

LEGAL MEMO

To: Holland & Knight Law Firm, Attn.: Jovi Tenev, Esq.

From: Emmanouil S. Andreoulakis , Legal Dpt., Eletson Corporation

Subject: Newbuild Tankers in China

On the occurrence of a termination event in respect of the bareboat charters of either M/T SALAMINA (formerly H1423 – already delivered and navigating) or H1424 to be named M/T ARGIRONISSOS (after her delivery expected in late June), the BOCOMM Financier – Lessor would have a declining claim against Eletson, currently of around US \$ 41 m. per each terminated contract , consisting of the aggregate of (i) all amounts payable under the Charter which have fallen due on or prior to the relevant date, (ii) any Accrued Charter-hire, (iii) the amount of Charter-hire Principal Balance as at the relevant date and (iv) an amount equal to zero point seventy five per cent. (0.75%) of the Charter-hire Principal Balance as at the relevant date, (v) the standard Break-funding Costs, and expenses, if any.

In the event of Eletson's inability to pay such claims, we expect that it would be open to Eletson to argue against the Bocomm Lessors, under mitigation principles in English Law, which is the Law applicable to the bareboat charter contracts, that the claims should be offset against the market value of each vessel (today around 46m. - conservatively), as long as the market value remains below book value, after depreciation; or, it would be open to Eletson to argue against the Bocomm Lessors, under the same mitigation principles in English Law, that the claims should be offset against the book value of each vessel, if the market value exceeds book value. So, today, we expect that it would be open to Eletson to argue against the Bocomm Lessors, that such claims of around US\$41m. each should be offset against the market value of each vessel (today around US\$ 46m.).

In the event of Eletson's inability to pay the delivery installment for either Hull 1425 or for Hull 1426 (financed by COSCO) , it is reasonable to expect that the Builder will be keen to rescind each shipbuilding contract. While EHI does not guarantee the delivery installment to the Builder, the Builder would declare the relevant Buyer - Eletson subsidiary in default, and would have to place the respective completed vessel

in the market for resale, in an effort to recover at least the delivery instalment of approximately US \$ 36m. .

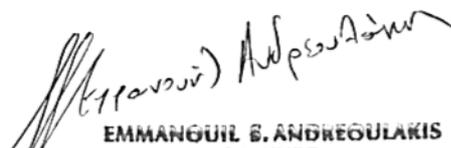
Under the shipbuilding contract, if the proceeds of sale exceed the total of the amounts to which such proceeds are to be applied, the Builder shall promptly pay the excesses to Eletson without interest, provided, that the amount of payment to Eletson shall in no event exceed the total amount of installments already paid by Eletson (both equity and debt - approximately north of US \$15 m. per vessel) and the cost of the Eletson supplied items.

At the same time, the COSCO Financier – Lessor would have a claim against Eletson of around US \$ 11 m. per each terminated contract , consisting of the aggregate of (i) the Outstanding Principal Balance, plus (ii) any standard Break-funding Costs, and expenses, if any.

The vessel should be expected to fetch to the Builder at least US \$ 46 m. , which of course would be more than enough to cover the delivery instalment of approximately US\$ 36m. The Yard, after achieving this resale price, will have at this stage received in excess of US \$ 61 m. for the vessel (US \$ 46 m. from the resale and north of 15 from pre-delivery installments). Thereafter, the Yard would have to do a final accounting exercise with Eletson. Eletson would be entitled to collect from the Builder the surplus of approximately US\$ 13m. , (the difference between US \$ 61 m. and the new effective contract price of US \$ 48m.), hence it should be expected that the Cosco Financier would be able to comfortably recover from Eletson the pre-delivery instalments in the area of around US\$ 11m..

The modest decrease in the vessel's market value (M.V approx. US \$ 46 m.) compared to the approx. US \$ 48 m. of the new effective contract price (a decrease of approx. US\$ 2m.) is less than the equity placed by Eletson (more than US\$ 5m. per vessel). This Eletson equity which is of course incorporated in the high specifications and other characteristics of the vessels comfortably allows the complete recovery of the pre-delivery instalments by the COSCO Financier following full satisfaction of the Builder, with the proceeds of the resale.

We remain at your disposal for further comment.

  
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