

# Ridgebury Crude Tankers LLC and Subsidiaries

(A Limited Liability Company)

Consolidated Financial Statements as of  
December 31, 2014 and for the Period  
from February 27, 2014 (Date of Inception)  
to December 31, 2014 and  
Independent Auditors' Report

**RIDGEBURY CRUDE TANKERS LLC AND SUBSIDIARIES**  
**(A Limited Liability Company)**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Member of  
Ridgebury Crude Tankers LLC:

We have audited the accompanying consolidated financial statements of Ridgebury Crude Tankers LLC and subsidiaries (the "Company"), which comprise the consolidated balance sheet as of December 31, 2014 and the related consolidated statements of operations, changes in member's equity and cash flows for the period from February 27, 2014 (date of inception) to December 31, 2014, 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated 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 Company'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 consolidated financial statements.

We believe that the audit evidence 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 Ridgebury Crude Tankers LLC and its subsidiaries as of December 31, 2014, and the results of their operations and their cash flows for the period from February 27, 2014 (date of inception) to December 31, 2014 in accordance with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

March 31, 2015

**RIDGEBURY CRUDE TANKERS LLC AND SUBSIDIARIES**  
**(A Limited Liability Company)**

**CONSOLIDATED BALANCE SHEET**  
**DECEMBER 31, 2014**

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**ASSETS**

CURRENT ASSETS:

Cash	\$ 11,888,196
Accounts receivable	5,355,032
Prepaid expenses and working capital	8,695,439
Inventory	<u>967,829</u>

Total current assets 26,906,496

NONCURRENT ASSETS:

Vessels—net of accumulated depreciation of \$10,150,964	268,437,036
Fixed assets—net of accumulated depreciation and amortization of \$74,569	955,312
Deferred drydock costs—net of accumulated amortization of \$119,112	1,032,322
Deferred financing costs—net of accumulated amortization of \$1,528,701	4,267,477
Restricted cash	<u>7,500,000</u>

Total noncurrent assets 282,192,147

TOTAL ASSETS \$ 309,098,643

**LIABILITIES AND MEMBER'S EQUITY**

CURRENT LIABILITIES—Accounts payable and accrued liabilities \$ 6,054,037

Total current liabilities 6,054,037

LONG TERM LIABILITIES—Senior Secured Bonds 210,000,000

Total liabilities 216,054,037

COMMITMENTS AND CONTINGENCIES (Note 6)

MEMBER'S EQUITY 93,044,606

TOTAL LIABILITIES AND MEMBER'S EQUITY \$ 309,098,643

See notes to consolidated financial statements.

**RIDGEBURY CRUDE TANKERS LLC AND SUBSIDIARIES**  
**(A Limited Liability Company)**

**CONSOLIDATED STATEMENT OF OPERATIONS**  
**FOR THE PERIOD FROM FEBRUARY 27, 2014 (DATE OF INCEPTION) TO DECEMBER 31, 2014**

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REVENUES:	
Voyage	\$ 746,980
Time charter	3,460,680
Pool	<u>34,504,422</u>
Total revenues	<u>38,712,082</u>
OPERATING EXPENSES:	
Voyage expense	1,188,457
Vessel operating expense	14,394,224
General and administrative	2,316,572
Depreciation	9,066,087
Amortization	<u>129,852</u>
Total expenses	<u>27,095,192</u>
OPERATING INCOME	11,616,890
OTHER EXPENSE—Interest expense and financing costs	<u>14,249,742</u>
NET LOSS	<u>\$ (2,632,852)</u>

See notes to consolidated financial statements.

**RIDGEBURY CRUDE TANKERS LLC AND SUBSIDIARIES**  
**(A Limited Liability Company)**

**CONSOLIDATED STATEMENT OF CHANGES IN MEMBER'S EQUITY**  
**FOR THE PERIOD FROM FEBRUARY 27, 2014 (DATE OF INCEPTION) TO DECEMBER 31, 2014**

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	<b>Paid-in-Capital</b>	<b>Contributions</b>	<b>Deficit</b>	<b>Total</b>
FEBRUARY 27, 2014 (Date of inception)	\$ -	\$ -	\$ -	\$ -
Contributions of subsidiaries from Parent	-	104,069,973	-	104,069,973
Cash contributions from Parent	17,500,000	-	-	17,500,000
Distribution to Parent to repay Term Loan	-	(25,892,515)	-	(25,892,515)
Net loss	<u>-</u>	<u>-</u>	<u>(2,632,852)</u>	<u>(2,632,852)</u>
MEMBER'S EQUITY— December 31, 2014	<u>\$ 17,500,000</u>	<u>\$ 78,177,458</u>	<u>\$ (2,632,852)</u>	<u>\$ 93,044,606</u>

See notes to consolidated financial statements.

**RIDGEBURY CRUDE TANKERS LLC AND SUBSIDIARIES**  
**(A Limited Liability Company)**

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE PERIOD FROM FEBRUARY 27, 2014 (DATE OF INCEPTION) TO DECEMBER 31, 2014**

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<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Net loss	\$ (2,632,852)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation	9,066,087
Amortization of drydock costs and other costs	129,852
Amortization of debt financing costs	1,528,701
Changes in assets and liabilities:	
Accounts receivables	(4,400,400)
Prepaid expenses and working capital	(5,545,089)
Inventory	(687,550)
Drydock costs	(1,151,434)
Accounts payable and accrued liabilities	<u>6,051,770</u>
Net cash provided by operating activities	<u>2,359,085</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Additions to vessels and fixed assets	(178,782,196)
Additions to restricted cash	<u>(7,500,000)</u>
Net cash used in investing activities	<u>(186,282,196)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	
Contributions from Parent	17,500,000
Distribution to Parent to repay Term Loan	(25,892,515)
Proceeds from Senior Bond	210,000,000
Payment of deferred financing costs	<u>(5,796,178)</u>
Net cash provided by financing activities	<u>195,811,307</u>
NET INCREASE IN CASH	11,888,196
CASH—Beginning	<u>-</u>
CASH—Ending	<u>\$ 11,888,196</u>
<b>SUPPLEMENTAL CASH FLOW DISCLOSURES:</b>	
Cash paid for interest	<u>\$ 8,006,250</u>
Non-cash contribution of net assets from Parent	<u>\$ 104,069,973</u>

See notes to consolidated financial statements.

# RIDGEBURY CRUDE TANKERS LLC AND SUBSIDIARIES

## (A Limited Liability Company)

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD FROM FEBRUARY 27, 2014 (DATE OF INCEPTION) TO DECEMBER 31, 2014

#### 1. DESCRIPTION OF BUSINESS

Ridgebury Crude Tankers LLC (the “Company”), a subsidiary of RT Holdings, LLC, is a limited liability holding company formed in February 2014 under the laws of the Republic of the Marshall Islands. The Company owns and operates tanker vessels providing international transportation of crude oil. The Company’s fleet consists of seven Suezmax tankers, all owned by Marshall Island incorporated subsidiaries.

Vessel and Vessel Owning Company	Deadweight Tonnage	Year Built	Date Acquired	Country of Origin
Ridgebury Lessley B—Ridgebury Alpha LLC	158,319	2013	March 2014 *	South Korea
Ridgebury John Zipser—Ridgebury Whiskey LLC	164,772	2009	March 2014 *	South Korea
Ridgebury Nicholas A—Ridgebury Romeo LLC	159,395	2007	April 2014	Japan
Ridgebury Astari—Ridgebury Sierra LLC	149,991	2002	April 2014	Japan
Ridgebury Captain Drogin—Ridgebury Tango LLC	166,468	2007	April 2014	South Korea
Ridgebury Mary Selena—Ridgebury Uniform LLC	146,427	2006	April 2014	Japan
Ridgebury Lindy B—Ridgebury Victor LLC	146,356	2007	April 2014	Japan

\* The Ridgebury Lessley B and Ridgebury John Zipser were acquired by Ridgebury Tankers LLC, a sister company, in September 2013 and January 2014, respectively. The vessel-owning companies that owned these vessels, as well as Ridgebury Romeo LLC and Ridgebury Sierra LLC, were distributed to the Company in March 2014, as described below.

In March 2014, RT Holdings, LLC, the ultimate parent of the Company, completed a restructuring of its business to create two distinct subsidiary groups and split the fleet between its Medium Range product tankers and its Suezmax crude oil tankers. The Company was created to own and operate the Suezmax crude oil tanker vessels in the RT Holdings, LLC fleet. As part of the restructuring, Ridgebury Tankers LLC, a sister company of the Company, distributed four vessel-owning subsidiaries that owned Suezmax vessels (or contracts to purchase Suezmax vessels) up to the Company’s parent. The Company’s parent then contributed those vessel-owning subsidiaries to Ridgebury Crude Tankers LLC. Following the restructuring, all entities remained wholly-owned subsidiaries within the RT Holdings, LLC group of companies. The operating results of the distributed vessel-owning subsidiaries following their distribution to the Company are included in the consolidated financial statements of the Company.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation**—The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). All amounts are stated in United States (U.S.) dollars.

**Principles of Consolidation**—The consolidated financial statements include the assets, liabilities, revenues and expenses of all subsidiaries of the Company. All significant intercompany transactions and balances with consolidated subsidiaries are eliminated in consolidation.

**Management Estimates**—The preparation of the consolidated financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on management’s best knowledge of current events, historical experience, actions that the Company may undertake in the future and on various other assumptions that are believed to be reasonable under the circumstances. As a result, actual results could differ from these estimates.

**Revenue and Expense Recognition**—Since inception, the Company has generated its revenues from both spot market exposed arrangements and fixed-rate charter agreements. The Company’s strategy has generally been to remain exposed to the spot market by participating in pooling arrangements with its vessels. Certain vessels were purchased with expiring short term charters, and were added to pools on the expiration of those charters.

Under the Company’s pooling arrangements, the cost of bunkers and port expenses are borne by the pool, while operating costs including crews, maintenance and insurance are typically paid by the owner of the vessel. Since the members of the pool share in the revenue less voyage expenses generated by the entire group of vessels in the pool, the revenue earned by these vessels is subject to the fluctuation of the spot market. The Company recognizes revenue from these pool arrangements based on its portion of the net distributable income reported by the relevant pool, which represents the net voyage revenue of the pool after voyage expenses and pool manager fees.

All revenues from voyage charters are recognized on a pro-rata basis based on the relative transit time in each period. The Company does not begin recognizing revenue until a charter has been agreed to by the customer and the Company. Vessels that operate under fixed rate time charters receive monthly payments at a fixed rate. The Company recognizes this revenue in the month it is earned.

Voyage expenses associated with charter revenue represent all expenses related to particular voyages, including bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions. Vessel operating expenses associated with pool revenue and charter revenue include crewing, repairs and maintenance, insurance, stores, lube oils and communication expenses. Voyage expenses and vessel operating expenses are recognized when incurred.

**Cash**—Cash and Cash Equivalents includes cash on hand and in banks, as well as highly liquid investments such as money market funds with an original maturity of three months or less at the time of purchase.

**Accounts Receivable**—Accounts receivable represents trade amounts owed to the Company from vessel earnings and do not bear interest. At each balance sheet date, the Company assesses the potential credit loss and risk of collectability on these receivables and has determined it to be minimal. If amounts become uncollectible, a reserve will be established in the Company’s consolidated statement of operations when that determination is made. For the period from February 27, 2014 (date of inception) to December 31, 2014, the Company did not record an allowance for doubtful accounts.

**Inventory**—Inventory, which is comprised primarily of lubricants, is recorded at cost. Cost is determined using the FIFO method.

**Vessels and Equipment**—The acquisition cost and all costs incurred to restore used vessels purchased by the Company to the standard required to properly service the Company’s customers are capitalized. Vessel capital modifications include the addition of new equipment or can encompass various modifications to the vessel which are aimed at improving or increasing the operational efficiency and functionality of the asset. This type of expenditure is capitalized and generally depreciated over the remaining useful life of the vessel.

Vessel depreciation is calculated on a straight-line basis over a vessel's estimated useful life, less an estimated residual value. For vessels, the Company uses an estimated useful life of 25 years from the vessel's original build date. The Company estimates residual value based on the lightweight tonnage of each vessel multiplied by the average scrap value per lightweight ton of \$250 per ton.

Generally the Company drydocks each vessel every two and a half to five years. The Company defers a substantial portion of the costs incurred during a drydocking and amortizes those costs on a straight-line basis from the completion of a drydocking or intermediate survey to the estimated completion of the next drydocking. The Company includes in deferred drydocking those costs incurred as part of the drydock to meet classification and regulatory requirements. Such costs include expenses relating to the dock preparation and port charges at the drydock facility, expenses relating to hull inspections, external surfaces for pressure cleaning, scraping and bottom painting, expenses relating to machinery and engines of the vessel, and safety equipment on board. Costs that are considered normal repair and maintenance costs, such as routine replacement of parts, crew and fuel costs incurred at the drydock, and system overhauls; generator, boiler, refrigeration and repairs, whether incurred as part of the dry docking or not, are expensed as incurred. When significant drydocking expenditures occur prior to the expiration of the original amortization period, the remaining unamortized balance of the original drydocking cost is expensed.

**Long-Lived Assets**—The Company reviews the recoverability of its long-lived assets and intangible assets when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. This assessment is made at the individual vessel level since separately identifiable cash flow information for each vessel is available. Evaluation of possible impairment is based on the Company's ability to recover the asset from the expected future cash flows (undiscounted and without interest charges) of the related operations. If the expected undiscounted cash flows are less than the carrying value of such asset, an impairment loss would be recognized for the difference between estimated fair value and carrying value.

**Depreciation and Amortization**—For the Company's policy on depreciation of vessels and deferred drydock expenses, see the discussion under Vessels and Equipment, above.

**Taxes**—The Company believes that it and its subsidiaries are not subject to taxation on its income under the laws of the Republic of the Marshall Islands. The subsidiaries of the Company are subject to registration and tonnage taxes in the Republic of the Marshall Islands, which taxes are recorded within 'Vessel operating expenses' in the Company's consolidated statement of operations. The Company is subject to U.S. federal tax at a rate of four percent on its U.S. source gross transportation income derived from voyages that begin or end in the United States. The Company has recognized an expense of \$202,550 in the year ended December 31, 2014, which taxes are recorded within 'Vessel operating expenses' in the Company's consolidated statement of operations. The Company may also be subject to U.S. federal tax on the gains it derives from the sales of its vessels. For tax purposes the Company has elected to be treated as a disregarded entity and therefore the direct parent of the Company would be responsible for payment of these taxes.

**Deferred Financing Costs**—Costs including bank fees, commissions, and legal expenses associated with securing the Senior Secured Bonds are deferred and amortized over the maturity of the related debt. Amortization of deferred financing costs is included in the Company's consolidated statement of operations using the effective interest method as part of 'Interest expense and financing costs'.

**Concentration of Credit Risk**—The Company, from time to time, has cash in financial institutions in excess of insured limits. In assessing its risk, the Company's policy is to maintain funds only with highly rated financial institutions. Amounts held in excess of FDIC insured limits is \$19,388,196 as of December 31, 2014.

For the period from February 27, 2014 (date of inception) to December 31, 2014, 89% of the Company's revenues were earned under the Company's pooling arrangement with the Heidmar Blue Fin Pool, and the Accounts receivable at December 31, 2014 all related to receivables from the Heidmar Blue Fin Pool.

**Fair Value of Financial Instruments**—The Company's financial instruments, including cash and cash equivalents, restricted cash, short-term investments, accounts receivable, account payable, and accrued expenses are carried at cost, which approximates their fair value because of the short-term nature of these financial instruments. The Company believes the carrying value of the Senior Secured Bonds approximates fair value based on trades made at or near par value of the Bonds.

### 3. PROPERTY AND EQUIPMENT

At December 31, 2014, property and equipment, at cost, consisted of the following:

Vessel equipment	\$ 1,029,881
Less accumulated depreciation	<u>(74,569)</u>
Fixed assets—net of accumulated depreciation	<u>\$ 955,312</u>
Vessels	\$ 278,588,000
Less accumulated depreciation	<u>(10,150,964)</u>
Vessels—net of accumulated depreciation	<u>\$ 268,437,036</u>

Depreciation expense was \$9,066,087 for the period from February 27, 2014 (date of inception) to December 31, 2014. The vessels and vessel equipment transferred to the Company in March 2014 from Ridgebury Tankers, as described in Note 1, had accumulated depreciation at the time of transfer of \$1,159,446.

### 4. DEFERRED DRYDOCK COSTS, NET

At December 31, 2014, the deferred drydock costs consisted of the following:

Deferred drydock cost	\$ 1,151,434
Less accumulated amortization	<u>(119,112)</u>
Total	<u>\$ 1,032,322</u>

Total amortization of drydock costs was \$119,112 for the period from February 27, 2014 (date of inception) to December 31, 2014.

### 5. LONG-TERM LIABILITIES

**Senior Secured Bonds**—On March 20, 2014, the Company, placed \$210,000,000 principal amount Senior Secured Bonds ("Bonds"), maturing March 20, 2017. The proceeds were used to acquire five additional Suezmax tankers (bringing the total Suezmax fleet to seven), to refinance the portion of a Ridgebury Tankers LLC Credit Agreement loan tranche secured by the Ridgebury Lessley B in order to release the vessel from its mortgage and for working capital and reserves. The Bonds bear interest at a rate of 7.625% and are secured by mortgages on the seven Suezmax tankers, as well as an on-demand guarantee of RT Holdings LLC. Interest expense on the Bonds amounted to \$12,721,041 for the period from February 27, 2014 (date of inception) to December 31, 2014.

The Bonds do not require any repayments of principal before their maturity, but allow for repayments of up to \$10,000,000 at par during each twelve month period if certain conditions are met. Additionally, the Company is obligated to meet certain financial and non-financial covenants and to maintain a minimum balance of \$7,500,000 in a segregated deposit account approved by the Bond trustee. Among other things, the Bonds limit the Company's ability to enter into business activities outside those specifically defined, incur and repay debt, assume liens, make investments and acquisitions, dissolve or liquidate subsidiaries, change its tax status, pay dividends, enter into sale-leaseback transactions, modify certain existing agreements, enter into contracts with affiliates, change its fiscal year end, or make any significant change in its accounting treatment or reporting practices. Further, at the end of each quarter, the Company must achieve certain liquidity and financial ratios as defined by the Senior Secured Bonds Agreement. The Company was in compliance with the financial covenants of the Senior Secured Bonds Agreement as of December 31, 2014.

At December 31, 2014, total debt outstanding amounted to \$210,000,000. The bonds mature and are fully payable in 2017.

## **6. COMMITMENTS AND CONTINGENCIES**

**Contingencies**—The Company is involved from time to time in claims, proceedings, and litigation arising from the operation of its business. The Company does not believe that any such claim, proceeding, or litigation, either alone or in the aggregate, will have a material adverse effect on the Company's financial position, results of operations, or cash flows.

## **7. RELATED-PARTY TRANSACTIONS**

The Company obtains management services from Ridgebury Management LLC, which is a related party and is owned by the same ultimate parent of the Company. Expenses related to those services in 2014 totaled \$2,036,100 and are included in general and administrative expenses in the consolidated statement of operations.

## **8. SUBSEQUENT EVENTS**

As permitted under the Senior Secured Bonds Agreement, the Company elected to prepay a principal amount of \$10,000,000 of the Bonds on March 20, 2015, coincident with the scheduled interest payment date.

Management has evaluated subsequent events through the date of the Auditors' report, which is the date the financial statements were available to be issued. Management has determined that there are no other material events that would require adjustment to or disclosures in the Company's consolidated financial statements.

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