward pressure on tonne-mile demand.

During 2017 the fully refrigerated MGC fleet increased by 13.4%, ethylene capable MGCs increased 3.1% (three ships, one of which was built for a dedicated trade). Semi refrigerated and ethylene capable Handymaxes increased 4.5% and 2.7%, respectively. Handysize ethylene capable ships increased 2.7%.

Fleet Employment - Freight Market Review

The bulk of our product tankers were operated in the spot market in 2017, as returns in the spot market exceeded time charter rates significantly for another year. The majority of our fleet continued to trade in the dirty market in the Atlantic Basin although we did take advantage of long-haul voyages from the US to the Far East with our Panamaxes. In the clean market, three of our four Aframaxes traded in the clean market exclusively east of Suez. Additionally, for the second half of the year we switched one of our Handymaxes to the clean market in the Atlantic Basin in order to take advantage of favourable conditions.

For the gas fleet, an oversupply of larger tonnage took place during 2017 which put significant pressure on the market. While LPG shipping demand continued to grow, the oversupply resulted in the extension of existing time charters but at reduced levels for our MGC's, while the vessels trading spot suffered some reduced utilisation. The LPG product market was continued strongly with increased demand particularly in the Far East. However, the oversupply of tonnage made 2017 a very difficult year for the VLGC market. Political uncertainty combined with a number of technical outages within the supply chain made the petrochemical market very turbulent. As a result, the handsized vessels worked in both intra and inter-regional business, making the best possible utilisation within an inconsistent supply of cargoes.

Total fleet (tanker and LPG) average daily earnings on a time charter equivalent (TCE) basis were as follows:

Year		
2015	2016	2017
26,700	17,000	12,000

In comparison to the prior year, 2017 TCE rates for our Handymax, Panamax, Aframax and LPG fleet were lower by 27%, 36%, 18% and 32%, respectively.

Piraeus, June 25, 2018

Results of Operations

2017 versus 2016

Gross revenue decreased 20.4% to $243.1 million in 2017, from $305.0 million in 2016. This decrease was due to lower TCE rates which decreased 29.4% year over year and as a result of the decrease in operating days, due to the sale of the m/t Stavronisi in July 2017 and due to the redelivery to her owners in May 2017 of the only one remaining charter-in vessel, the m/v Immanuel Schulte. This decrease partly offset by the full utilization in 2017 of the two 12,000 cbm semi-ref LPG/LEG vessels the m/v's Kithnos and Dilos that were delivered in January and March 2016, respectively and due to the full utilization in 2017 of the two m/t's Skyros and Sikinos that were delivered in February and March 2016, respectively. Voyage expenses increased by $9.4 million, or 9.4%, to $109.9 million in 2017 from $100.5 million in 2016, entirely due to higher bunker prices.

Operating expenses increased slightly by 1.1%, to $82.8 million in 2017 from $81.7 million in 2016 due to the lack of dry dock during 2016 compared to, in part offset by weakening of the US Dollar against the Euro. Charter-in hire expenses were of 79.4% or $12.7 million lower as the first charter-in vessel, the m/v Gas Oriental, was redelivered to her owners in September 2016 and the second charter-in vessel, the m/v Immanuel Schulte was redelivered to her owners in May 7, 2017. Depreciation charges marginally decreased by 1.1% to $56.2 million in 2017 from $56.9 million in 2016. Amortisation for special and intermediate surveys decreased by 31.9%, to $3.5 million in 2017 from $5.2 million in 2016 due to lower capitalized balances from heavy special and intermediate surveys schedule performed in 2017. General and administrative increased by $0.9 million in 2017 to $14.3 million in 2017 compared to $13.4 million in 2016 due to consultant fees paid in 2017.

For 2017, loss from operations was $32 million compared to profit of $32.6 million in 2016. Overall, operating results in 2017 were impacted from lower TCE rates and from the loss of $4.9 million from sale of m/t Stavronisi in July 2017.

Interest and finance expenses increased by 1.5%, to $49.6 million in 2017 from $48.9 million for the prior year. This is due to higher loan balances partly offset by increased imputed capitalised interest for the newbuilding vessels. Amortisation for deferred fees was lower year over year, consistent with debt maturities. During 2017, the Company's weighted average effective interest rate for the year was 6.55% compared to 6.03% in 2016.

Other expenses decreased year over year by $1.0 million. This decrease is due to the loss recorded in year 2016 regarding the result of the Sino project cancelled in 2016 amounting to $3.0 million. Foreign exchange gain amount $0.3 million. Net loss attributable to the non-controlling interests of Eletson Gas for the year ended December 31, 2017 was $6.7 million, as compared to $0.7 million on December 31, 2016.

As a result of the above, the Company recorded a net loss of $74.3 million for the year ended December 31, 2017. This compares with a net loss of $19.0 million for the year ended December 31, 2016.

2016 versus 2015

Gross revenue decreased by 23.6% to $305.0 million in 2016, from $399.2 million in 2015. This decrease was due to the decrease in Charter-in revenue by 56.8%, to $9.1 million from $20.9 million in 2015 and due to the decrease in TCE rates which increased 36.3% year over year partly offset by the increase in operating days. The increase in operating days was due to the delivery of the two 12,000 cbm semi-ref LPG/LEG vessels the m/v's Kithnos and Dilos in January and March 2016 respectively and due to the delivery of the two handysize m/t's Sikinos and Skyros in March and February 2016 respectively. Also, in 2016 the Company fully utillised the three m/v's Othoni, Astipalea and Paros that were delivered in July, September and November 2015 respectively. Voyage expenses decreased $14.9 million, or 12.9%, to $100.5 million in 2016 from $115.5 million in 2015, entirely due to lower bunker prices.

Operating expenses increased by 1.1%, to $81.7 million in 2016 from $80.8 million in 2015 due to 1,037 additional operating days or a 9% increase, arising from the four delivered vessels during 2016 and the full utilization of the three delivered vessel's during 2015, in part offset by weakening of the Euro against the US Dollar. Charter-in hire expenses increased 23.5% to $16.0 million in 2016 compared to $12.9 million in 2015, due to the full year employment of the second LPG vessel, the m/v Immanuel Schulte which commenced operations in June 2015. Depreciation charges marginally increased by 3.3% to $56.9 million in 2016 from $55.1 million in 2015 due to fleet growth. Amortisation for special and intermediate surveys decreased 30.0%, to $5.2 million in 2016 from $7.4

million in 2015 due to lower capitalized balances from heavy special and intermediate surveys schedule performed in 2016 compared to 2015. General and administrative expenses remained at the same level year over year.

For 2016, operating income was $32.6 million compared to $111.2 million in 2015. Overall, operating results in 2016 were impacted from lower TCE rates and from the loss of from sale of m/t Velopoula in March 2016.

Interest and finance expenses increased by 7.3%, to $48.9 million in 2016 from $45.6 million for the prior year. This is due to higher loan balances partly offset by increased imputed capitalised interest for the newbuilding vessels. Amortisation for deferred fees was lower year over year, consistent with debt maturities, while senior notes interest expense remained constant. During 2016, the Company's weighted average effective interest rate for the year was 6.03% compared to 6.05% in 2015.

Other expenses increased year over year by $1.6 million. This increase includes the result of the Sino project cancelled in the year total amount $3.0 million. Foreign exchange losses remained at the same level year over year. Net income attributable to the non-controlling interests of Eletson Gas for the year ended December 31, 2016 was $0.7 million, as compared to $12.2 million for the year ended December 31, 2015.

As a result of the above, the Company recorded a net loss of $19.0 million for the year ended December 31, 2016. This compares with a net income of $51.7 million for the year ended December 31, 2015.

2015 versus 2014

Gross revenue increased by 10.8% to $399.2 million in 2015, from $360.4 million in 2014. Growth in revenues was driven by higher TCE rates which increased by32.2% year over year partly offset by a marginal 0.5% decrease in operating days. Three semi-ref LPG/LEG carriers, the m/v's Othoni, Astipalea and Paros were delivered in July, September and November 2015 respectively and a second charter-in, the m/v Immanuel Schulte, commenced operations in June 2015. Consistent with the Company's fleet renewal program, four of the older tanker vessels, the m/t's Sporades, Serifos, Kandilousa and Serifopoulo were sold in May, August and September 2015. Voyage expenses decreased by $30.9 million, or 21.1%, to $115.5 million in 2015 from $146.4 million in 2014, entirely due to lower bunker prices.

Operating expenses decreased by 2.6%, to $80.8 million in 2015 from $83.0 million in 2014. Operating expenses were mostly impacted by higher non-capitalisable drydocking expenses and initial supplies for the three newbuild vessels delivered. Those expenses were more than offset by the weakening of the Euro and slightly lower fleet days. Charter-in hire expenses were $12.9 million in 2015 from $6.4 million in 2014, reflecting full year hire expenses for m/v Gas Oriental and m/v Immanuel Schulte hires for the second half of 2015. Depreciation charges marginally decreased to $55.1 million in 2015 from $55.2 million in 2014 due to fleet composition changes. Amortisation for special and intermediate surveys increased 56.1%, to $7.4 million in 2015 from $4.7 million in 2014 due to higher number of surveys performed in 2015 compared to 2014. General and administrative expenses decreased by 1.7%, to $13.3 million in 2015 from $13.5 million in 2014 due to the weakening of the Euro against the US dollar.

For 2015, operating income was $111.2 million compared to $51.2 million in 2014. Overall, operating results in 2015 were favourably impacted from higher TCE rates, lower bunker cost and weakening of the Euro against the US dollar, partly offset from the sale of m/t's Sporades, Serifos, Kandilousa and Serifopoulo in 2015. Excluding the one-off $3.0 million loss on the sale of vessels, as a percentage of revenue, total expenses decreased to 71.4% in 2015 from 85.8% in 2014.

Interest and finance expenses decreased by 4.2%, to $45.6 million in 2015 from $47.6 million for the prior year. This is due to lower loan balances partly offset by increased imputed capitalised interest for the newbuilding vessels. Amortisation for deferred fees was lower year over year, consistent with debt maturities, while senior notes interest expense remained constant. During 2015, the Company's weighted average effective interest rate for the year was 6.05% compared to 6.02% in 2014.

Other expenses increased year over year by $1.3 million. This increase mainly reflects prior years' voluntary tonnage dues, retroactive seafarers' social security contribution and prior year expenses related to the four sold vessels. Foreign exchange losses decreased year over year $0.8 million reflecting lower volatility in Euro/USD rate. Net income attributable to the non-controlling interests of Eletson Gas for the year ended December 31, 2015, was $12.2 million, as compared to $7.2 million on December 31, 2014.

As a result of the above, the Company recorded a net income of $51.7 million for the year ended December 31, 2015. This compares with a net loss of $5.1 million for the year ended December 31, 2014.

Inflation

Although inflation has had a moderate impact on operating expenses, drydocking expenses and corporate overhead, management does not consider inflation to be a significant risk to direct cost in the current and foreseeable economic environment. However, in the event that inflation becomes a significant factor in the world economy, inflationary pressures could result in increased operating and financing costs.

Operating Currency

The international tanker industry's functional currency is the US dollar and, as a result, virtually all of the Company's revenue is in US dollars. General and administrative expenses, the major part of crew expenses, part of dry docking expenses and a minor portion of port expenses, are incurred in Euros while a significant portion of the remaining expenses are incurred in US dollars and, to a lesser extent, other currencies. The Company has a policy of continuously monitoring and managing its foreign exchange exposure.

Liquidity and Sources of Capital

As of December 31, 2017, the Company was in breach of certain loan covenants, contained in the Company’s loan agreements. Even though as of the date of approval of the consolidated financial statements none of the lenders have declared an Event of Default under the loan agreements. Furthermore, subsequent to December 31, 2017, the Company failed to pay interest on its 9.625% First Preferred Ship Mortgage Notes due in January 2019, and entered into a forbearance agreement with the majority of the note holders, and agreed in principal to amend the main terms of the indenture governing its 9.625% First Preferred Ship Mortgage Notes due 2022 and defer the interest payments falling due in 2018. Even though as of the date of approval of the consolidated financial statements the note holders did not declare an Event of Default under the respective indenture, such non-payment together with the events of default of the Company’s loan agreements, which trigger the cross default provision under the 9.625% First Preferred Ship Mortgage Notes due 2022, constitute events of default and may result in the required minimum percentage of note holders to given notice to the Company and declare the notes due and payable.

As a result of the above and according USGAAP presentation requirement, the Company has classified its bank loans, its lease obligation and the outstanding principal amount under its 9.625% First Preferred Ship Mortgage Notes at December 31, 2017, as current liabilities (Financial Statements notes 14, 15 and 16).

The Company is at a final stage of discussions with the lending banks regarding amendment of the terms of its debt facilities and has requested from the lending banks to provide waivers or relax existing requirement under the loan agreements in connection with the financial covenants.

Our liquidity requirements relate to servicing our debt, funding the equity portion of investments in vessels, funding working capital requirements and maintaining cash reserves against fluctuations in operating cash flow. Our current sources of funds are internally generated cash from operations and external borrowing. We have three working capital facilities totalling $35.0 million. As of December 31, 2017, the outstanding principal amount of these facilities was approximately $35.0 million. We believe that, based upon actions taken from the Company’s management mentioned above, the current levels of operations and anticipated freight market conditions, cash flow from operations, together with other available sources of funds (in the form of either debt financing or equity), will be adequate to meet required payments of principal and interest on debt, to permit anticipated capital expenditures, including payments for vessel under construction to fund working capital requirements, and to comply with the terms of our financing agreements (see also to the Note 3 of accompanying Financial Statements)

Operating Activities

Working capital deficit at December 31, 2017 was approximately $737.7 million as compared to working capital deficit of $38.0 million at year-end 2016. Current assets are highly liquid, consisting principally of cash and cash equivalents, restricted cash, interest-bearing deposits, money market funds, marketable securities and receivables. Net cash used in operating activities was $10.0 million in 2017 compared to net cash provided by operating activities of $50.8 million in 2016. The working capital deficit as at December 31, 2017 was mainly due to reclassification of an aggregate outstanding balance of long-term debt, lease obligation and Senior Notes, net of deferred finance fees, being $780 million into current liabilities following the breach of loan covenants at December 31, 2017, and due to the decrease of $28.3 million in cash balances in 2017 compared to previous year. Absent the required reclassification of long-term debt, lease obligation and Senior Notes into current liabilities, the current portion of long-term debt and lease obligation would be $48.8 million, and the entire outstanding balance of the Senior Notes, $293.2 million, would be classified under non-current liabilities. The working capital deficit would be $6.8 million.

Investing Activities

Net cash used in investing activities was $41.0 million for the year ended December 31, 2017, compared to $86.6 million for the prior year. The change in cash used in investing activities was primarily due to the following events. During the year ended December 31, 2017 we made payments related to construction and delivery instalments for four LPG/LEG and four product tanker newbuilding vessels and capitalised expenses in the aggregate amount of $55.8 million. In July, 2017, the Company sold its oldest product tanker vessel, the m/t Stavronisi with net sale proceeds amounting to $5.4 million. Also, refund guaranties of $10.5 million were received for the cancelation of the fifth Sinopacific contract.

Financing Activities

Net cash provided by financing activities was $22.6 million for the year ended December 31, 2017, compared to net cash provided by financing activities of $35.5 million for the prior year. The Company drew $41.3 million and $8.6 million under loan facilities and sale and leaseback arrangements to partially finance pre-delivery advances of our Aframax and Gas newbuilding programs respectively. The Company proceeded to the refinance of Citi200 loan facility of amount $80.0 million and according to the repayment schedule repaid $127.6 million of debt associated with our long-term revolving and term credit facilities including the refinanced balloon. Also, the Company drew $20.2 million from overdraft facilities. During the year $3.0 million was transferred to note escrow account and $5.4 million paid for financing fees. Total contributions made to finance part of the newbuilding program were $8.4 million as additional paid in capital.

The Company continues to seek ways to further increase its financial flexibility, reduce interest cost and employ cash resources more effectively. To this end, it monitors developments in both conventional lending and in the capital markets with the aim of securing financially optimal solutions at any given time it best meet its overall strategic objectives. Currently, the Company is at the final stage of the discussions with the lending banks regarding amendment of the terms of its debt facilities and has requested from the lending banks to provide waivers or relax existing requirement under the loan agreements in connection with the financial covenants (refer to Note 3 of the accompanying Financial Statements).

Piraeus, June 25, 2018

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ERNST & YOUNG (HELLAS)
Certified Auditors – Accountants S.A.
8B Chimarras str., Maroussi
151 25 Athens, Greece

Tel: +30 210 2886 000
Fax:+30 210 2886 905
ey.com

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of Eletson Holdings Inc.

We have audited the accompanying consolidated financial statements of Eletson Holdings Inc. (the "Company"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of comprehensive income/ (loss), changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Eletson Holdings Inc. at December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

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The Company's Ability to Continue as a Going Concern

The consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the consolidated financial statements, the Company was in breach of certain loan covenants, contained in the Company's loan agreements, as of December 31, 2017, and furthermore, did not pay interest due in January 2018 in connection with its 9.625% First Preferred Ship Mortgage Notes. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in response to these matters are also described in Note 3. Taking into consideration the cross-default provisions contained in the loan agreements, the indenture governing the 9.625% First Preferred Ship Mortgage Notes, and the lease arrangements, the Company has classified the aggregate obligations under these agreements amounting $779.8 million as of December 31, 2017, into current liabilities. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, the amounts and classification of liabilities, or any other adjustments that might result in the event the Company is unable to continue as a going concern. Our opinion is not modified with respect to this matter.

Ernst + Young

June 25, 2018
Athens, Greece

Eletson Holdings Inc.
Consolidated Balance Sheets
(expressed in thousands of US dollars)

ASSETS	Notes	December 31, 2016	December 31, 2017
Current Assets:			
Cash and cash equivalents	Note 4	$ 70,982	$ 42,639
Restricted cash	Note 13	5,001	8,050
Short term investments	Note 5	5,596	4,320
Trade accounts receivable, net	Note 6	27,154	26,397
Due from related parties	Note 7	3,071	3,551
Inventories	Note 8	13,720	11,532
Prepaid expenses and other assets	Note 9	18,847	5,202
Insurance claims	-	655	82
Financial Instruments	-	—	49
Total Current Assets		**$ 145,026**	**$ 101,822**
Fixed assets, net:			
Vessels under construction	Note 10	$ 62,093	$ 119,886
Vessels, net	Note 10	1,049,316	983,683
Property and Equipment, net	Note 11	2,951	2,897
Total fixed assets, net		**$ 1,114,360**	**$ 1,106,466**
Other non current assets:			
Deferred charges, net	Note 12	$ 4,721	$ 5,252
Deferred financing costs	Note 13	1,748	5,361
Due from related parties	Note 7	3,074	3,551
Total other non current assets		**$ 9,543**	**$ 14,164**
Total Assets		**$ 1,268,929**	**$ 1,222,452**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Current portion of long-term debt	Note 14	$ 124,861	$ 383,315
Current portion of lease commitments	Note 15	—	103,318
Short-term debt	-	14,727	7,993
First preferred ship mortgage notes due 2022	Note 16	—	293,167
Trade accounts payable	-	20,611	26,929
Financial instruments	Note 17	81	—
Deferred revenue	-	—	594
Accrued interest and finance charges	-	16,347	16,704
Accrued expenses and other payables	-	6,355	7,545
Total current liabilities		**$ 182,982**	**$ 839,565**
Non current liabilities:			
Other long term liabilities		$ 888	$ 1,026
Long term debt, net	Note 14	335,337	—
First preferred ship mortgage notes due 2022	Note 16	291,476	—
Financial instruments and other liabilities	Note 17, 18	—	20,305
Total non current liabilities		**$ 627,701**	**$ 21,331**
Stockholders' equity:			
Additional paid-in capital	-	41,133	41,133
Accumulated other comprehensive loss	-	(2,250)	(3,127)
Retained earnings	-	316,979	239,692
Total Eletson Holdings Inc. stockholders' Equity		**$ 355,862**	**$ 277,698**
Non-controlling interest	Note 18	102,384	83,858
Total stockholders' equity		**$ 458,246**	**$ 361,556**
Total liabilities and stockholders' equity		**$ 1,268,929**	**$ 1,222,452**

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

Eletson Holdings Inc.
Consolidated Statements of Comprehensive Income / (Loss)
(expressed in thousands of US dollars)

	Notes		Year ended December 31, 2015		Year ended December 31, 2016		Year ended December 31, 2017
Voyage revenue	*Note 21*	$	378,243	$	295,937	$	240,666
Charter-in revenue	*Note 21*		20,944		9,052		2,403
Total revenue		**$**	**399,187**	**$**	**304,989**	**$**	**243,069**
Expenses:							
Voyage expenses	*Note 21*	$	(112,050)	$	(97,611)	$	(109,096)
Charter-in voyage expenses	*Note 21*		(3,423)		(2,927)		(822)
Vessel operating expenses	-		(80,829)		(81,692)		(82,778)
Charter-in hire expense	-		(12,935)		(15,977)		(3,294)
Depreciation	*Note 9, 10*		(55,050)		(56,894)		(56,242)
Amortisation of deferred charges	*Note 11*		(7,399)		(5,180)		(3,529)
General and administrative expenses	-		(13,313)		(13,365)		(14,349)
Gain / (Loss) on sale of vessels	*Note 9*		(2,966)		1,241		(4,920)
Total expenses		**$**	**(287,965)**	**$**	**(272,405)**	**$**	**(275,030)**
Profit / (Loss) from operations		**$**	**111,222**	**$**	**32,584**	**$**	**(31,961)**
Other Income / (Expenses), net:							
Interest and finance expenses	-	$	(45,583)	$	(48,888)	$	(49,645)
Other income / (expenses)	-		(1,552)		(3,147)		(2,109)
Gain from debt extinguishment	*Note 13*		—		—		2,350
Gain / (Loss) on derivatives	*Note 16*		(6)		(81)		130
Foreign exchange gain / (loss)	-		(110)		(85)		320
Total other expenses, net		**$**	**(47,251)**	**$**	**(52,201)**	**$**	**(48,954)**
Net profit/(loss)		**$**	**63,971**	**$**	**(19,617)**	**$**	**(80,915)**
Net Income / (Loss) attributable to non-controlling interest	*Note 17*		12,231		(659)		(6,664)
Net Income / (Loss) attributable to Eletson Holdings Inc.		**$**	**51,740**	**$**	**(18,958)**	**$**	**(74,251)**
Other Comprehensive Income / (Loss)							
Gain / (Loss) from investments	*Note 4*		(495)		(2,529)		(877)
Total Other Comprehensive Income / (Loss)		**$**	**(495)**	**$**	**(2,529)**	**$**	**(877)**
Comprehensive Income / (Loss)		**$**	**51,245**	**$**	**(21,487)**	**$**	**(75,128)**

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

Eletson Holdings Inc.
Consolidated Statements of Shareholders' Equity
(expressed in thousands of US dollars)

	Notes	Additional Paid-in Capital	Accumulated Other Comprehensive Income / (Loss)	Retained Earnings	Total Eletson Holdings Inc. Stockholders' Equity	Non-controlling interest	Total Stockholders' Equity
Balance December 31, 2014		**$ 41,133**	**$ 774**	**$ 289,197**	**$ 331,104**	**$ 76,333**	**$ 407,437**
Loss from investments	*Note 5*	-	(495)	-	**(495)**	-	**(495)**
Net income	-	-	-	51,740	**51,740**	12,231	**63,971**
Capital contribution	*Note 18*	-	-	-	-	29,947	**29,947**
Dividends paid	-	-	-	(5,000)	**(5,000)**	(10,436)	**(15,436)**
Balance December 31, 2015		**$ 41,133**	**$ 279**	**$ 335,937**	**$ 377,349**	**$ 108,075**	**$ 485,424**
Loss from investments	*Note 5*	-	(2,529)	-	**(2,529)**	-	**(2,529)**
Net loss	-	-	-	(18,958)	**(18,958)**	(659)	**(19,617)**
Capital contribution	*Note 18*	-	-	-	-	10,248	**10,248**
Dividends paid	-	-	-	-	-	(15,280)	**(15,280)**
Balance December 31, 2016		**$ 41,133**	**$ (2,250)**	**$ 316,979**	**$ 355,862**	**$ 102,384**	**$ 458,246**
Loss from investments	*Note 5*	-	(877)	-	**(877)**	-	**(877)**
Net loss	-	-	-	(74,251)	**(74,251)**	(6,664)	**(80,915)**
Capital contribution	*Note 18*	-	-	-	-	8,443	**8,443**
Adjustement to opening reained earnings due to change in revenue standard	*Note 22*	-	-	(3,036)	**(3,036)**	-	**(3,036)**
Dividends accrued on preferred unit holders	-	-	-	-	-	(20,305)	**(20,305)**
Balance December 31, 2017		**$ 41,133**	**$ (3,127)**	**$ 239,692**	**$ 277,698**	**$ 83,858**	**$ 361,556**

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

Eletson Holdings Inc.
Consolidated Statements of Cash Flows
(expressed in thousands of US dollars)

	Year ended December 31, 2015	Year ended December 31, 2016	Year ended December 31, 2017
Cash Flows from Operating Activities:			
Net profit/(loss)	$ 63,971	$ (19,617)	$ (80,915)
Adjustments to reconcile net income / (loss) to net cash provided by operating activities:			
Depreciation	55,050	56,894	56,242
Amortisation of special surveys and drydockings	7,399	5,180	3,529
Amortisation of debt discount	2,804	2,707	2,746
Gain/(Loss) on sale of vessel(s)	2,966	(1,241)	4,920
Change in fair value of financial instruments	(232)	81	(130)
(Gain)/Loss on sale of securities	12	(312)	7
Gain from debt extinguishment	—	—	(2,350)
Allowance for doubtful debtors	279	(341)	(512)
Imputed interest capitalized	(1,969)	(2,248)	(1,859)
(Gain)/Loss on cancellation of newbuildings' contracts	—	2,965	(15)
Adjustement to opening reained earnings due to change in revenue standard	—	—	(3,036)
Changes in operating assets and liabilities:			
Trade accounts receivable	(1,902)	9,889	1,269
Inventories, prepaid expenses and other assets	3,004	(4,535)	5,384
Due from related parties	376	(971)	(957)
Insurance claims	63	(454)	573
Other long term liabilities	(117)	(31)	138
Accounts payable, accrued expenses, finance charges	(4,026)	6,863	7,865
Deferred revenue	(1,151)	(3,276)	594
Deferred charges	(10,594)	(801)	(4,276)
Net cash provided by operating activities	**$ 115,933**	**$ 50,752**	**$ (10,783)**
Cash Flows from Investing Activities:			
Payments for vessels under construction	$ (131,515)	$ (99,945)	$ (55,769)
Vessels acquisitions and improvements	(5,760)	(37,111)	(622)
Net proceeds from sale of vessels	32,168	8,400	5,410
Purchases and improvements of property and equipment	(21)	(71)	(48)
(Aquisition)/Sale of short term investments	(7,420)	5,334	412
Proceeds from refund guarantees	—	36,822	10,464
Net cash used in investing activities	**$ (112,548)**	**$ (86,571)**	**$ (40,153)**
Cash Flows from Financing Activities:			
Restricted Cash	$ (32,927)	$ 27,926	$ (3,049)
Proceeds from long-term debt	95,252	83,946	43,084
Proceeds from sale and leaseback	—	—	106,788
Proceeds/(repayment) of short-term debt	520	4,220	250
Reduction of long-term revolving credit	(18,920)	(18,920)	(93,570)
Principal payments of long-term debt	(16,327)	(25,050)	(28,389)
Repayment of sale and leaseback installments	—	—	(2,279)
Repayment of long-term debt	(11,523)	(9,344)	(3,325)
Repayment of long-term revolving credit	(20,000)	(20,000)	—
Financing fees paid	—	(2,270)	(5,360)
Dividends paid	(15,436)	(15,280)	—
Capital contribution from non-controlling interest	29,947	10,248	8,443
Net cash provided by financing activities	**$ 10,586**	**$ 35,476**	**$ 22,593**
Net increase / (decrease) in cash and cash equivalents	$ 13,971	$ (343)	$ (28,343)
Cash and cash equivalents at beginning of year	57,354	71,325	70,982
Cash and cash equivalents at end of year	**$ 71,325**	**$ 70,982**	**$ 42,639**

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

1. Basis of Presentation and General Information:

The accompanying consolidated financial statements include the accounts of Eletson Holdings Inc., its subsidiaries and consolidated Variable Interest Entities (“VIEs”) (collectively the “Company”).

The Eletson Group of companies (“Group”) has maintained a continuous presence in Marine Transportation and, particularly, the Petroleum Product Tanker market since 1966. Through 1985, the Group consisted mainly of shipowning corporations. In December 1985, Eletson Holdings Inc. of Monrovia, Liberia was incorporated, and its shares were exchanged for the total shareholders' shares in the shipowning corporations. As of December 31, 2017, the Company's owned fleet consists of twenty-one medium-size product tankers and eleven LPG/LEG carriers, with a combined capacity of 1,724,157 deadweight.

Effective November 15, 2006, all the previously existing Liberian Shipowning Corporations with vessels in operation transferred their vessels, as well as all their assets and liabilities, to newly established Greek Special Maritime Enterprises (ENE). Effective July 1, 2008, the four new vessels acquired in 2007 were transferred to Greek Special Maritime Enterprises (ENE). The nine newbuilding vessels delivered in 2009, 2010 and 2012 were transferred to or directly delivered Greek Special Maritime Enterprises (ENE). Three vessels were acquired in 2014 under Liberian Shipowning Corporations. The three newbuilding vessels delivered in 2015 and the two newbuilding vessels delivered in 2016 were transferred to Greek Special Maritime Enterprises (ENE) on delivery.

For the year ended December 31, 2017 and for the comparative periods in the Consolidated Statements of Comprehensive Income/(loss), the Company has presented in a separate lines the results of the charter-in activity. The reason of the change in presentation is the clearer depiction of the charter-in activity which, while profitable for 2015, resulted in a loss of approximately $10 million for 2016 and $2.0 million for 2017.

2. Significant Accounting Policies:

a) Principles of Consolidation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) and include the accounts and operating results of Eletson Holdings Inc. and its wholly owned subsidiaries and VIEs as shown below. All intercompany balances and transactions have been eliminated on consolidation.

A reporting entity shall consolidate a VIE when a reporting entity has a variable interest that provides the reporting entity with a controlling financial interest in the VIE, thus is the VIE’s primary beneficiary.

As of December 31, 2013, Eletson Gas LLC, in order to finance its fleet expansion through the signed ship building commitments, required significant financing, and accordingly it was determined that Eletson Gas LLC met the applicable criteria in ASC 810, Consolidation, to be a VIE. Management periodically evaluates the applicability of the criteria required to determine if Eletson Gas LLC falls under the definition of a VIE, considering evolving factors circumstances affecting Eletson Gas LLC’s performance and financial condition.

A reporting entity is deemed to be the primary beneficiary in a VIE, when a company has the power to direct the activities of a VIE that most significantly impact the entity’s economic performance and absorbs a majority of an entity’s expected losses, receives a majority of an entity’s expected residual returns, or both.

As of December 31, 2017, and 2016, Eletson Holdings Inc. consolidated 100% of Eletson Gas LLC, a VIE, as Eletson Holdings Inc. is deemed to be the primary beneficiary. Eletson Holdings Inc., as arising from the LLC agreement and the individual management agreements, has the power over operating decisions, which is deemed to be the most significant activity to impact Eletson Gas LLC’s economic performance.

(expressed in thousands of US dollars)

Eletson Gas LLC's total assets and liabilities as of December 31, 2017, were $528,300 and $315,278, respectively, total assets exceeding total liabilities by $213,022. Net cash flows provided by Eletson Gas LLC to the Company for the year ended December 31, 2017, was $7,874.

List of Subsidiaries

a. Shipowning Corporations with vessels in operation:

Companies:	Vessel / Hull #:
Skyros II Shipping Corporation	owner of the vessel "Skyros"
Sikinos II Shipping Corporation	owner of the vessel "Sikinos"
Pelagos II Special Maritime Enterprise (ENE)	owner of the vessel "Pelagos"
Angistri Special Maritime Enterprise (ENE)	owner of the vessel "Angistri"
Agathonissos Special Maritime Enterprise (ENE)	owner of the vessel "Agathonissos"
Makronissos Special Maritime Enterprise (ENE)	owner of the vessel "Makronissos"
Erikoussa Special Maritime Enterprise (ENE)	owner of the vessel "Erikoussa"
Skopelos II Special Maritime Enterprise (ENE)	owner of the vessel "Skopelos"
Alonissos Special Maritime Enterprise (ENE)	owner of the vessel "Alonissos"
Megalonissos Special Maritime Enterprise (ENE)	owner of the vessel "Megalonissos"
Antikeros Special Maritime Enterprise (ENE)	Financial Lessee of the vessel "Antikeros"
Dhonoussa Special Maritime Enterprise (ENE)	Financial Lessee of the vessel "Dhonoussa"
Polyaigos Special Maritime Enterprise (ENE)	Financial Lessee of the vessel "Polyaigos"
Strofades Special Maritime Enterprise (ENE)	Financial Lessee of the vessel "Strofades"
Kinaros Special Maritime Enterprise (ENE)	owner of the vessel "Kinaros"
Kimolos II Special Maritime Enterprise (ENE)	owner of the vessel "Kimolos"
Kastos Special Maritime Enterprise (ENE)	owner of the vessel "Kastos"
Fourni Special Maritime Enterprise (ENE)	owner of the vessel "Fourni"
Shinoussa Shipping Corporation	owner of the vessel "Keros"
Venetiko Shipping Corporation	owner of the vessel "Andimilos"
Sarakino Shipping Corporation	owner of the vessel "Meganisi"
Salamina Shipping Corporation	Old buyer of the contract for Hull H1423
Argironissos Shipping Corporation	Old buyer of the contract for Hull H1424 Disponent owner of Hull Nos H1423&H1424 : Eletson Chartering Inc
Kastelorizo Shipping Corporation	Old buyer of the contract for Hull 1425
Folegandros Shipping Corporation	Old buyer of the contract for Hull 1426

b. Shipowning Corporations with vessels sold:

Companies:	Vessel:
Velopoula Special Maritime Enterprise (ENE)	Owner of the vessel "Velopoula" (sold in 2016)
Stavronisi Special Maritime Enterprise (ENE)	Owner of the vessel "Stavronisi" (sold in 2017)

c. Eletson Chartering Inc. – Disponent owner of Hull Nos H1423&1424

d. Eletson Offshore Inc.

e. Eletson Finance (US) LLC

f. Other:
Eletson Corporation - Management Company

Glaronissi Shipping Corporation
and its 99% owned subsidiary Eletson Maritime Ltd - U.K.
Five Investment Inc.
holder of 1% of Eletson Maritime Ltd - UK.
Fournoi Shipping Corporation
and its 100% owned subsidiary Eletson Maritime Inc. - U.S.A.
EMC Investment Corporation
Arginusae Holdings Inc.

g. Eletson Chartering III Inc. of Marshall Islands

h. Eletson Chartering II inc of Liberia

j. Dormant companies:
Agathonissos Shipping Corporation
Alkyonis Shipping Corporation
Alonissos Shipping Corporation
Anafi Shipping Corporation
Angistri Shipping Corporation
Antikeros Shipping Corporation
Dhonoussa Shipping Corporation
Erikoussa Shipping Corporation
Kandilousa Shipping Corporation
Makronissos Shipping Corporation
Megalonissos Shipping Corporation
Pelagos Shipping Corporation
Samothraki Shipping Corporation
Serifopoulo Shipping Corporation
Serifos Shipping Corporation
Skopelos Shipping Corporation
Sporades Shipping Corporation
Stavronisi Shipping Corporation
Velopoula Shipping Corporation
Alkyonis Special Maritime Enterprise (ENE)

k. Eletson Gas LLC
Eletson Gas LLC - Holding Company
EMC Gas Corporation - Management Company
Glaronissi Gas Shipping Corporation
and its 99% owned subsidiary Eletson Gas Maritime Ltd - U.K.
Five Investment Gas Inc.
holder of 1% of Eletson Gas Maritime Ltd - UK.
Eletson Gas Chartering Inc.

Shipowning Corporations:	Vessel / Hull #:
Anafi Special Maritime Enterprise (ENE)	owner of the vessel “Anafi”
Nisyros Special Maritime Enterprise (ENE)	owner of the vessel “Nisyros”
Tilos Special Maritime Enterprise (ENE)	owner of the vessel “Tilos”
Telendos II Special Maritime Enterprise (ENE)	owner of the vessel “Telendos”
Symi II Special Maritime Enterprise (ENE)	owner of the vessel “Symi”
Mathraki Special Maritime Enterprise (ENE)	owner of the vessel “Mathraki”
Othoni Special Maritime Enterprise (ENE)	owner of the vessel “Othoni”

Astipalea Special Maritime Enterprise (ENE)	owner of the vessel "Astipalea"
Paros Special Maritime Enterprise (ENE)	owner of the vessel "Paros"
Kithnos Special Maritime Enterprise (ENE)	owner of the vessel "Kithnos"
Dilos II Special Maritime Enterprise (ENE)	owner of the vessel "Dilos"
Kithira Gas Shipping Company	Buyer of the contract for Hull 8209
Antikithira Gas Shipping Company	Buyer of the contract for Hull 8210
Ithaki Gas Shipping Company	Buyer of the contract for Hull 8213
Kalolimnos Gas Shipping Company	Buyer of the contract for Hull 8214

<u>Dormant companies:</u>
Othoni II Shipping Corporation
Astipalea II Shipping Corporation
Paros II Shipping Corporation
Kithnos II Shipping Corporation
Dilos II Shipping Corporation
Psara Shipping Corporation
Halki Shipping Corporation
Antiparos Shipping Corporation
Samothraki II Shipping Corporation
Shinoussa II Shipping Corporation

b) **Use of Estimates**

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the amounts of revenues and expenses recognised during the reporting period. Actual results could differ from those estimates.

c) **Foreign Currency Translation**

The functional currency of the Company and of its subsidiaries is the U.S. dollar, because the Company's vessels operate in international shipping markets, which utilise the U.S. dollar as the functional currency. The accounting records of the Company are maintained in U.S. dollars. Transactions involving other currencies are converted into U.S. dollars using the exchange rates in effect at the time of the transactions. At the balance sheet dates, monetary assets and liabilities, which are denominated in other currencies, are translated into the functional currency using the exchange rate at that date. Gains or losses resulting from foreign currency translations are included in foreign currency gains and losses, net in the accompanying statements of comprehensive income/(loss).

d) **Concentration of Credit Risk**

Financial instruments, which potentially impose the Company to significant concentrations of credit risk, consist primarily of cash and cash equivalents, restricted cash, trade accounts receivable derivative instruments (interest rate swaps) and short-term investments. The Company places its temporary cash, restricted cash and cash equivalents, consisting mostly of deposits or money market funds, with high credit qualified financial institutions. The Company performs periodic evaluations of the relative credit standing of those financial institutions that are considered in the Company's investment strategy. The Company limits its credit risk with trade accounts receivable by performing ongoing credit evaluations of its customers' financial condition and generally does not require collateral for its trade accounts receivable. The Company is exposed to credit risk in the event of non-performance by counter parties to derivative instruments; however, the Company limits its exposure by diversifying among counter parties with high credit ratings.

e) **Cash and Cash Equivalents**

The Company considers highly liquid investments such as time deposits, certificates of deposit, U.S. treasury bills with original maturity of three months or less to be cash equivalents.

f) **Short-Term Investments**

The Company's short-term investments are recorded according to ASC 320, "Investments - Debt and Equity Securities". Short-term investments include mainly marketable securities, investments in equity index funds and bond investment.

The Company's short-term investments are recorded as available-for-sale and are stated at fair value (based on the market value provided by brokers/dealers), with the unrealised gains and losses, net of taxes, if any, posted in a separate component of Shareholders' Equity under the caption "Accumulated other comprehensive income/(loss)". The basis on which the cost of a security sold or the amount reclassified out of accumulated other comprehensive income/(loss) into earnings is determined based on the average cost. Realised gains and losses and declines in value judged to be other than temporary on available-for-sale securities are included in "Other income/(expenses), net".

g) **Trade accounts receivable, net**

The amount shown as trade accounts receivable at each balance sheet date includes estimated recoveries from charterers for hire, freight and demurrage billings, as well as unbilled receivables. Trade accounts receivables are shown net of allowance for doubtful accounts.

The Company evaluates the collectability of its trade accounts receivable on an individual basis and further the allowance for doubtful debtors at each balance sheet date.

h) **Insurance Claims**

The Company records insurance claims recoveries for insured losses incurred, mainly on the damage of vessels. Insurance claims are recorded, net of deductibles, if any, at the time the Company's fixed assets suffer insured damages and repairs are made and the Company can make an estimate of the amount to be reimbursed following the insurance claim. Claims are submitted to the insurance company, which may increase or decrease the claim amount. Such adjustments are recorded in the period they are known and have not been material to the Company's financial position or results of operation in 2017, 2016 and 2015.

i) **Inventories**

Inventories include lubricants, spares, provisions and bunkers and are stated at the lower of cost or market. The cost is determined by the first-in, first-out method.

j) **Vessels, Net**

Vessels, net consist of vessels stated at cost, less accumulated depreciation. Vessel cost consists of the contract price, any material expense incurred upon acquisition and interest and supervision costs incurred during the construction periods. Subsequent major additions to ensure the vessels' continued operating flexibility and efficiency, as well as compliance with new regulations are capitalised when they appreciably extend the life or increase the earning capacity or improve the efficiency or safety of the vessel. Expenditures for regular maintenance or repairs and minor renewals are expensed as incurred. Interest cost incurred during the asset's construction period that theoretically could have been avoided if expenditure for the asset had not been made is also capitalised. The capitalisation rate, applied on accumulated expenditures for the vessel, is based on interest rates applicable to outstanding borrowings of the period. Depreciation is computed using the straight-line method over the estimated useful life of the vessels (twenty-five years for product tankers and thirty years for LPG carriers) after considering the estimated salvage value, which is consistent with industry practice. However, when regulations place limitations over the ability of a vessel to trade on a worldwide basis, its useful life is re-estimated to end at the date such regulations become effective.

k) Impairment of Long-Lived Assets

The Company uses ASC 360 "Property, Plant and Equipment", which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The standard requires that, long-lived assets and certain identifiable intangibles held and used or disposed of by an entity, be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. An impairment loss for an asset held for use should be recognised when the estimate of undiscounted cash flows, excluding interest charges, expected to be generated by the use of the asset is less than its carrying amount. Measurement of the impairment loss is based on the fair value of the asset as provided by third parties. In this respect, management regularly reviews the carrying amount of the vessels in connection with the estimated recoverable amount for each of the Company's vessels.

The Company evaluates the carrying amounts (primarily for vessels) and periods over which long-lived assets are depreciated to determine if events have occurred which would require modification to their carrying values. In evaluating carrying values of long-lived assets, management reviews certain indicators of potential impairment, such as undiscounted projected operating cash flows, vessel sales and purchases, business plans and overall market conditions.

The current economic and market conditions, including the significant disruptions in the global credit markets, are having broad effects on participants in a wide variety of industries. The last two years, the charter rates in the petroleum product tanker market and LPG market have declined significantly, and vessel values have also declined both as a result of a slowdown in the availability of global credit and the significant deterioration in charter rates; conditions that the Company considers indicators of a potential impairment.

The Company determines undiscounted projected net operating cash flows for each vessel and compares it to the vessel's carrying value. The projected net operating cash flows are determined by considering the historical and estimated vessels' performance and utilisation, the charter revenues based on the most recent historical 10 year average of one year time charter rates over the remaining estimated life of each vessel, net of brokerage commissions, expected outflows for scheduled vessels' maintenance and vessel operating expenses assuming an average annual inflation rate.

No impairment loss was identified for 2017, 2016 and 2015.

l) Accounting for Special Survey and Drydocking Costs

The Company follows the deferral method of accounting for special survey and drydocking costs whereby actual costs incurred are deferred and are amortised on a straight-line basis over the period through the date the next drydocking becomes due, every two to five years. When drydocking takes place earlier than the required due date or vessels are sold, the unamortised drydocking costs are written off to income in the year the recent drydocking or the vessels' sale took place. Unamortised drydocking costs of vessels that are sold are written off to income in the year of the vessels' sale.

m) Financing Costs

Fees paid to lenders for obtaining new loans or refinancing existing loans are capitalised and netted against debt. Fees paid to lenders for loans which the Company has not drawn down are included in other non-current assets. Such fees are deferred and amortised to interest expense over the term of the respective loan using the effective interest method. Amortisation period initiates upon first drawdown of respective facility. Unamortised fees relating to loans repaid or refinanced are expensed as interest and finance costs in the period the repayment or refinancing is made. Loan commitment fees are charged to expense in the period incurred, unless they relate to loans obtained to finance vessels under construction, in which case they are capitalised to the vessels' cost.

n) Accounting for Derivative Instruments and Hedging Activities

The ASC 815, "Derivatives and Hedging" as amended establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value, with changes in the derivatives' fair value recognised currently in earnings unless specific hedge accounting criteria are met. In this case any gains or losses are taken directly in a separate component of Shareholders' Equity under the caption "Accumulated Other Comprehensive Income/(Loss)".

Exchange rate and interest rate risks are managed with a variety of straightforward techniques, including match funding and selective use of derivatives. The Company uses derivatives to mitigate or eliminate certain financial and market risks because the Company conducts business in diverse markets around the world. To qualify for hedge accounting, the details of the hedging relationship must be formally documented at inception of the arrangement, including the risk management objective, hedging strategy, hedged item, specific risks that are being hedged, the derivative instrument and how effectiveness is being assessed. The derivative must be highly effective in offsetting either changes in fair value or cash flows, as appropriate, for the risk being hedged. Effectiveness is evaluated on a retrospective and prospective basis based on quantitative measures of correlation. If a hedge relationship becomes ineffective, it no longer qualifies as a hedge. Any excess gains or losses attributable to such ineffectiveness, as well as subsequent changes in the fair value of the derivative, are recognised in earnings.

o) Pension Indemnities

The office administrative personnel of the Company are covered by state-sponsored pension funds and are required to contribute a portion of their monthly salary to the fund, with the Company also contributing a portion. Upon retirement, the pension funds are responsible for paying the employees retirement benefits and accordingly there is no obligation for the Company for any post-retirement benefits. The Company's contributions to the pension funds for the years ended December 31, 2017, 2016 and 2015 have been recorded to general and administrative expenses and amounted to $1,144, $1,120 and $1,029 respectively.

p) Staff Leaving Indemnities - Administrative Personnel

The Company's office administrative employees are entitled to termination payments in the event of dismissal or retirement with the amount of payment varying in relation to the employees' compensation, length of service and manner of termination (dismissed or retired). Employees who resign, or are dismissed with cause, are not entitled to termination payments. The Company's liability determined based on an actuarial valuation at December 31, 2017 and 2016 amounted to $1,026 and $888 respectively.

Effective 2007, the Company has established a post retirement defined contribution plan, covering vessels officers, as an incentive for them to stay with the Company until retirement. Vessels' officers who resign or are dismissed with cause, are not entitled to any payments under this plan. The plan is currently under re-evaluation by the Company. No contributions have been recorded in 2017, 2016 and 2015.

q) Fair Value Measurements

ASC 820 "Fair Value Measurements and disclosures" provides guidance for using fair value to measure assets and liabilities. The standard also responds to investors' requests for expanded information about the extent to which, companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. Under the standard, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. The guidance clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the assets or liability. In support of this principle, the standard establishes a fair value hierarchy that prioritises the information used to develop those assumptions.

ASC 820 defines the fair value levels as follows: Level 1: quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2: inputs, other than quoted prices, that are observable for the asset or liability, either directly or indirectly. Level 3: unobservable inputs for the asset or liability. The fair value hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3), for example, the reporting entity's own data. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy.

r) Other Comprehensive Income/ (Loss)

The Company follows the provisions of ASC 220, "Comprehensive Income", which requires separate presentation of certain transactions, which are recorded directly as components of shareholders' equity. Other comprehensive income reflects the gains/(losses) arising from changes in fair value of short term investments and of interest rate swaps qualified as hedging instruments. The Company presents items of net income, items of other comprehensive income ("OCI") and total comprehensive income in a single continuous statement of comprehensive income/(loss) in its consolidated financial statements.

s) Commitments and Contingencies

Commitments are recognised when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle this obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are reviewed at each balance sheet date.

t) Revenue Recognition

The Company's revenues are generated from voyage charters, where a contract is made in the spot market for the use of a vessel for a specific voyage at a specified freight rate per ton and time charters, where a contract is entered into for the use of a vessel for a specific period of time and a specified daily charterhire rate. Deferred revenue represents cash received prior to the balance sheet date and is related to revenue earned after such date. Charter-in revenue refers to revenue from hired vessels for a specific period of time, usually more than one year. Chartered-in vessels mainly deployed in the spot market. In May 2017, the company delivered the last charter-in vessel, the m/v Immanuel Schulte to her owners and as of December 31, 2017 the company has no active charter-in arrangements. Also, as of December 31, 2017 two Handysize tankers and five Handysize LPG/LEG carriers operates under Hafnia pool and E3pool respectively. The pool vessels operate both in Spot market and under time charter agreements.

Time charters

The Company's time charter agreements do not provide for variable consideration elements and the performance obligations in a time charter contract are satisfied over the term of the contract beginning when the vessel is delivered to the charterer until it is redelivered back to the Company. The Company has assessed its time charter agreements and determined that the agreements contain an operating lease. For more details in relation to time charter agreements please refer to Note 2t below.

Revenue from Contracts with Customers ("Topic 606") - Voyage charters

In May 2016, the FASB issued their final standard on revenue from contracts with customers ("Topic 606"). The standard, which was issued as ASU 2014-09 (Topic 606) by the FASB, and as amended, outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers and supersedes most legacy revenue recognition guidance. The core principle of the guidance in Topic 606, is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services by applying the following steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in each contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in each contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The standard is effective for non-public entities for fiscal years beginning after December 15, 2018. Earlier application is permitted. The new revenue standard may be applied using either of the following transition methods: (1) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (2) a modified retrospective approach with the cumulative effect of initially adopting the standard recognized at the date of adoption (which includes additional footnote disclosures).

Regarding the incremental costs of obtaining a contract with a customer and contract's fulfilling costs, they should be capitalized and been amortized over the voyage duration, if certain criteria are met – for incremental costs if only they are chargeable to the customer and for contract's fulfilling costs if each of the following criteria is met: (i) they relate directly to the contract, (ii) they generate or enhance entity's resources that shall be used in performance obligation satisfaction and (iii) are expected to be recovered.

The Company early adopted this ASU for the reporting period commencing on January 1, 2017 and elected to use the modified retrospective approach. The Company applied the standard only to contracts that were not completed at the date of initial application. The adoption of the ASU primarily changed the method of recognizing revenue from voyage charters. Voyage charters are considered service contracts that fall under the provisions of ASC 606. The Company has determined that there is one single performance obligation for each of its voyage contracts, which is to provide the charterer with an integrated transportation service within a specified time period. In addition, the Company has concluded that a contract for a voyage charter meets the criteria to recognize revenue over time because the charterer simultaneously receives and consumes the benefits of the Company's performance as the Company performs. Therefore, since the Company's performance obligation under each voyage contract is met evenly as the voyage progresses, the revenue is recognized on a straight line basis over the voyage days from the commencement of the loading of cargo to completion of its discharge. Prior to the adoption of ASC 606, revenue from voyage contracts was recognized from the later of the discharge of the prior voyage or the contract date of the current voyage, until the discharge of the current voyage.

Demurrage income, which is included in "Voyage revenues", represents payments by the charterer to the vessel owner when loading or discharging time exceeds the stipulated time in the voyage charter. The Company estimates at contract inception demurrage income using the most likely amount approach considering also whether an amount of the estimate should be constrained and updates its estimate over the progress of the voyage in response to changes in circumstances that make demurrage more or less likely to occur.

Under voyage charter arrangements, voyage costs, primarily consisting of brokerage commission, port, canal and bunker expenses that are unique to a particular charter, are paid by the Company. Before the adoption of ASC 606, brokerage commissions were expensed over the related charter period, while the remaining voyage expenses were expensed as incurred. Following the adoption of ASC 606 and the implementation of ASC 340-40 Other assets and deferred costs for contract costs, these costs are considered incremental costs of obtaining the contract or fulfilment costs since they are costs that not have incurred if the contract had not been obtained and are directly related to the performance of the voyage contract. Those costs are expensed as incurred with the exception of those costs incurred from the conclusion of the contract and prior to the commencement of loading the cargo on the relevant vessel, which are capitalized to the extent they meet the capitalization criteria mentioned above. These capitalized costs are recorded under "Prepaid expenses and other assets" and are amortized on a straight-line basis as the related performance obligations are satisfied.

The impact that the adoption of this new standard had on the Company's opening retained earnings was a decrease by $3,036. For additional details and disclosures related to the adoption of the new standard please refer Note 22 below.

u) **Leases**

Operating leases – lessor

As mentioned in Note 2t above, the Company also generates revenues under time charter agreements which have been determined to be operating leases. Revenues under operating lease arrangements are recognized when a charter agreement exists, the charter rate is fixed and determinable, the vessel is made available to the lessee and collection of the related revenue is reasonably assured. Time charter revenues are accounted for as fixed rate operating leases with an embedded technical management service component and are recorded ratably on a straight line basis over the period of the respective charter agreement. Under time charter agreements, voyage costs, such as fuel and port charges are borne and paid by the charterer.

Occasionally, our time charter leases may include options to extend the lease agreements. We do not include any of these extension options in a customer's lease term for lease classification purposes or recognizing rental revenue unless we are reasonably certain the customer will exercise these extension options.

Operating leases – lessee

The Company also charters in vessels under operating leases and charters out such vessels under either time charters or voyage charters. The Company's time charter in agreements do not provide for variable consideration elements.The Company recognises charter-in hire expense and the related commissions for chartering-in the respective vessels ratably on a straight line basis over the period of the operating lease agreement. As of December 31, 2017, there are no charter in agreements under which the Company is a lessee.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, "Leases (Topic 842)" to replace existing lease guidance (Topic 840). ASU 2016-02 changes how the definition of a lease is applied and judgment may be required in applying the definition of a lease to certain arrangements and applies to both types of leases – capital (or finance) leases and operating leases. In addition, ASU 2016-02 increases transparency and comparability significantly by requiring the recognition by lessees of right-of-use ("ROU") assets and lease liabilities on the balance sheet for all leases with term of more than 12 months. The new lease standard does not substantially change lessor accounting however it updates the previous accounting guidance for lessors to align certain requirements with the updates to lessee accounting guidance and the revenue recognition accounting standards. Finally the new lease standard it includes a significant increase in required disclosures so as to enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016 – 02 is effective for non-public entities for fiscal years beginning after December 15, 2019. Lessees and lessors are required to apply the new standard at the beginning of the earliest period presented in the financial statements in which they first apply the new guidance, using a modified retrospective transition method..

In January 2018, FASB issued an exposure draft as per which targeted improvements are proposed to the new accounting standard for leases that provide for (a) an optional new transition method for adoption that results in initial recognition of a cumulative effect adjustment to retained earnings in the year of adoption and (b) a practical expedient for lessors, under certain circumstances, to combine the lease and non-lease components of revenues for presentation purposes if both the timing and pattern of revenue recognition for the non-lease components and related lease component are the same.

The Company elected to early adopt of the new standard for Leases effective January 1, 2017. Despite the fact that the proposed targeted improvements have not been approved as of the date of the issuance of the Company's financial statements, the Company applied the alternative transition method, which is consistent, with the approach the Company has elected under the new revenue standard and elected the proposed practical expedient for lessors to combine the lease and non-lease components of revenues for presentation purposes. In addition, the Company elected the practical expedient for lessees of not separating lease components from nonlease components as well as the package of practical expedients which permits entities to not reassess (1) whether any expired or existing contracts are or contain leases, (2) the lease classification for any expired or existing leases, and (3) any initial direct costs for any existing leases as of the effective date. As a result of applying the targeted improvements and electing the package of practical expedients described above, the adoption of the lease standard did not change previously reported consolidated balance sheets and statements of comprehensive income/(loss) and did not result in a cumulative catch-up adjustment to opening equity. In addition, the adoption of the lease standard did not have a material impact on the Company's consolidated balance sheet and the statement of comprehensive income/(loss) as of December 31, 2017 due to the following factors:

a) As a lessor, the recognition of revenue remained mainly consistent with previous guidance
b) As a lessee, there are no effective operating lease agreement as of December 31, 2017 for which the recognition of ROU assets and lease liabilities would be required. In addition, the recognition of expense for the operating lease agreements that were effective during 2017 remained consistent with previous guidance

Sale and leaseback transactions

The Company in 2017 entered as a lessee into sale and leaseback agreements with third parties. The Company in order to determine the accounting for sale and lease back transactions it has entered as a lessee assesses whether the transfer of the asset meets the criteria of a sale according to ASC 606. If the transfer meets the criteria of sale the Company i) recognizes the transaction price for the sale when the buyer-lessor obtains control of the asset, ii) derecognizes the carrying amount of the underlying asset and iii) accounts for the lease in accordance with Subtopic 842-20 "Leases". If the transfer does not meet the criteria of sale the Company does not derecognize the transferred asset and accounts for any amounts received as a financial liability.

The Company in 2017 entered as a lessee into sale and lease agreements with third parties in relation to assets that are under construction and are not yet available for use by the Company. The Company in order to determine the accounting for costs that incurs as lessee relating to the construction of an assets before the commencement date of the lease assesses whether it controls the asset under construction before the commencement date of the lease. If the Company controls the underlying under construction asset it i) recognizes the asset as costs are incurred, ii) recognizes a liability in an amount equal to the capitalized costs not paid for by the lessee and iii) when lease commences, evaluates the sale and leaseback guidance under ASC 842. If the Company does not control the underlying under construction asset any costs incurred by the Company for the right to use the underlying asset are lease payments and are recognized as a prepaid asset and evaluated in the lease classification test. On the other hand, any other costs incurred by the Company that relate specifically to the construction of the asset are recognized depending on the facts and circumstances in accordance with the applicable accounting standards (e.g., ASC 330, *Inventory*, ASC 360).

i) **Recent Accounting Pronouncements not yet adopted**

Financial Instruments – Credit Losses (Topic 326): In June 2016, the FASB issued ASU No. 2016-13– Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 amends guidance on reporting credit losses for assets held at amortized cost basis and available for sale debt securities. For non-public entities, the amendments of this Update are effective for fiscal years beginning after December 15, 2020. Early application is permitted. The Company is in the process of assessing the impact of the amendment of this Update on the Company's consolidated financial position and performance.

Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments: In August 2016, the FASB issued ASU No. 2016-15- Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments which addresses the following eight specific cash flow issues with the objective of reducing the existing diversity in practice: Debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (COLIs) (including bank-owned life insurance policies (BOLIs)); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017 including interim periods within that reporting period, however early adoption is permitted. The Company is currently evaluating the provisions of this guidance and assessing its impact on its consolidated financial statements and notes disclosures.

Statement of Cash Flows (230) - Restricted Cash: In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (230): Restricted Cash". The amendments in this Update require that a statement of cash flows explain the change during the period in the total amount of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this Update apply to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows under Topic 230. The amendments in this Update are effective for non-public business entities for fiscal years beginning after December 15, 2018.. Early adoption is permitted, including adoption in an interim period. Other than the presentation and additional disclosure effects, the adoption of this ASU is not expected to have a material effect on the Company's consolidated financial statements and accompanying notes.

Financial Instruments — Derivatives Held or Issued (subsequent to the adoption of ASU 2017- 12, Targeted Improvements to Accounting for Hedging Activities): In August 2017, the FASB issued ASU 2017-12, Targeted Improvements to Accounting for Hedging Activities. ASU 2017-12 amends the current hedge accounting model and requires certain new or modified disclosures to enable entities to better portray the economics of their risk management activities in their financial statements. For non-public business entities, the amendments in ASU 2017-12 are effective for financial statements issued for fiscal years beginning after 15 December 2019. Early adoption is permitted, including adoption in an interim period. The adoption of this ASU is not expected to have a material effect on the Company's consolidated financial statements and accompanying notes.

Business Combination - ASU 2017-01, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. ASU 2017-17 eliminates the requirement that an acquirer in a business combination account for measurement-period adjustments retrospectively. Instead, an acquirer will recognize a measurement-period adjustment during the period in which it determines the amount of the adjustment. The guidance is effective for non-public business entities for fiscal years beginning after 15 December 2018. Early adoption is permitted. The adoption of this ASU is not expected to have a material effect on the Company's consolidated financial statements and accompanying notes.

3. Going Concern

As of December 31, 2017, the Company was in breach of certain loan covenants, contained in the Company's loan agreements. Even though as of the date of approval of the consolidated financial statements none of the lenders have declared an Event of Default under the loan agreements, these breaches constitute events of default and may result in the lenders requiring immediate repayment of the loans. Furthermore, according to the cross default provisions contained in the lease agreements, default under loan agreements constitute a termination event under the lease agreements, Even though as of the date of approval of the consolidated financial statements none of the lessors have served written notice and declared termination of the lease, such cross default constitute a termination event under the lease agreements and may result in the lessors requiring immediate payment of outstanding balances under lease arrangements. Furthermore, subsequent to December 31, 2017, the Company failed to pay interest on its 9.625% First Preferred Ship Mortgage Notes due in January 2018, and entered into a forbearance agreement with the majority of the note holders, and agreed in principal to amend the main terms of the indenture governing its 9.625% First Preferred Ship Mortgage Notes due 2022 and defer the interest payments falling due in 2018. Even though as of the date of approval of the consolidated financial statements the note holders did not declare an Event of Default under the respective indenture, such non-payment together with the events of default of the Company's loan agreements, which trigger the cross default provision under the 9.625% First Preferred Ship Mortgage Notes due 2022, constitute events of default and may result in the required minimum percentage of note holders to give notice to the Company and declare the notes due and payable.

As a result of the above, the Company has classified its bank loans amounting to $384.9 million, net of deferred financing costs of $1.6 million at December 31, 2017, as current liabilities (Note 14). Furthermore, the Company has classified its lease obligation amounting $104.5 million, net of deferred financing costs of $1.2 million at December 31, 2017, and the outstanding principal amount under its 9.625% First Preferred Ship Mortgage Notes amounting to $293.2 million at December 31, 2017, as current liabilities (Note 15 and 16). As a result, the Company reports a working capital deficit of $737.8 million at December 31, 2017.

The Company is in continuous communication with the lending banks regarding amendment of the terms of its debt facilities and has requested from the lending banks to provide waivers or relax existing requirement under the loan agreements in connection with the financial covenants (refer to Note 14). In June 2018, the Company has agreed in principal with one lending bank on the main terms of the amended agreement. Furthermore, in May 2018, the Company has agreed in principal with the majority of the holders of its 9.625% First Preferred Ship Mortgage Notes to amend terms of the respective indenture and defer the interest payments due in 2018 (refer to Note 24), while seeking agreement with the remaining note holders by providing for their consideration the Exchange Offer, which amends the terms of the current note indenture.

(expressed in thousands of US dollars)

Management expects that the lenders will not demand payments of the outstanding loan balances before their maturity and the Company will be successful in amending loan agreements and/or receiving waivers that will cure covenant compliance for the period being at least 12 month subsequent to the date of the issuance of the consolidated financial statements. Furthermore, management also expects that it will reach an agreement with the majority of the holders of its 9.625% First Preferred Ship Mortgage Notes based on the Exchange Offer and that the lessors under its sale and leaseback agreements will not demand payment or foreclose on the related vessels.

However, the potential failure to complete the process of obtaining the amendments of the terms of its debt facilities including the related waivers, the completion of the Exchange Offer with respect to its 9.625% First Preferred Ship Mortgage Notes and the agreement with the lessors under its sale and leaseback agreements so that they do not demand payment or foreclose on the related vessels raise substantial doubt about the Company's ability to continue as a going concern for a period of twelve months from the date of issuance of these consolidated financial statements.

The consolidated financial statements have been prepared assuming that the Company will continue as a going concern. Accordingly, the consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, the amounts and classification of liabilities, or any other adjustments that might result in the event the Company is unable to continue as a going concern.

4. Cash and cash equivalents:

The amounts in the accompanying consolidated balance sheets are analysed as follows:

	December 31, 2016	December 31, 2017
Current accounts	$ 44,063	$ 29,213
Money Market Funds	22,863	13,426
Time Deposits	4,056	—
Total cash & cash equivalents	$ 70,982	$ 42,639

5. Short-term investments:

The table below includes cost and fair value for available for sale securities by major security type as at December 31, 2016 and 2017. The fair value for available for sale securities is based on third party valuations, quoted prices in active markets and significant other observable inputs. Accumulated and current year unrealised gain/(loss) recognised in Accumulated Other Comprehensive Income/(Loss) are also presented below.

		December 31, 2016			
				Accumulated Other Comprehensive Income	
	Fair Value Hierarchy	Cost	Fair Value	Accum. Unrealized Gain / (Loss)	Current Year Unrealized Gain / (Loss)
Equity Securities	(Level 1)	$ 7,447	$ 5,156	$ (2,291)	$ (2,529)
Bond Investments	(Level 2)	399	440	41	—
		$ 7,846	$ 5,596	$ (2,250)	$ (2,529)

(expressed in thousands of US dollars)

		December 31, 2017			
				Accumulated Other Comprehensive Income	
	Fair Value Hierarchy	Cost	Fair Value	Accum. Unrealized Gain / (Loss)	Current Year Unrealized Gain / (Loss)
Equity Securities	(Level 1)	$ 7,447	$ 4,320	$ (3,127)	$ (836)
Bond Investments	(Level 2)	—	—	—	(41)
		$ 7,447	$ 4,320	$ (3,127)	$ (877)

The above Equity Securities of $7,447 represent investments in stocks. The above Bond Investments were sold in October 2017. No significant identified events or changes in circumstances incurred that may have a significant adverse effect on the fair value of the investment as calculated by the Company.

Proceeds from sale of securities and gross realised gains/(losses) for the year ended December 31, 2016 and 2017, were as follows:

	December 31, 2016	December 31, 2017
Total proceeds from sales of securities and bond investments	$ 5,334	$ 412
Total gross realized gains / (losses) on sale of securities and bond investments	316	(1)
Total payments on purchase of securities and bond investments	—	—

As at December 31, 2017 none of the Equity Securities were pledged as collateral against equal credit balances with a third party financial institution.

6. Trade accounts receivable, net:

The amounts of trade accounts receivables, net in the accompanying consolidated balance sheets are analysed as follows:

	December 31, 2016	December 31, 2017
Trade accounts receivables	$ 29,106	$ 27,837
Less: Provision for doubtful receivables	(1,952)	(1,440)
Trade accounts receivables, net	$ 27,154	$ 26,397

Provision for doubtful receivables	December 31, 2016	December 31, 2017
Beginning of year	$ 2,293	$ 1,952
Provision	72	—
Written-off	(413)	(512)
End of year	$ 1,952	$ 1,440

Trade accounts receivable, net as of December 31, 2016 and 2017, include unbilled receivables of $14,047 and $12,705 respectively.

(expressed in thousands of US dollars)

7. Transactions with Related Parties:

Vessels operating expenses	December 31, 2016	December 31, 2017
Affiliated Shipyard	$ 48	$ 94

Current Assets	December 31, 2016	December 31, 2017
Advances due from Affiliated Shipyard	$ 3,071	$ 3,551
Advances to unconsolidated affiliates	5,012	700

Other Non Current assets	December 31, 2016	December 31, 2017
Advances due from Affiliated Shipyard	$ 3,074	$ 3,551

The Company at times uses the services of a company affiliated with the Company's shareholders for miscellaneous ship repairs. The Company estimates that half of the balance will be collected during 2018. As of December 31, 2016 and 2017, the Company has reflected nil, as deferred charges in the consolidated balance sheets, relating to services provided by the affiliated company, pertaining to drydocking and special survey costs. In addition, the amounts due from such affiliated company as of December 31, 2016 and 2017, relate to advances for maintenance works planned, bare no interest and have no specific settlement terms. Company's shareholders have committed to undertake any loss that may be incurred by the Company as a result of potential non realisation of the amounts due from this affiliated company. These balances are related with expenses for the maintenance of the fleet.

Certain shareholders are directors and executive officers of the Company and receive no fees or other compensation, either directly or under any other arrangement.

8. Inventories:

The amounts shown in the accompanying consolidated balance sheets are analysed as follows:

	December 31, 2016	December 31, 2017
Bunkers	$ 10,026	$ 7,778
Lubricants	1,859	1,946
Spare parts	974	918
Provisions and others	861	890
Total Inventories	$ 13,720	$ 11,532

(expressed in thousands of US dollars)

9. Prepaid expenses and other assets:

The amounts shown in the accompanying consolidated balance sheets are analysed as follows:

	December 31, 2016	December 31, 2017
Refund Guarantees	$ 10,214	$ —
Prepaid amounts for investments	3,156	—
Prepaid amounts to related parties	1,769	613
Agents	801	727
Operating expenses	155	144
Advances and loans	605	1,140
Other prepaid expenses	2,147	2,578
Total prepaid expenses and other assets	$ 18,847	$ 5,202

The remaining amount of refund guarantee due to the bankruptcy of the shipyard Nantong Sinopacific Offshore and Engineering Co Ltd of $10.5 including interest, was collected in July 24, 2017 and used to fully repay the SEB loan facility (Note 10c).

10. Vessels:

a) Vessels, Net

The amounts in the accompanying consolidated balance sheets are analysed as follows:

	Cost	Accumulated Depreciation	Net Book Value
Balance, December 31, 2015	$ 1,428,290	$ (430,477)	$ 997,813
Vessels acquisitions and other vessels' costs	37,111	—	37,111
Transfer from Vessels under construction	77,623	—	77,623
Vessel sale	(49,748)	43,225	(6,523)
Depreciation for the year	—	(56,708)	(56,708)
Balance, December 31, 2016	$ 1,493,276	$ (443,960)	$ 1,049,316
Vessels acquisitions and other vessels' costs	622	—	622
Vessel sale	(31,666)	21,552	(10,114)
Depreciation for the year	—	(56,141)	(56,141)
Balance, December 31, 2017	$ 1,462,232	$ (478,549)	$ 983,683

In January 2016 and March 2016, the Company took delivery of the two newbuilding 12,000 cbm semi-ref LPG/LEG carriers the m/v's Kithnos and Dilos, respectively. The total aggregate construction cost was $77,623. In February 2016 and March 2016 the Company acquired two secondhand Handysize product tankers, the m/t Skyros (ex m/t Morgane) and the m/t Sikinos (ex m/t Meliora Cogito) funded by escrowed proceeds from the sale of vessels during 2015, according to the provisions of First Preferred Ship Mortgage Notes issued in December 2013. The total aggregate acquisition cost was $36,500.

During the year ended December 31, 2017, the Company capitalised $622 relating to vessel's and equipment upgrades performed in compliance with environmental rules and regulations.

(expressed in thousands of US dollars)

The Company's vessels, having total carrying value of $983,683 as at December 31, 2017, have been provided as collateral under loan agreements, lease arrangements and Senior Notes discussed in Note 14, Note 15 and Note 16, respectively.

b) Sale of Vessel

In July 2017, the Company concluded and signed Memorandums of Agreement for the disposal of a Panamax vessel, the m/t Stavronisi for a price of $6,035. The vessel was delivered to her new owners on July12, 2017. The sale of the vessel resulted in a loss of $4,920, which is separately reflected in the 2017 accompanying consolidated statement of comprehensive income/(loss). Net sale proceeds of $3,000 were escrowed, according to the provisions of First Preferred Ship Mortgage Notes issued in December 2013.

c) Vessels under construction

The amounts in the accompanying consolidated balance sheets are analysed as follows:

Company	**Hull No.**	**Vessel Type**	**Capacity**	**Balance 31/12/2016**	**Balance 31/12/2017**	**Expected Delivery**
Kithira Gas Shipping Company	8209	LPG/LEG Carrier	12,000 cbm	$ 8,400	$ 12,600	*July 2018*
Antikithira Gas Shipping Company	8210	LPG/LEG Carrier	12,000 cbm	8,400	9,704	*June 2018*
Ithaki Gas Shipping Company	8213	LPG/LEG Carrier	12,000 cbm	8,014	12,021	*June 2018*
Kalolimnos Gas Shipping Company	8214	LPG/LEG Carrier	12,000 cbm	8,114	12,171	*May 2018*
Salamina Shipping Corporation	1423	Aframax Tanker	109,900 mt	10,339	15,509	*April 2018*
Argironissos Shipping Corporation	1424	Aframax Tanker	109,900 mt	5,170	15,509	*June 2018*
Kastelorizo Shipping Corporation	1425	Aframax Tanker	109,900 mt	5,170	15,509	*January 2019*
Folegandros Shipping Corporation	1426	Aframax Tanker	109,900 mt	5,135	15,404	*March 2019*
Plus: other capitalised expenses				3,351	11,459	
Total				$ 62,093	$ 119,886	

In September 2013, Eletson Gas LLC signed shipbuilding contracts with Hyundai Mipo Dockyard Co Ltd and with Nantong Sinopacific Offshore and Engineering Co Ltd for five 12,000 cbm and three 22,000 cbm semi-ref LPG/LEG carriers respectively. In March 2014, Eletson Gas LLC declared its options for the construction of two 22,000 cbm semi-ref LPG/LEG vessels under the provisions of the contract with Nantong Sinopacific Offshore and Engineering Co Ltd. In 2015 and 2016, five 12,000 cbm semi-ref LPG/LEG carriers were delivered.

In September 2016, the construction of the five in total 22,000 cbm semi-ref LPG/LEG carriers was cancelled due to the bankruptcy of the shipyard Nantong Sinopacific Offshore and Engineering Co Ltd and in September 2016 the Company collected the refund guarantee of amount $36.8 million. The remaining amount of refund guarantee of $10.5 million including interest, was collected in July 24, 2017 and used to fully repay the SEB loan facility (Note 14).

In August 2015, Eletson Gas LLC, through its subsidiaries, placed orders for the construction of one 12,000 cbm semi-ref LPG/LEG carrier and two 38,000 cbm fully-ref LPG carriers with Hyundai Mipo Dockyard Co Ltd. In November 2015, Eletson Gas LLC, through its subsidiary, declared its option for the construction of one additional 12,000 cbm semi-ref LPG/LEG carrier, under the provisions of the contract with Hyundai Mipo Dockyard Co Ltd. In July 2016, Eletson Gas LLC proceeded to an amendment of the shipbuilding contract with Hyundai Mipo Dockyard Co Ltd for the two ordered 38,000 cbm fully-ref LPG carriers, by changing the vessel type to two 12,000 cbm semi-ref LPG/LEG. Total construction cost of these contracts amounted to $164,640 and the outstanding commitments as of December 31, 2017, amounted to $118,144. Subsequently to December 31, 2017, additional costs of $1,560 have been arranged with the shipyard due to the deferrals of the vessels' deliveries as indicated above.

In September 2015, Eletson Holdings Inc, through its subsidiaries, signed shipbuilding contracts with Shanghai Waigaoqiao Shipbuilding Co Ltd ("SWS") for the construction of three 109,000 dwt product tanker vessels. In October 2015, Eletson Holding Inc. declared its option for the construction of one additional 109,000 dwt product tanker vessel, under the provisions of the contract with Shanghai Waigaoqiao Shipbuilding Co Ltd. Total construction cost for these contracts amounts to $206,440 and the outstanding commitments as of December 31, 2017 amounted to $144,508. In December 2016 the Company signed a sale and leaseback agreement, with Chinese Bank of Communication Ltd (Bocomm) for the financing of 78% of contract price of the newbuilding vessels Hull No 1423 and 1424, with monthly charter hire repayment and 10 year tenor. With respect to the financing of the newbuilding vessels Hull No 1425 and 1426 the Company signed a sale and leaseback agreement in April 2017, with Oriental Fleet International Company Ltd ("COSCO") for the financing of 80% of the contract price, with monthly charter hire repayment and 10 year tenor.

(expressed in thousands of US dollars)

Other capitalised expenses include interest expense of pre-delivery financing, imputed interest, commitment fees, technical supervision expenses, legal fees and various other expenses directly related to the construction period of the hulls mentioned above. Subsequent to year end the Company took delivery of the m/t Salamina (April 26, 2018) and the LPG m/v Kalolimnos (May 31, 2018).

11. Property and Equipment, Net:

Major classifications of the Property and Equipment are the following at December 31, 2016 and 2017:

	December 31, 2016	December 31, 2017
Land	$ 2,067	$ 2,067
Buildings and Installations	3,991	3,991
Other Fixed Assets	10,406	10,455
Total	$ 16,464	$ 16,513
Accumulated Depreciation	(13,513)	(13,616)
Property and Equipment, net	$ 2,951	$ 2,897

Depreciation is computed using the straight-line method over the estimated useful life of the assets. Depreciation expense for the year ended December 31, 2017 amounted to $103 ($185 and $209 in 2016 and 2015, respectively) and is included in depreciation in the accompanying consolidated statements of comprehensive income/(loss).

12. Deferred Charges, Net:

The amounts in the accompanying consolidated balance sheets represent unamortised drydocking and special survey expenses, analysed as follows:

	December 31, 2016	December 31, 2017
Beginning of year	$ 9,740	$ 4,721
Additions	801	4,276
Disposals	(640)	(216)
Amortization	(5,180)	(3,529)
End of year	$ 4,721	$ 5,252

(expressed in thousands of US dollars)

13. Deferred financing costs:

The amounts in the accompanying consolidated balance sheets represent unamortised deferred financing costs, analysed as follows:

	December 31, 2016	December 31, 2017
Lease commitments		
Bocomm Sale and Lease Back	—	1,809
Cosco Sale and Lease Back	—	1,804
Term Loans		
BNP	1,748	1,748
Total	$ 1,748	$ 5,361

14. Long-term Debt:

The amounts in the accompanying consolidated balance sheets are analysed as follows at December 31, 2016 and 2017:

	December 31, 2016	December 31, 2017
Term loans		
Credit Agricole	$ 36,400	$ 31,849
DVB	110,683	97,883
CSIC $2.5m	—	2,333
SEB	141,537	128,340
BNP	23,050	31,634
Overdraft facilities		
Piraeus O/D $20m	—	19,999
Piraeus O/D $7m	—	6,985
Reducing revolving credit facilities		
Citibank 2007	89,000	—
Citibank $12m	—	11,000
Unicredit	61,820	54,900
Total long-term debt	$ 462,490	$ 384,923
Less: Deferred Finance Fees	(2,292)	(1,608)
	$ 460,198	$ 383,315
Less: Current portion	(124,861)	(383,315)
Long term portion	$ 335,337	$ —

Each of the above bank loans, is secured by a first preferred mortgage on the respective vessel or vessels and a general assignment of the earnings, insurances and requisition compensation of the respective vessel or vessels. The Citibank $12m loan facility is secured with second mortgages in the four Handymax vessels. The five term loans, the two reducing revolving credit loan facilities, with an aggregate outstanding balance of $357,939 at December 31, 2017, are guaranteed by Eletson Holdings Inc., Eletson Chartering III Inc. and Eletson Gas LLC.

In respect of the mortgaged reducing revolving facility for $200,000 with Citibank International PLC ("Citibank 2007"), during 2017 the Company paid $6,000 as per scheduled instalments due in March and June. As a result, the balance of the loan at September 2017 was $83,000 and the Company proceeded to the refinancing of the loan facility before its maturity, in September 2017. The Company agreed to receive from China Shipbuilding Industry Corporation ("CSIC") a sale and lease back financing facility of $65,500 regarding m/ts Antikeros, Dhonousa, Polyaigos and Strofades and a supplemental loan facility of $2,500 under Eletson Chartering III Inc.. In addition, the Company received financing of $12,000 from a syndicate term loan with Citi as agent. Also, the refinancing transaction includes a write-off from Commerzbank regarding the previous syndicated loan of $2,350. The remaining amount of $650 was repaid through available cash.

In relation with the $2,500 supplemental loan facility with China Shipbuilding Industry Corporation ("CSIC"), during 2017, the Company paid $167 and as a result, the balance of the loan facility at December 31, 2017 was $2,333. This facility is part of Citi 2007 refinancing that took place in September 2017 as discussed above. The facility is secured with second mortgages to DVB and Credit Agricole term loan facilities.

With respect to the mortgaged reducing revolving facility with Unicredit, Eletson Gas LLC signed a supplemental agreement with Unicredit in May 2016 regarding the refinancing of this facility. During 2017, the Company paid $6,920 and as a result, the balance of the loan at December 31, 2017 was $54,900.

With respect to the mortgaged term loan facility with Credit Agricole Bank ("Credit Agricole"), during 2017 the Company paid $4,550. As a result, the balance of the loan at December 31, 2017 was $31,849.

With respect to the mortgaged syndicated secured credit facilities with DVB Bank SE ("DVB"), during 2017 the Company paid $12,800. As a result, the balance of the DVB facilities at December 31, 2017, was $97,883.

In respect of the mortgaged syndicated secured credit facilities with Skandinaviska Enskilda Banken AB ("SEB"), during 2017 Eletson Gas LLC paid $9,872. As a result, the balance of the SEB facilities at December 31, 2017, was $128,340.

In relation with the shipbuilding contracts for two 12,000 cbm and two 38,000 cbm semi-ref LPG/LEG carriers with Hyundai Mipo Dockyard Co Ltd, Eletson Gas LLC, signed a syndicated term loan ("BNP") for an amount up to $152 million, with BNP Paribas, Citibank N.A., and Skandinaviska Enskilda Banken AB in April 2016. Following the shipbuilding modification, the financing was amended and the total available facility amount was reduced to $138 million following the swap of two 38,000 cbm to two 12,000 cbm semi-ref LPG/LEG carriers. During 2017, the Company drew $8,585, representing pre-delivery financing portion paid to Hyundai Mipo Dockyard Co Ltd. As a result, the balance of the loan at December 31, 2017, was $31,634 and the aggregate undrawn amount related to the pre-delivery facility and the post-delivery commitment was $106,366.

In August 2017, the Company concluded a new credit facility with Piraeus Bank under a $20 million overdraft account with maturity on August 9, 2022. The Company maintains four overdraft facilities for an amount up to $34,975 and all bear interest at a rate of LIBOR plus a margin. Two of these facilities, the Piraeus overdraft facilities with outstanding amount as at December 31, 2017 of $26,984, mature after the next 12 months and thus have been included under "Long term debt, net" in the Company's balance sheet as at December 31, 2017. The other two overdraft facilities with outstanding balance of $7,993 as at December 31, 2017, mature in 2018, and therefore are included under "Short-term debt" in the Company's balance sheet as at December 31, 2017.

The abovementioned long-term debt agreements mature starting February 2019 until April 2023.

The loan agreements contain customary ship finance covenants, including restrictions as to: changes in management and ownership of the mortgaged vessels, the incurrence of additional indebtedness, the mortgaging of vessels and the payment of dividends limited to a percentage (ratio) of net income or EBITDA, certain ratios and vessels' insured value in relation to the outstanding balance of the applicable loan, requirement for minimum available cash balance, as well as a requirement of specific ratio of vessels' market value in relation to their financing loan balance applicable at all times. Furthermore, the loan agreements contain requirements regarding the maximum leverage ratio, the interest coverage ratio, the net worth ratio and the minimum liquidity requirement. As of December 31, 2017 the Company was in breach of certain of its loan covenants. The Company has entered into negotiations with the bank to obtain waivers and/or relax certain requirements and to allow for partial deferrals of loan principal instalments. As of the date of the issuance of these financial statements the Company has agreed in principal with major banks to amend the respective loan agreements, however no formal amendments or supplemental agreements have been executed. Although none of the lending banks have declared an event of default under any of the Company's loan agreements, the breach of covenants that occurred as of December 31, 2017, constitute event of default and may result in the lenders requiring immediate repayment of the loans. As a result of this non-compliance the Company has classified the total outstanding balance of long-term debt as of December 31, 2017, net of deferred finance fees, amounting $383,315, within current liabilities (Note 3).

(expressed in thousands of US dollars)

The current portion of Long term debt before the reclassification of the long term portion to current was $40,493.

The principal payments required to be made after December 31, 2017 with respect to the long-term debt, provided the debt is not accelerated, are as follows:

2018	$	41,216
2019		140,693
2020		84,648
2021		77,226
2022		19,426
2023 and onwards		21,715
Total	$	384,923

15. Lease commitments:

	December 31, 2016		December 31, 2017	
Lease commitments				
Bocomm Sale and Lease Back	$	—	$	20,679
Cosco Sale and Lease Back		—		20,609
CSIC Sale and Lease Back		—		63,221
Total Lease Commitments	$	—	$	104,509
Less: Deferred Finance Fees		—		(1,191)
	$	—	$	103,318
Less: Current portion of lease commitments		—		(103,318)
Long term lease commitments	$	—	$	—

The current portion of Lease commitments before the reclassification of the long term portion to current was $8,340. The three sale leaseback facilities, with an aggregate outstanding balance of $104,509 at December 31, 2017, are guaranteed by Eletson Holdings Inc..

Bank of Communication (Bocomm) Sale and Leaseback

In relation with the shipbuilding contracts with Shanghai Waigaoqiao Shipbuilding Co Ltd (SWS), for the construction of the two Aframax product tankers Hull 1423 and Hull 1424 the Company, through one of its wholly owned subsidiaries as Lessee, signed a sale leaseback agreement with Bank of Communications ("Bocomm") as Lessor fo an amount $80,101. In particular, Bocomm, acquired two newbuilding contracts for two Aframax vessels from SWS shipyard pursuant to a novation agreement and will bareboat charter the vessels to the Lessee upon delivery. According to the terms of lease agreement, the Lessor shall pay to the SWS all installments of the relevant shipbuilding contract in the amount and at the time set out in such shipbuilding contract, other than the initial and final equity installments paid by the Lessee directly to SWS. The Company has provided a joint and several performance guarantee in relation to the Lessee's performance under the Lease agreement. The Lessee or its nominees have the obligation to purchase the vessels from the Lessor at the end of the ten year lease at a purchase price approximately $10.4 million each. As of December 31, 2017 the Company utilized $20,679 and as a result the balance at December 31, 2017, was $20,679. In April and June 2018 the Company took delivery of Hull 1423, named Salamina, and Hull 1424, named Argironisos, and utilized $59,969 under the Bocomm Sale and Leaseback arrangement (Note 24). The lease agreement is repayable with monthly charter hire instalments for a ten year period. The Company has determined that it has a control over the asset under construction, before the commencement date of the lease, and therefore has recognised the asset at costs as incurred and liability in an amount equal to the capitalized costs paid by Bocomm, in accordance with the respective accounting policy 2(u).

China Ocean Shipping Company (Cosco) Sale and Leaseback

In connection with the shipbuilding contracts with Shanghai Waigaoqiao Shipbuilding Co Ltd (SWS), for the construction of the two Aframax product tankers Hull 1425 and Hull 1426 the Company, through two of its wholly owned subsidiaries as Lessees, signed a sale leaseback agreement with Oriental Fleet International Company Ltd ("COSCO") as Lessor for an amount of $82,436. In particular, Cosco shall acquire the two newbuilding Aframax vessels from SWS shipyard pursuant to a Memorandum of Agreement and will bareboat charter the vessels to the Lessees upon delivery. According to the terms of lease agreement, the Lessor shall pay to SWS all installments of the relevant shipbuilding contract in the amount and at the time set out in such shipbuilding contract, other than the initial and final equity installments paid by the Lessee directly to SWS. EHI has provided a joint and several performance guarantee in relation to the Lessees' performance under the Lease agreement. The Lessees or its nominees have the obligation to purchase the vessels from the Lessor at the end of the ten year lease at a purchase price approximately $41.2 million each. The lease agreement is repayable with monthly charter hire instalments for a ten year period. As of December 31, 2017 the Company utilized $20,609 and as a result the balance at December 31, 2017, was $20,609. The vessels are still under construction and the expected delivery is early-2019. The Company has determined that it has a control over the asset under construction, before the commencement date of the lease, and therefore has recognised the asset at costs as incurred and liability in an amount equal to the capitalized costs paid by Cosco, in accordance with the respective accounting policy 2(u).

China Shipbuilding Industry Corporation (CSIC) Sale and Leaseback

In relation with operating vessels m/ts Antikeros, Dhonousa, Polyaigos and Strofades, the Company, through four of its wholly owned subsidiaries as Lessees, signed a sale leaseback agreement with China Shipbuilding Industry Corporation ("CSIC") as Lessor. In particular, CSIC through a two-part Sale and Leaseback transaction acquired and leased back to the Company the aforementioned four vessels for $65.5 million. The facility bears an average interest rate of LIBOR plus 4.1%. The Lessees have an obligation to pay a monthly charter-hire to the Lessor. At the end of the eight year lease term, the Lessees have the obligation to repurchase the vessels at a purchase price approximately $4.3 million each.

The Company accounted for the sale and lease back transaction with CSIC as a financing arrangement due to the fact that the transfer of the assets did not meet the criteria of sale according to ASC 606 since the Company has the obligation to repurchase the assets at the end of the lease term and thus the control has not been transferred to the buyer-lessor. The Company drew an amount of $65,500 in September 2017 as part of Citi 2007 refinancing transaction discussed in Note 14. As of December 31, 2017, the Company repaid an aggregate amount of $2,279 and as a result, the balance of the finance lease at December 31, 2017 was $63,221.

The CSIC Lease facility contains customary ship finance covenants, including restrictions for group liquidity, positive group EBITDA in consolidated basis and consolidated debt to total equity less than specific level.

As of December 31, 2017 the Company was in compliance with the covenants contained in its lease agreements. However, as a result of the Company's non-compliance with long-term debt covenants, and following the cross default provisions contained in lease agreements, the Company has classified the total outstanding balance under lease agreements as of December 31, 2017, net of deferred finance fees, amounting $103,318 within current liabilities (Note 3).

The principal payments required to be made after December 31, 2017 for all outstanding lease commitments, provided the lease obligation is not accelerated, are as follows:

(expressed in thousands of US dollars)

2018	$	7,820
2019		9,770
2020		9,776
2021		9,507
2022		9,123
2023 and onwards		58,513
Total	$	104,509

All the above credit facilities including sale and leaseback transactions bear interest at LIBOR plus a margin. The Company's weighted average interest rate for 2015, 2016 and 2017 was 6.05%, 6.03% and 6.55%, respectively. Total interest expense for 2015, 2016 and 2017, amounted to $16,059, $18,321 and $21,455 respectively, of which $592, $552 and $2,313 was capitalised as part of vessels' under construction cost.

16. Senior Notes (First preferred ship mortgage notes due 2022)

In December 2013, co-issuers, Eletson Holdings Inc. and Eletson Finance (US) LLC, have issued US $300,000 in aggregate principal amount in First Preferred Ship Mortgage Notes at an interest rate of 9.625% annually, due to mature on January 15, 2022. Interest is payable semi-annually in arrears, on January 15 and July 15 of each year, commencing on July 15, 2014.

The net proceeds were used for repayments of certain amounts of the Company's credit facilities, acquisition of three secondhand qualified product tankers and for general corporate purposes. As of December 31, 2013, the unutilised proceeds from the notes issued of $65,000 were deposited in an escrow account. In January, March and April 2014, the Company acquired the three secondhand qualified product tankers m/t's Keros, Meganisi and Antimilos respectively, funded by the escrowed proceeds.

In April, July and September 2015, the Company concluded the disposal of four vessels, the m/t's Sporades, Serifos, Kandilousa and Serifopoulo. The net sale proceeds of the four vessels amounted to $32,927 and were deposited in an escrow account.

In March 2016, the Company concluded and signed Memorandums of Agreement for the disposal of a Panamax vessel, the m/t Velopoula. The net sale proceeds of $8,560 were escrowed.

In February and March 2016 the Company acquired two secondhand Handysize product tankers, the m/t Skyros (ex m/t Morgane) and the m/t Sikinos (ex m/t Meliora Cogito) funded by escrowed proceeds from the sale of vessels during 2015, according to the provisions of First Preferred Ship Mortgage Notes issued in December 2013. The total aggregate acquisition cost was $36,500.

As of December 31, 2017, the Senior Notes are cross secured by first preferred ship mortgages on thirteen of the Company's product tankers by standard and customary assignments, and guaranteed by the subsidiaries that own the mortgaged product tankers.

On a change of control, the holders of the Senior Notes may require the Company to purchase the notes, in whole or in part, at a purchase price of 101% of the principal amount thereof, plus interest pending, if any. At any time prior to January 15, 2017, the Company could have redeemed up to 35%, at 109.625% of the principal, plus interest accrued and unpaid, if any. Also, up to January 15, 2018, the Company could have redeemed, fully or partially, at the Applicable Redemption Premium ("make-whole" price described in the Offering Memorandum dated December 12, 2013). On and after January 15, 2018, the Company may redeem some or all of the notes at 104.813% in the 12 months following, and at 102,406% up to January 15, 2020 and at 100% thereafter. If certain taxation laws adversely change, the Company may redeem, but only wholly, at 100%, plus interest pending and defined additional amounts, if any.

The Senior Notes have been acquired by qualified institutional purchasers under Rule 144A or Regulation S of the US Securities Act of 1933. The notes were delivered on December 19, 2013. The issue price of the Offering was at

(expressed in thousands of US dollars)

98.617%, thus rendering a 9.875% yield. The Senior Notes are repayable at par in full at maturity. Interest expense for 2016 and 2017, amounted to $28,875 and $28,875 respectively.

As of December 31, 2017 and for the year than ended the Company was in compliance with all restrictions contained in Senior Notes indenture, related to limitation on dividends, payment restrictions, limitation on debt, and restrictions on sale of collateral and non-collateral assets.

Subsequent to December 31, 2017, the Company did not pay interest on its Senior Notes due in January 2019, and entered into a forbearance agreement with the majority of the note holders, and agreed in principal with 98,7% of Senior Notes' holders to amend the main terms of the indenture governing the Senior Notes and defer the interest payments falling due in 2018. The non-payment of the interest due in January 2018, and non-compliance with long-term debt covenants as of December 31, 2017, which trigger the cross default provision under the Senior Notes, constitute events of default and may result in the Senior Notes' holders to declare the notes due and payable. As a result of the above, the Company has classified the outstanding principal amount under its Senior Notes amounting to $293,167 at December 31, 2017, as current liabilities (Note 3).

17. Financial Instruments:

As of December 31, 2017, the Company was party to forward foreign exchange contracts for an aggregate notional amount of $1,920 in order to hedge its exposure to Euro/USD fluctuations associated with its operating expenses.

Change in fair value of the forward foreign exchange contracts as of each financial statement date until and at contract maturity, is reflected in ''Gain/(Loss) on derivatives''. On the maturity date the realised gains or losses are also recognised in ''Gain/ (Loss) on derivatives''.

All of the above derivative contracts as of December 31, 2017 have been measured at fair value. The fair value of these instruments at December 31, 2016 and 2017 is determined based on observable Level 2 inputs, as defined in ASC 820, Fair Value Measurements and Disclosures, derived principally from or corroborated by observable market data. Inputs include quoted prices for similar assets, liabilities (risk adjusted) and market-corroborated inputs, such as market comparables, interest rates, yield curves and other items that allow value to be determined.

The fair values of these derivatives are analysed as follows:

Fair values of derivatives designated as non hedging instruments	**December 31, 2016**	**December 31, 2017**
Forward foreign exchange contracts	(81)	49
Total non hedging	$ (81)	$ 49
Financial Instruments - Assets (a)	$ —	$ 49
Financial Instruments - Liabilities (b)	(81)	—
Total Financial Instruments (a) + (b)	$ (81)	$ 49

The gain/loss incurred from derivatives transactions relate to the following categories:

(expressed in thousands of US dollars)

Location of Gain / (Loss) Recognised In Statements of Comprehensive Income		**Amount of Gain / (Loss) Recognised** December 31, 2016	December 31, 2017
Derivatives not designated as Hedging Instruments			
Forward foreign exchange contracts	Gain / (Loss) on derivatives	(81)	130
Total Realised		$ (81)	$ 130
Forward foreign exchange contracts	Gain / (Loss) on derivatives	$ —	$ —
Total Unrealised		$ —	$ —
Total Gain / (Loss) on derivatives		$ (81)	$ 130

18. Eletson Gas LLC:

In October 2013, the Company entered into an agreement with affiliates of the Blackstone Group ("Blackstone") to pursue targeted acquisitions in the LPG sector. The Company contributed its five existing LPG vessels and $1,000 of cash to Eletson Gas LLC, the new legal entity, and Blackstone committed to provide $125,000 in contributions, which will be provided in phases, in exchange for 40% membership interest of Eletson Gas LLC, upon contribution of all committed funds. Blackstone's membership interest is accounted for as non-controlling interest. According to the agreement, contributions will fund (i) part of the acquisition cost of a secondhand vessel m/v Mathraki, a 22,500 cbm LPG carrier, (ii) a portion of the equity payments for the construction of nine newbuilding vessels, and (iii) provide cash for general corporate purposes.

Eletson Gas LLC, through its subsidiaries, has placed order for the construction of five 12,000 cbm semi-ref LPG/LEG carriers with Hyundai Mipo Dockyard Co Ltd (Note 8c). In 2015, Eletson Gas LLC, through its subsidiaries, placed orders for the construction of two 12,000 cbm semi-ref LPG/LEG carriers and two 38,000 cbm fully-ref LPG carriers with Hyundai Mipo Dockyard Co Ltd. Three 12,000 cbm semi-ref LPG/LEG carriers were delivered in 2015 and two 12,000 cbm semi-ref LPG/LEG carriers were delivered in 2016. According to shipbuilding contract amendment signed in July 2016, the two MGC fully-ref LPG vessels were swapped with two Handysize semi-ref LPG/LEG vessels. All four newbuilding vessels are scheduled for delivery in 2018.

In April 2014, Eletson Gas LLC, through its subsidiary Eletson Gas Chartering Inc., entered into a charter-in agreement for the m/v Gas Oriental for a twelve month period, with an extension option of eighteen months which was declared by Eletson Gas LLC in October 2015. In June 2015, Eletson Gas Chartering Inc. entered into a second charter-in agreement for the m/v Immanuel Schulte for a twenty four month period. In September 2016, the charter-in agreement for the m/v Gas Oriental expired and was redelivered to her owners whereas the charter-in vessel the m/v Immanuel Schulte was redelivered to her owners in May 2017.

In December, 2017, the company entered into a new agreement with Blackstone for the last portion of the initial capital commitment of $8,443 and an additional capital commitment of $15,000 with expiration date on June 30, 2018. In December 2017, Blackstone contributed an amount of $8,443, as part of its original $125,000 equity commitment, which was used for the repayment of the third pre delivery instalment regarding the newbuilding vessel Hull 8210 and the remaining was used for working capital purposes.

The company did not pay any dividend during 2017. The accrued dividend of amounting to $20,305 as of December 31, 2017 payable to Blackstone which is included in "Other liabilities" is not expected to be paid within the next 12 months. Total dividend paid to Blackstone during the year ended December 31, 2016 was $15,280.

(expressed in thousands of US dollars)

19. Contingencies and Commitments:

Various claims, suits, and complaints, including those involving government regulations, arise in the ordinary course of the shipping business. In addition, losses may arise from disputes with charterers, agents, insurance and other claims with suppliers relating to the operations of the Company's vessels. Furthermore, management believes there are no claims or contingent liabilities for which a provision should be established in the accompanying consolidated financial statements.

The Company accrues for the cost of environmental liabilities when management becomes aware that a liability is probable and is able to reasonably estimate the probable exposure. Currently, management is not aware of any such claims or contingent liabilities, which should be disclosed, or for which a provision should be established in the consolidated financial statements. A maximum of up to $1.0 billion of the liabilities associated with the individual vessels actions for oil pollution are covered by the Protection and Indemnity (P&I) Club insurance. Third party liabilities are covered up to the maximum amounts within the International Group of (P&I) Clubs.

Eletson Holdings Inc, through its subsidiaries, has orders in place for the construction of four 109,000 dwt product tanker vessels and Eletson Gas LLC, through its subsidiaries, has orders in place for the construction of four 12,000 cbm semi-ref LPG/LEG carriers. The total outstanding commitments to be paid in respect with these shipbuilding contracts after December 31, 2017, are as follows:

	Contract Price	Adittional Cost	Total
2018	$ 190,521	$ 1,560	$ 192,081
2019	72,132	—	72,132
Total	**$ 262,653**	**$ 1,560**	**$ 264,213**

The Company has no charter-in contracts after May 7, 2017, when the only remaining chartered-in vessel the m/v Immanuel Schulte was redelivered to her owners. The future minimum contractual charter revenues of the Company as of December 31, 2017, under its charter out, non-cancellable, long-term time charter contracts is $16,349 for the year 2018.

20. Income taxes:

Under the laws of the countries of the Company's and its subsidiaries incorporation and/or vessels' registration, the companies are not subject to tax on international shipping income. However, they are subject to registration and tonnage taxes, which have been included in vessels' operating expenses in the accompanying consolidated statements of comprehensive income.

The Company and its subsidiaries are entitled to exemption from U.S federal income tax in respect of their U.S. source shipping income as each shipowning subsidiary is established in Greece, a jurisdiction which qualifies for an exemption on the basis of a Tax Treaty for the avoidance of double taxation entered in 1950 by and between Greece and the United States.

The Company anticipates its income will continue to be exempt in the future, including U.S. federal income tax.

21. Financial instruments:

The principal financial assets of the Company consist of cash and cash equivalents, marketable securities and trade accounts receivable. The principal financial liabilities of the Company consist of long-term bank loans, First Preferred Ship Mortgage notes, leasing obligations and accounts payable due to suppliers.

(expressed in thousands of US dollars)

(a) Interest rate risk: The Company's interest rates and long-term loan repayment terms are described in Note 12.

(b) Concentration of credit risk: Financial instruments, which potentially impose the Company to significant concentrations of credit risk, consist primarily of cash and cash equivalents, marketable securities, trade accounts receivable and derivative instruments. The Company places its temporary cash and cash equivalents, consisting mostly of deposits or money market funds, with high credit qualified financial institutions. The Company performs periodic evaluations of the relative credit standing of those financial institutions that are considered in the Company's investment strategy. The Company limits its credit risk with accounts receivable by performing ongoing credit evaluations of its customers' financial condition and generally does not require collateral for its accounts receivable. The Company is exposed to credit risk in the event of non-performance by counter parties to derivative instruments; however, the Company limits its exposure by diversifying among counter parties with high credit ratings.

(c) Fair value: The carrying values of cash, accounts receivable, short-term debt and accounts payable are reasonable estimates of their fair value due to the short-term nature of these financial instruments. The fair values of long-term bank loans approximate the recorded values, due to their variable interest rates, while the marketable securities are recorded at their fair value. The fair value of the Senior Notes as of December 31, 2017 was $162,000 based on the last transaction price that took place in the year ended December 31, 2017.

22. Early adoption of new revenue standard (ASC 606):

Revenue Recognition

As of December 31, 2017 there were 22 trips ongoing and the effect in revenue and voyage expenses as of December 31, 2017 was a decrease of $3,435 and $600, respectively. On the other hand, as of December 31, 2016 there were 23 trips ongoing and the effect in revenue and voyage expenses as of January 1, 2017, the date of adoption, was an increase of revenue and voyage expenses of $3,959 and $923, respectively. Therefore, the net effect from adoption of new revenue standard, as of December 31, 2017, was an increase of revenue and voyage expenses of $524 and $323, respectively.

The following table presents the impact of the adoption of ASC 606 on the Company's opening consolidated balance sheet as at the adoption date, January 1, 2017 and the consolidated balance sheet as at December 31, 2017:

	December 31, 2016	**Adjustment**	**January 1, 2017**	**December 31, 2017 (before adjustment)**	**Adjustement**	**December 31, 2017**
Trade accounts receivable, net	27.154	(3.959)	23.195	29.799	(3.402)	26.397
Prepaid expenses and other assets	18.847	823	19.670	4.693	509	5.202
Trade accounts payable	(20.611)	100	(20.511)	(26.987)	58	(26.929)
Total effect in Consolidated Balance Sheets		(3.036)			(2.835)	
Retained Earnings	316.979	(3.060)	313.919	242.527	(2.835)	239.692

The following table presents the impact of the adoption of ASC 606 on the Company's consolidated statement of comprehensive income/loss as at the date of the adoption and for the year ended December 31, 2017:

	December 31, 2016	**Adjustment**	**January 1, 2017**	**December 31, 2017 (before adjustment)**	**Adjustement**	**December 31, 2017**
Total revenue	304.989	(3.959)	301.030	246.504	(3.435)	243.069
Voyage expenses and Charter-in voyage expenses	(100.538)	923	(99.615)	(110.518)	600	(109.918)
		(3.036)			(2.835)	

(expressed in thousands of US dollars)

Revenue Disaggregation

Company's total revenues as of December 31, 2017 consists of freight revenue, time charter revenue, demurrages, pool revenue and charter-in revenue of $186,585, $26,256, $18,972, $8,853 and $2,403 respectively. The Company's customers include some of the most well-known and trustworthy charterers in the world such as Vitol, Shell, PMI, Bharat, CSSA, Kolmar and Marubeni.

In 2017, approximately 11.8% of the Company's consolidated net revenues were from one customer, compared with approximately 8.8% and 8.4% for 2016 and 2015 respectively.

Contract Balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers:

	December 31, 2016	December 31, 2017
Receivables:		
Trade receivables from voyage charters-spot	27,019	24,419
Contract Assets:		
Unbilled receivables from voyage charters completed by December 31-spot completed uninvoiced	1,043	353
Contract Liabilities:		
Deferred revenue from voyage charters	-	-

We receive payments from customers based on a distribution schedule, as established in our contracts. Contract assets relate to our conditional right to consideration for our completed performance under contracts and are recognized when the right to consideration becomes unconditional. Contract liabilities include payments received in advance of performance under contracts and are recognized when performance under the respective contract has been completed. Deferred revenues allocated to unsatisfied performance obligations will be recognized over time as the services are performed, which is expected to take place in 2018.

Performance obligations

The Company's performance obligations are services which are received and consumed by its customers as it performs such services and therefore revenues are recognized over time proportionate to the days elapsed since the service commencement compared to the total days anticipated to complete the service. The minimum duration of services is less than one year for each of the Company's current contracts.

Costs to Obtain or Fulfill a Contract

As of December 31, 2017, unamortized deferred costs of obtaining or fulfilling a contract amounted to $509.

23. Operating Leases:

Operating leases -lessee

The Company charters in vessels under operating leases. As of December 31, 2017, there are no charter in agreements under which the Company is a lessee.

(expressed in thousands of US dollars)

The components of lease expense were as follows:

	December 31, 2015	December 31, 2016	December 31, 2017
Operating lease cost (Charter-in hire expenses)	12,935	15,977	3,295
Total lease cost	**12,935**	**15,977**	**3,295**

Other information related to leases was as follows:

	December 31, 2015	December 31, 2016	December 31, 2017
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating leases (cash paid for Charter-in)	12,974	15,449	3,016

Operating leases –lessor

The following table provides information

	December 31, 2015	December 31, 2016	December 31, 2017
Lease income (Time charter revenues)	76,223	40,041	26,256

24. Subsequent events:

During January, February and March 2018, the Company proceeded to loan repayments of amount $910, $1,223, regarding Credit Agricole and CSIC, loan facilities respectively.

In January 2018 the Company proceeded to loan repayments of $1,000 and $987 concerning DVB and SEB loan facilities respectively.

In January and February 2018, the Company proceeded to loan repayments under the lease arrangement with CSIC of amount $612 per month.

On January 16, the Company exercised the 30-day grace period under the terms of the indenture governing its 9.625% First Preferred Ship Mortgage Notes due 2022 to extend the timeframe for making the cash interest payment due on January 16, 2018. The amount of the interest payment is approximately $14.4 million.

In February the Company proceeded to loan repayments $1,300 and $494 regarding DVB and SEB loan facilities respectively.

On February 15, 2018, the Company and the holders of over 80% of its 9.625% First Preferred Ship Mortgage Notes due 2022 issued pursuant to the Indenture, dated as of December 19, 2013 among the Company, Eletson Finance (US) LLC, certain guarantors and Deutsche Bank Trust Company Americas, as Trustee entered into a Forbearance Agreement. The Company and the Holders have agreed in principle to certain material terms and conditions of a proposed transaction that would enhance Eletson's liquidity, and the Forbearance Agreement will allow the Company and the Holders to finalize the terms of the proposed transaction regarding the skipped scheduled coupon payment of January 2018.

During March 2018 the Company proceeded to loan repayments of $1,730 and $494 regarding Unicredit and SEB loan facilities respectively.

During the period from February 2018 to date, the scheduled repayments under the loan agreements were suspended due to standstill period. All the principal payments were deferred and will be settled after the end of the standstill period. Interest payments have been made in accordance with the loan agreements..

On April 26, 2018, the Company took delivery of the first newbuilding Aframax vessel the m/t Salamina from the shipyard Shanghai Waigaoqiao Shipbuilding Co Ltd.

During April 2018 the Company proceeded to loan repayments of $1,481 and $1,000 concerning SEB and DVB loan facilities, respectively.

On May 2018 the Company proceeded to the payment of $228 regarding the charter hire to Bocomm for the sale and leaseback transaction of the vessel m/t Salamina.

On May 25, 2018 the Company announced the launch of an exchange offer for the 9.625% first preferred ship mortage notes due 2022. The transaction will conclude after 30 business days.

In May 2018, the Company signed a sale and leaseback agreement regarding the four newbuilding vessels in Hyundai MIPO, with Libera Corporation, a major Japanese leasing company. The proceeds from the transaction will refinance in total the outstanding balance of the BNP facility of $31,634.

In May 2018, the Company signed a sale and leaseback agreement for the MGC vessels Anafi and Tilos which were under the Unicredit facility. The proceeds from the sale and leaseback transaction were of amount $49,300 and they fully refinanced the respective outstanding balance of the Unicredit facility of $35,709.

In May 31, 2018 the Company took delivery of the newbuilding vessel the m/v Kalolimnos which will operate under the Liberian flag. The proceeds from the sale and leaseback were of amounted to $35,000 and was used to repay the BNP facility of $8,520 and $28,399 was used for the delivery payment to Hyundai Mipo shipyard.

Subsequent events have been evaluated until June 25, 2018 the date the financial statements were available to be issued.

Appendices

Eletson Holdings Inc.

Company's Fleet as of June 25, 2018

Owned Tanker Vessels

	Name	Flag	Built	Class	SDWT (M/T)	Builder	Design
1	Skyros	Greek	2006	LRS	36,660	Hyundai Mipo	Double Hull
2	Sikinos	Greek	2006	LRS	37,620	Hyundai Mipo	Double Hull
3	Kinaros	Greek	2009	LRS	51,601	Hyundai Mipo	Double Hull
4	Kimolos	Greek	2010	LRS	51,601	Hyundai Mipo	Double Hull
5	Kastos	Greek	2010	LRS	51,601	Hyundai Mipo	Double Hull
6	Fourni	Greek	2010	LRS	51,601	Hyundai Mipo	Double Hull
7	Pelagos	Greek	1999	LRS	76,020	Halla	Double Hull
8	Angistri	Greek	2000	LRS	76,002	Halla	Double Hull
9	Erikoussa	Greek	2003	LRS	70,146	Hyundai	Double Hull
10	Skopelos	Greek	2003	LRS	70,146	Hyundai	Double Hull
11	Antikeros	Greek	2004	LRS	69,714	Daewoo	Double Hull
12	Dhonoussa	Greek	2005	LRS	69,714	Daewoo	Double Hull
13	Polyaigos	Greek	2005	LRS	69,714	Daewoo	Double Hull
14	Strofades	Greek	2006	LRS	69,714	Daewoo	Double Hull
15	Keros	Greek	2004	LRS	74,999	Hyundai	Double Hull
16	Antimilos	Liberia	2004	LRS	72,514	Samsung	Double Hull
17	Meganisi	Greek	2004	LRS	72,514	Samsung	Double Hull
18	Agathonissos	Greek	2002	LRS	106,149	Hyundai	Double Hull
19	Makronissos	Greek	2002	LRS	106,149	Hyundai	Double Hull
20	Alonissos	Greek	2004	LRS	106,149	Hyundai	Double Hull
21	Megalonissos	Greek	2004	LRS	106,149	Hyundai	Double Hull
22	Salanina	Greek	2018	LRS	109,900	Shanghai Waigaoqiao	Double Hull
					1,606,377		

Owned Gas Vessels

	Name	Flag	Built	Class	Capacity (cbm)	Builder	Design
23	Anafi	Greek	2009	LRS	35,000	Hyundai Mipo	Fully-ref
24	Nisyros	Greek	2009	LRS	35,000	Hyundai Mipo	Fully-ref
25	Tilos	Greek	2009	LRS	35,000	Hyundai Mipo	Fully-ref
26	Telendos	Greek	2010	LRS	35,000	Hyundai Mipo	Fully-ref
27	Symi	Greek	2012	LRS	35,000	Hyundai Mipo	Fully-ref
28	Mathraki	Greek	2003	LRS	22,500	Namura	Semi-ref
29	Othoni	Greek	2015	LRS	12,000	Hyundai Mipo	Semi-ref (LEG)
30	Astipalea	Greek	2015	LRS	12,000	Hyundai Mipo	Semi-ref (LEG)
31	Paros	Greek	2015	LRS	12,000	Hyundai Mipo	Semi-ref (LEG)
32	Kithnos	Greek	2016	LRS	12,000	Hyundai Mipo	Semi-ref (LEG)
33	Dilos	Greek	2016	LRS	12,000	Hyundai Mipo	Semi-ref (LEG)
34	Kalolimnos	Liberia	2018	LRS	12,000	Hyundai Mipo	Semi-ref (LEG)
					269,500		

Tanker Newbuildings

	Hull No.	To be delivered	Capacity (cbm)	Builder	Design
1	H1424	2018	109,900	Shanghai Waigaoqiao	Double Hull
2	H1425	2019	109,900	Shanghai Waigaoqiao	Double Hull
3	H1426	2019	109,900	Shanghai Waigaoqiao	Double Hull
			329,700		

Gas Newbuildings

	Hull No.	To be delivered	Capacity (cbm)	Builder	Design
4	8209	2018	12,000	Hyundai Mipo	Semi-ref (LEG)
5	8210	2018	12,000	Hyundai Mipo	Semi-ref (LEG)
6	8213	2018	12,000	Hyundai Mipo	Semi-ref (LEG)
			36,000		

Eletson Holdings Inc.

Selected Financial Data

Set forth below is selected financial data of the Company for each of the years in the five-year period ended December 31, 2017 derived from audited consolidated financial statements of the Company. For a discussion of the Company's recent operating results, see "Management's Discussion and Analysis of Results of Operations and Financial Condition - Results of Operations". The data should be read in conjunction with the audited consolidated financial statements with respect to the years ended December 31, 2016, and 2017.

	Note	2013	2014	2015	2016	2017
Income Statement Data:						
Total revenue		$ 290,226	$ 345,304	$ 378,243	$ 295,937	$ 243,069
Profit/(Loss) from operations		19,828	51,172	111,222	32,584	(31,961)
Other income / (expenses)		(5,673)	(1,486)	(1,702)	(3,466)	691
Interest and finance expenses		24,111	47,548	45,549	48,735	49,645
Net profit / (loss)		(9,956)	2,138	63,971	(19,617)	(80,915)
Other Financial Data:						
Depreciation and amortisation		(54,989)	(59,936)	(62,449)	(62,074)	(59,771)
EBITDA	A	78,138	107,397	172,051	103,269	34,443
Capital expenditures:						
Payments for vessels under construction, vessels' aquisitions, improvements and additions		59,061	120,823	137,275	137,056	56,391
Hull and machinery survey		2,902	8,130	10,593	801	(4,276)
Other capital expenditures		173	200	21	71	(48)
Balance Sheet Data (at end of year):						
Cash and cash equivalents, restricted cash and short term investments (excluding marketable securities)		$ 122,062	$ 57,354	$ 104,252	$ 75,983	$ 50,689
Vessels and other property, net		951,038	967,509	1,000,879	1,052,267	986,580
Vessels under construction		18,328	68,878	86,602	62,093	119,886
Total assets		1,156,180	1,172,647	1,276,026	1,268,929	1,222,452
Total debt		745,145	719,040	749,958	766,401	787,793
Total stockholders' equity		336,220	331,104	377,349	355,862	361,556
Total debt to total capitalization		68.9%	68.5%	66.5%	68.3%	68.5%
Fleet Data:						
Total dwt of ships (end of year, including vessels under bareboat or charter-in agreement)		1,708,099	1,943,462	1,804,845	1,842,909	1,724,157
Average number of ships		28	30	30	34	32
Ships on order (end of year)		8	10	15	8	8
Commitments for advances of new buildings (end of year)		$ 307,110	$ 355,320	$ 618,270	$ 300,984	$ 261,606
TCE per ship per day	B					
Handysize		n/a	n/a	n/a	$ 7,600	$ 11,300
Handymax		$ 15,100	$ 16,900	$ 19,700	15,600	11,400
Panamax		14,200	17,300	25,400	17,800	11,400
Aframax		13,800	15,300	27,900	17,000	14,000
LPG		28,600	32,300	33,000	17,900	12,100
Fleet		17,100	20,200	26,700	17,000	12,000
Daily operating expenses per ship						
Handysize		n/a	n/a	n/a	$ 8,000	$ 6,400
Handymax		$ 6,700	$ 6,800	$ 7,200	6,000	6,200
Panamax		7,400	7,900	7,700	7,000	7,100
Aframax		7,000	7,300	6,500	7,100	8,400
LPG		6,600	7,300	7,000	6,600	6,700
Fleet		7,000	7,500	7,300	6,900	7,000

A. EBITDA is defined, as net income before interest expense-net, depreciation expense, amortisation expense, any other non-cash charges included in the determination of net income to the extent that such non-cash charges do not represent accruals of or reserves for future cash payments, and gain/(loss) arising from disposal of vessels, investments, property and equipment. For purposes of computing the ratio of "EBITDA to interest expense, net", interest expense, net is comprised of interest expense net of finance charges and interest income.

B. TCE rate is a measure of the revenue performance of a vessel, which, on a per voyage basis (excluding employment on time charter) is generally determined by subtracting direct voyage expenses incurred in transporting cargo, such as bunker fuel, port fees and canal tolls, from gross revenue per voyage and dividing the remaining revenue by the total number of days required for the voyage. The Company's average TCE rate for the year is calculated by deducting the total direct voyage expenses for each type of vessel from its gross revenue and dividing the remaining sum by the respective days of operation in the year.

Corporate Information

The Company's vessels are managed by a wholly-owned subsidiary, Eletson Corporation. The directors and executive officers of the Company and Eletson Corporation are listed below:

Directors and Executive Officers of

Eletson Holdings Inc.	Position
Lascarina J. Karastamati	President and Director
Vasilis A. Hadjieleftheriadis	Vice President, Treasurer and Director
Vassilis E. Kertsikoff	Vice President and Director
Constantine E. Kertsikoff	Director
Konstantine A. Hadjieleftheriadis	Director
Ioannis x. Zilakos	Director
Eleni J. Karastamati	Director
George J. Moratis	Director
Gerhard E. Kurz	Director
Takis J. Konstantaras	Director
Emmanouil S. Andreoulakis	Secretary and Director
Elena P. Vandorou	Assistant Secretary

Directors and Executive Officers of

Eletson Corporation	Position
Constantine E. Kertsikoff	President, Chief Executive Officer and Director
Vasilis A. Hadjieleftheriadis	Vice President, Treasurer and Director
Lascarina J. Karastamati	Secretary and Director
Peter G. Kanelos	Chief Financial Officer
Nikolaos S. Makris	Chief Operating Officer

Representative Offices:

118 Kolokotroni Street, 185 35 Piraeus, Greece
Tel : + 30 210 428 2300
Fax: + 30 210 428 2320

3 Crane Court, EC4A 2EJ London, United Kingdom
Tel : + 44 207 353 0555
Fax: + 44 207 353 2520

1 Landmark Square Ste 424, CT 06901 Stamford, USA
Tel : + 1 203 327 4134
Fax: + 1 203 967 8685