

PARADISE GAS CARRIERS CORP.

**Consolidated Financial Statements for the year
ended December 31, 2019 prepared under US
GAAP**

**These financial statements set out on pages 4 to 34 have been approved
by the Board of Directors of Paradise Gas Carriers Corp. on June 30,
2020**

Signed on behalf of the Board of Directors

CEO



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Report of Independent Auditors

To the Management and Board of Directors of Paradise Gas Carriers Corp.

We have audited the accompanying consolidated financial statements of Paradise Gas Carriers Corp. and its subsidiaries (together, the "Group"), which comprise the consolidated balance sheets as of December 31, 2019 and December 31, 2018 and the related consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

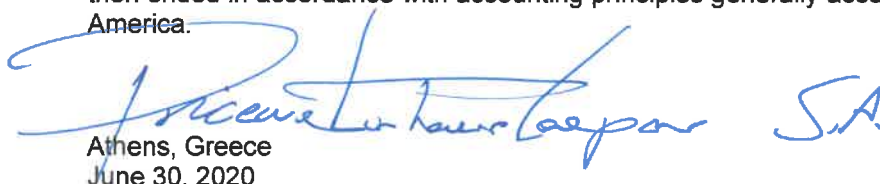
Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits 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 consolidated 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 our 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, we consider internal control relevant to the Group'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 Group'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 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 financial position of Paradise Gas Carriers Corp. and its subsidiaries as of December 31, 2019 and December 31, 2018 and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.


Athens, Greece
June 30, 2020

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PARADISE GAS CARRIERS CORP.
CONSOLIDATED BALANCE SHEETS AS AT DECEMBER 31, 2019 and 2018
(Expressed in thousands of United States dollars or unless otherwise stated)

		As of December 31, 2019	As of December 31, 2018
	Notes		
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	3	8,152	9,219
Trade receivables		2,808	3,223
Inventories	4	851	1,008
Insurance and other claims		286	-
Due from related parties	13	90	10
Right of use asset	6	3,816	1,295
Seller's credit	6	-	2,000
Other receivables		563	570
Loan receivable from affiliate	13	189	-
Prepaid expenses		286	386
Lease Receivable	6	1,679	-
Total current assets		18,720	17,711
NON-CURRENT ASSETS			
Vessels, net	5	143,707	156,975
Lease receivable, net of current portion	6	5,983	-
Investments in affiliates	10	2,800	-
Deferred charges, net	7	3,352	2,575
Total non-current assets		155,842	159,550
Total assets		174,562	177,261
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable	8	5,312	2,780
Accrued liabilities	11	948	1,092
Current portion of long-term debt	9	8,765	8,585
Lease Liability	6	3,816	1,295
Unearned revenue		729	74
Dividends payable	12	128	57
Related parties' loan	13	105	108
Shareholders' loan	13	387	838
Other current liabilities		290	312
Total current liabilities		20,480	15,141
LONG-TERM LIABILITIES			
Long-term debt, net of current portion and deferred financing costs	9	76,286	84,783
Deferred gain on sale of vessel, net of current portion	6	-	266
Total long-term liabilities		76,286	85,049
Total liabilities		96,766	100,190
Commitments and Contingencies		-	-
SHAREHOLDERS' EQUITY			
Common stock (1,000 common shares with no par value, authorized and issued)		-	-
Additional paid-in capital		71,500	71,500
Preferred Stock	12	8,412	7,094
Retained earnings		(2,116)	(1,523)
Total shareholders' equity		77,796	77,071
Total liabilities and shareholders' equity		174,562	177,261

The accompanying notes on pages 8 to 34 are an integral part of these consolidated financial statements.

PARADISE GAS CARRIERS CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR
ENDED DECEMBER 31, 2019 and 2018
(Expressed in thousands of United States dollars or unless otherwise stated)

		Year ended December 31, 2019	Year ended December 31, 2018
	Notes		
Operating revenue	17	39,529	40,760
Total operating revenue-net		39,529	40,760
Operating expenses			
Voyage expenses	19	(2,987)	(5,378)
Vessels' operating expenses	18	(18,282)	(18,489)
Depreciation	5	(7,507)	(7,307)
Amortization of deferred dry-docking and special survey costs	7	(1,564)	(1,903)
Time charter expenses	6	(1,575)	(2,642)
Commissions	13	(1,209)	(1,295)
Management fees	13	(2,056)	(2,098)
General and administrative expenses		(128)	(228)
Other gains/ (losses)		(30)	-
Gain on sale of vessel	5,6	565	657
Net operating expenses		(34,773)	(38,683)
Operating profit/(loss)		4,756	2,077
Other income/ (expenses)			
Interest income		128	98
Interest expense and finance cost		(5,501)	(5,282)
Gain from change in fair value of investments	10	281	-
Other finance expenses		(102)	(225)
Other income, net		154	(163)
Total other expenses, net		(5,040)	(5,572)
Loss for the year		(284)	(3,495)
Other comprehensive income for the year		-	-
Total comprehensive loss for the year		(284)	(3,495)

The accompanying notes on pages 8 to 34 are an integral part of these consolidated financial statements.

PARADISE GAS CARRIERS CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2019 and 2018
(Expressed in thousands of United States Dollars unless otherwise stated)

	Common Stock	Preferred Stock	Additional Paid-in Capital	Retained earnings	Total
Balance December 31, 2017	-	4,121	71,500	2,275	77,896
Net loss for the year	-	-	-	(3,495)	(3,495)
Capital contributions	-	2,973	-	-	2,973
Dividends	-	-	-	(303)	(303)
Balance December 31, 2018	-	7,094	71,500	(1,523)	77,071
Balance December 31, 2018	-	7,094	71,500	(1,523)	77,071
Net loss for the year	-	-	-	(284)	(284)
Capital contributions	-	1,318	-	-	1,318
Dividends	-	-	-	(309)	(309)
Balance December 31, 2019	-	8,412	71,500	(2,116)	77,796

The accompanying notes on pages 8 to 34 are an integral part of these consolidated financial statements.

PARADISE GAS CARRIERS CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED
DECEMBER 31, 2019 and 2018
(Expressed in thousands of United States Dollars unless otherwise stated)

		Year ended December 31, 2019	Year ended December 31, 2018
	Notes		
Cash Flows from operating activities:			
Net loss for the year		(284)	(3,495)
Adjustments to reconcile net profit to net cash provided by operating activities			
Depreciation	5	7,507	7,307
Amortization of deferred dry-docking and special survey costs	7	1,564	1,903
Amortization of deferred financing costs	9	115	231
Gain on sale of vessels	5,6	(565)	(657)
Gain from change in fair value of investments	10	(281)	-
Interest income receivable		(14)	-
Changes in operating assets and liabilities			
Decrease/ (increase) in accounts receivable		415	(73)
(Increase)/ decrease in insurance and other claims		(286)	99
Decrease/ (increase) in prepaid expenses		100	(231)
Decrease in other receivables		7	1,357
Decrease in inventories	4	157	386
Decrease in accrued revenue		-	356
Increase in related parties	13	(80)	(372)
Increase/ (decrease) in accounts payable	8	884	(2,444)
(Decrease)/ Increase in accrued liabilities	11	(144)	74
Increase/ (decrease) in unearned revenue		655	(478)
Decrease in sellers credit	6	2,000	-
(Decrease)/ increase in other current liabilities		(22)	167
Payments for dry dock and special survey costs	7	(3,046)	(1,617)
Net cash provided by operating activities		8,682	2,513
Cash Flows from investing activities:			
Net cash proceeds from sale of vessel	5,6	564	-
Investments in affiliates	10	(1,004)	-
Payments for additions to vessels	5	(1,389)	(88)
Loan receivable from affiliate	13	(184)	-
Payments for vessels under construction		-	(20,912)
Net cash used in investing activities		(2,013)	(21,000)
Cash flows from financing activities:			
Proceeds from bank borrowings	9	-	35,130
(Repayments) / Proceeds from other borrowings	9	-	(500)
Repayment of bank borrowings	9	(8,361)	(17,163)
Deferred financing fees paid	9	-	(275)
Net proceeds from issuance of preferred shares	12	1,318	2,973
Dividends paid		(239)	(298)
Payments to shareholders loans		(454)	(913)
Net Cash provided by financing activities		(7,736)	18,954
Net increase in cash and cash equivalents		(1,067)	467
Cash and cash equivalents, beginning of year	3	9,219	8,752
Cash and cash equivalents, end of year		8,152	9,219
Supplemental disclosures of cash flow information:			
Cash paid for interest (net of capitalized interest)		5,618	4,964
Non-cash financing activities			
Capitalized finance costs		-	19
Dividends payable	12	128	-
Non-cash investing activities			
Deferred financing cost payable		71	19
Accrued interest on loan receivable from affiliate and lease receivable		14	-
Investment in affiliate payable		1,515	-
Transaction costs payable relating to the sale of a vessel		63	-

The accompanying notes on pages 8 to 34 are an integral part of these consolidated financial statements.

PARADISE GAS CARRIERS CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED
DECEMBER 31, 2019 and 2018
(Expressed in thousands of United States Dollars unless otherwise stated)

1. Description of organization and business operations

Paradise Gas Carriers Corp. ("Paradise" or the "Company" and together with its subsidiaries the "Group"), was formed on May 9, 2013, in Monrovia, Liberia and is presently the sole owner of all outstanding shares of the companies listed below (the "Paradise Subsidiaries").

The Group's vessels operate worldwide, carrying oil and LPG for many of the world's leading charterers. The Group manages its operations from the offices of the management company (Paradise Navigation S.A.) in Athens, Greece.

The Group's principal business is the acquisition and operation of vessels. Paradise conducts its operations through vessel owning subsidiaries that have as principal activity the ownership and operation of oil tanker and gas carrier vessels that are under the exclusive management of a related party of the Group (refer to Note 13 - Related Party Transactions).

The consolidated financial statements of Paradise Gas Carriers Corp include the results of the following companies:

Company	Country of Incorporation	Date of Incorporation	Activity
Paradise Gas Carriers Corp.	Monrovia, Liberia	May 9, 2014	Holding Co
Stylida Maritime Ltd ⁱⁱⁱ	Monrovia, Liberia	December 11, 2007	Subsidiary

The consolidated financial statements also include the financial statements of the following vessel-owning subsidiaries, all wholly owned by Paradise Gas Carriers Corp. as of December 31, 2019 and 2018.

Company	Date of Incorporation	% Shareholding	Vessel Name	Vessel Type	Year Built	DWT
Marina Maritime and Trading Ltd	May 8, 2013	100	PGC MARINA	Oil Tanker	2005	72,854
Aratos Maritime Ltd	July 24, 2013	100	PGC ARATOS	Gas Carrier	2003	9,328
Strident Force Maritime Ltd	January 13, 2014	100	PGC STRIDENT ^{iv} FORCE	Gas Carrier	1999	8,485
Darko King Maritime Ltd	January 13, 2014	100	PGC DARKO KING ⁱ	Gas Carrier	1997	6,666
PST S.A.	July 2, 2014	100	PGC IKAROS ⁱⁱ	Oil Tanker	2004	72,000
Aspropyrgos II Maritime Ltd	December 8, 2014	100	PGC ASPROPYRGOS	Oil Tanker	2004	72,000
Patreas Maritime Ltd	June 2, 2016	100	PGC PATREAS	Gas Carriers	2017	7,500
Periklis Maritime Ltd	June 2, 2016	100	PGC PERIKLIS	Gas Carriers	2017	7,500
Taormina Maritime Ltd	June 2, 2016	100	PGC TAORMINA	Gas Carriers	2017	7,000
Eirini Maritime Ltd	June 2, 2016	100	PGC EIRINI	Gas Carriers	2018	7,000

PARADISE GAS CARRIERS CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED
DECEMBER 31, 2019 and 2018
(Expressed in thousands of United States Dollars unless otherwise stated)

1. Description of organization and business operations (continued)

- i) PGC Darko King was sold on March 20, 2017
- ii) PGC Ikaros was sold on May 22, 2015 (refer to note 6)
- iii) Stylida Maritime Ltd was acquired on September 1, 2018 (refer to note 13)
- iv) PGC Strident Force was sold on December 10, 2019 (refer to note 5)

2. Significant Accounting Policies

Basis of presentation: the accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The reporting and functional currency of the Group is the United States Dollar.

Change in accounting principle: the Group historically presented changes in restricted cash and cash equivalents depending on the nature of the cash flow within the consolidated statement of cash flows. As of January 1, 2019, the Group adopted ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires that restricted cash and restricted cash equivalents be included as components of total cash and cash equivalents as presented on the statement of cash flows. The recognition and measurement guidance for restricted cash is not affected. The adoption of the new standard had no impact on the Group's consolidated financial statements as the Group was not required to maintain any restricted cash balances as of December 31, 2019 and 2018.

On January 1, 2019, the Group adopted the provisions of ASU 2014-9, "Revenue from Contracts with Customers" which supersedes the previous revenue recognition guidance. ASU 2014-09 was amended by ASU 2015-14 "Revenue from Contracts with Customers: Deferral of the Effective Date" ("ASU 2015-014"), which was issued in August 2015. In addition, in 2016, the FASB issued four amendments, which clarified the guidance on certain items such as reporting revenue as a principal versus agent, identifying performance obligations, accounting for intellectual property licenses, assessing collectability and presentation of sales taxes. The guidance provides a unified model to determine how revenue is recognized. In doing so, the Group makes judgments including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price, and allocating the transaction price to each performance obligation.

Principles of Consolidation: The accompanying consolidated financial statements represent the consolidation of the accounts of the Company and subsidiaries it controls. The subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases. All intercompany balances and transactions are eliminated on consolidation.

Subsidiaries are those entities in which the Company has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition. Costs directly attributable to the acquisition are expensed as incurred. The excess of the cost of acquisition over the fair value of the net tangible and intangible assets acquired and liabilities assumed is recorded as goodwill.

PARADISE GAS CARRIERS CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED
DECEMBER 31, 2019 and 2018
(Expressed in thousands of United States Dollars unless otherwise stated)

2. Significant Accounting Policies (continued)

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 reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates the estimates and judgments, including those related to uncompleted voyages, future dry-dock dates, the selection of useful lives for tangible assets and scrap value, expected future cash flows from long-lived assets to support impairment tests, provisions necessary for accounts receivable, provisions for legal disputes and contingencies. Also, for operating and finance leases where the Group is acting as the lessor/lessee and in accordance with the provisions of ASC 842, management applies judgement to determine the rate implicit in the lease. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates under different assumptions and/or conditions.

Going Concern: The Group's management evaluates at each reporting period based on the relevant conditions and events that are known at the date of financial statements are issued, whether conditions or events exist that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. As of December 31, 2019, the Group's current assets totaled \$18,720 while current liabilities totaled \$20,480 resulting in a negative working capital position of \$1,760. The Group's projected cash flows indicate that it will generate sufficient cash for at least the next 12 months following June 30, 2020 to service all its operational obligations, make the required principal and interest payments on its indebtedness and finance lease liabilities, provide for the normal working capital requirements of the business and remain in a positive working capital position. During May and June 2020, the Group entered into new loan agreements and two sale and leaseback agreements to refinance the existing indebtedness for three vessels (refer to note 21). The shareholders have the intent and ability to financially support any liquidity needs of the Group that may arise in the next twelve months from the issuance of the consolidated financial statements, for the required principal and interest payments on its indebtedness, provide for the normal working capital requirements of the business and remain in a positive working capital position. Accordingly, the consolidated financial statements were prepared assuming that the Group will continue as a going concern. Therefore, the accompanying consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and liabilities or any other adjustments that might result in the event the Group is unable to continue as a going concern.

Foreign Currency Translation: The functional currency of the Group is the U.S. dollar. Transactions in currencies other than the functional currency are translated at the exchange rate in effect at the date of each transaction. Difference in exchange rates during the period between the date a transaction denominated in a foreign currency is consummated and the date on which it is either settled or translated, are recognized in the accompanying consolidated statement of comprehensive income.

On the balance sheet dates, monetary assets and liabilities denominated in other currencies are translated to reflect the current exchange rates. Resulting gains or losses are reflected in the accompanying consolidated statement of comprehensive income.

PARADISE GAS CARRIERS CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED
DECEMBER 31, 2019 and 2018
(Expressed in thousands of United States Dollars unless otherwise stated)

2. Significant Accounting Policies (continued)

Cash and Cash Equivalents: Cash and cash equivalents consist of current, call, and time deposits with original maturity of three months or less which are not restricted for use or withdrawal.

Trade Receivables, net: The amount shown as Trade Receivables at each balance sheet date includes receivables from charterers for hire, freight and demurrage billings, net of a provision for doubtful accounts. At each balance sheet date, all potentially uncollectible accounts are assessed individually for purposes of determining the appropriate provision for doubtful accounts. No allowance for doubtful accounts has been taken in any period included in these consolidated financial statements.

Prepaid Expenses: Prepaid expenses consist mainly of prepayment of insurance expenses.

Inventories: Inventories, consisting mainly of bunkers, lubricants and provisions remaining on board the vessels at each period end, are valued at the lower of market value or cost as determined using the weighted average cost basis method.

Insurance Claims: Insurance claims consist of claims submitted and/or claims in the process of compilation or submission (claims pending against vessels' insurance underwriters). They are recorded on an accrual basis and represent the claimable expenses, net of applicable deductibles, incurred through December 31 of each reported period, which are expected to be recovered from insurance companies. Any remaining costs to complete the claims are included in accrued liabilities. Insurance claims are included in the balance sheet line item "Insurance and other claims". The classification of insurance claims into current and non-current assets is based on management's expectations as to their collection dates.

Deferred Financing Costs: Deferred financing costs include fees, commissions and legal expenses associated with the Group's long-term debt. These costs are amortized over the estimated life of the related debt using the effective interest method and are included in interest expense or are capitalized in the case of vessels under construction. Unamortized fees relating to loans repaid or refinanced as debt extinguishment are expensed as interest and finance costs in the period the repayment or extinguishment is made. Deferred financing costs are presented as a deduction of long term debt, net of current portion.

Vessels' Cost: Vessels are stated at historical cost, which consists of the contract price, delivery and acquisition expenses and capitalized interest costs while under construction. Vessels acquired in an asset acquisition or in a business combination are recorded at fair value. Subsequent expenditures for major improvements and upgrading are capitalized, provided they appreciably extend the life, increase the earning capacity or improve the efficiency or safety of the vessels. Expenditures for routine maintenance and repairs are expensed as incurred.

Depreciation is computed using the straight line method over the useful life of the vessels, after considering the estimated residual value. Management estimates the residual values of their vessels based on scrap value cost of steel times the weight of the ship noted in light displacement weight (ldt). Residual values are periodically reviewed and revised to recognize changes in conditions, new regulations or other reasons. Revisions of residual values affect the depreciable amount of the vessels and affects depreciation expense in the period of the revision and future periods.

Management estimated the residual value of the Group's vessels at \$380 per ldt for the years ended December 31, 2019 and 2018.

PARADISE GAS CARRIERS CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED
DECEMBER 31, 2019 and 2018
(Expressed in thousands of United States Dollars unless otherwise stated)

2. Significant Accounting Policies (continued)

Management estimates the useful life of the Group's vessels to be 25 years from the vessels' original construction for the Oil Tankers and 27 years for the Gas Carriers for the years ended December 31, 2019 and 2018.

Capitalized Interest Expense: Interest costs are expensed as incurred except for interest costs that are capitalized. Interest costs are capitalized on all qualifying assets that require a period of time to complete for their intended use. Qualifying assets consist of vessels constructed for the Group's own use.

Impairment of Long-lived Assets: Long-lived assets are reviewed periodically for potential impairment whenever events or changes in circumstances indicate that the carrying amount of a particular asset may not be fully recoverable. Management evaluates the carrying amounts and periods over which long-lived assets are depreciated to determine if events or changes in circumstances have occurred that would require modification to their carrying values or useful lives. In evaluating useful lives and carrying values of long-lived assets, certain indicators of potential impairment are reviewed such as, undiscounted projected cash flows, vessel sales and purchases, business plans and overall market conditions.

Undiscounted projected net operating cash flows are determined for each asset group (consisting of the individual vessel, deferred charges related to Drydock and Special Survey and the intangible, if any, with respect to the time charter agreement attached to that vessel) and compared to the vessel carrying value and related carrying value of the intangible with respect to the time charter agreement attached to that vessel or the carrying value of deposits for new-buildings, if any. Within the shipping industry, vessels are often bought and sold with a charter attached. The value of the charter may be favorable or unfavorable when comparing the charter rate to then current market rates. The loss recognized either on impairment (or on disposal) will reflect the excess of carrying value over fair value (selling price) for the vessel individual asset group.

As of December 31, 2019 and 2018, the Group concluded that events and circumstances triggered the existence of potential impairment of its long-lived assets. The indicators included loss of charterer, volatility in the spot market and decline in the vessels' market values, as well as the potential impact the current market place may have on its future operations. As a result, the Group performed step one of the impairment assessment of the Group's long-lived assets by comparing the undiscounted projected net operating cash flows for each vessel to its carrying value. The significant factors and assumptions the Group used in its undiscounted projected net operating cash flow analysis included, among others, operating revenues, off-hire revenues, drydocking costs, operating expenses and management fees estimates. Revenue assumptions were based on contracted time charter rates up to the end of life of the current contract of each vessel as well as estimated average time charter equivalent rates for the remaining life of the vessel after the completion of its current contract. The estimated daily time charter equivalent rates used for non-contracted revenue days are based on historical average time charter rates, based on publications by independent third party maritime research services. Recognizing that the oil tanker and gas carriers transportation industry is cyclical and subject to volatility based on factors beyond the Group's control, management believes the use of revenue estimates, based on the factor above, to be reasonable as of the reporting date. In addition, the Group used the annual operating expenses escalation factor and estimates of the scheduled and unscheduled off-hire revenues based on historical experience. All estimates used and assumptions made were in accordance with the Group's internal budgets and historical experience of the shipping industry.

PARADISE GAS CARRIERS CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED
DECEMBER 31, 2019 and 2018
(Expressed in thousands of United States Dollars unless otherwise stated)

2. Significant Accounting Policies (continued)

The assessment concluded that and no impairment of vessels existed as of 31 December, 2019 and 2018, as the undiscounted projected net operating cash flows exceeded the carrying value.

Accounting for Special Survey and Dry-docking Costs: The Group's vessels are subject to regularly scheduled dry-docking and special surveys which are carried out every 30 or 60 months to coincide with the renewal of the related certificates issued by the classification societies, unless a further extension is obtained in rare cases and under certain conditions. The costs of dry-docking and special survey are deferred and amortized over the above periods or to the next dry-docking or special survey date if such has been determined. Drydocking and special survey costs are reported in the balance sheet within "Deferred charges, net if special survey or dry-docking is performed prior to the scheduled date, the remaining unamortized balances are immediately written off.

The unamortized portion of special survey and dry-docking costs for vessels sold is included as part of the carrying amount of the vessel in determining the gain / (loss) on sale of the vessel.

Pension and Retirement Benefit Obligations-Crew: The crew on board of the Group's vessels serves in such capacity under short-term contracts (usually up to nine months) and accordingly, the vessel-owning companies are not liable for any pension or post-retirement benefits.

Accounts payable: Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of the Group's business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Leases: The Group elected to early adopt the requirements of Accounting Standard Update ("ASU") 2016-02, "Leases (Topic 842)" effective from January 1, 2018 using the modified retrospective method and has also elected the use of the practical expedients. The Group's contract revenues from time chartering and pooling arrangements are governed by ASU 2016-02 (ASC 842) "Leases". Upon adoption of ASC 842, the timing and recognition of earnings from the pool arrangements and time charter contracts to which the Group is party did not change from previous practice. The Group has elected to recognize lease revenue as a combined single lease component for all time charters (operating leases) as the related lease component and non-lease component will have the same timing and pattern of the revenue recognition of the combined single lease component.

Vessel leases where the Group is regarded as the lessor are classified as either finance leases (sales-type / direct financing leases) or operating leases based on an assessment of the terms of the lease.

For charters classified as operating leases where the Group is regarded as the lessor, refer to section "Revenue recognition" below.

For charters classified as operating leases where the Group is regarded as the lessee, a right of use asset and a corresponding lease liability are recognized on the consolidated balance sheet. The expense is recognized on a straight line basis over the rental periods of such charter agreements. The lease expense is included under the line item Time Charter Expenses of the Consolidated Statements of Comprehensive Income. In the

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2. Significant Accounting Policies (continued)

transition to ASC 842, the right of use asset was adjusted for the carrying amount of the straight line liability on that date. In cases of lease agreements where the Group acts as the lessor under an operating lease, the Group keeps the underlying asset on the consolidated balance sheet and continues to depreciate this over its useful life. In cases of lease agreements where the Company acts as the lessor under a finance lease, the Group derecognizes the underlying asset and records a net investment in the lease. The Group acts as a lessee in a bareboat arrangement which constitutes an operating lease, while it acts as the lessor under operating leases in connection with its revenue arrangements.

For charters classified as finance leases the minimum lease payments are recorded as the gross investment in the lease. The difference between the gross investment in the lease and the sum of the present values of the two components of the gross investment is recorded as unearned income which is amortized to income over the lease term as finance lease interest income to produce a constant periodic rate of return on the net investment in the lease. For finance leases, interest expense is determined using the effective interest method and amortization on the right-of-use asset is recognized on a straight-line basis.

In cases of sale and leaseback transactions, if the transfer of the asset to the lessor does not qualify as a sale, then the transaction constitutes a failed sale and leaseback and is accounted for as a financing transaction. For a sale to have occurred, the control of the asset would need to be transferred to the lessor, and the lessor would need to obtain substantially all the benefits from the use of the asset. In 2018 the Group entered into two agreements which qualify as failed sale and leaseback transactions as the Group has a substantial bargain option to repurchase the vessels back at the end of the lease term. In 2019 the Group entered into a sale and leaseback transaction which qualifies as a sale (please refer to Note 6).

Operating lease assets used by the Group are reviewed periodically for potential impairment whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. Measurement of the impairment loss is based on the fair value of the asset. The Group determines the fair value of its assets on the basis of management estimates and assumptions by making use of available market data. In evaluating carrying values of operating lease assets, certain indicators of potential impairment are reviewed, such as undiscounted projected operating cash flows, business plans and overall market conditions. Undiscounted projected net operating cash flows are determined for each asset group and compared to the carrying value of the operating lease asset. As of December 31, 2019 and 2018, management concluded that there were no events and circumstances which may indicate the existence of potential impairment of the Group's operating leases.

Current and Deferred Income Tax: The Group is not liable for corporate income tax, either in the country of incorporation or, in the case of the vessel - owning companies, in the country of the vessel's registration. The Group therefore does not provide for either corporate income tax or for deferred taxation.

The Group's vessel owning companies are liable to pay an annual tonnage tax to the tax authorities of the country where the vessels are registered. This tax has been included in vessels' operating expenses.

Effective from 1 January 2013, an annual tonnage tax is also payable to the tax authorities of Greece, which is the country of operation of the Managing Agent of the Group. This tax has been included in vessel's operating expenses.

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2. Significant Accounting Policies (continued)

Provisions and contingencies: The Group, in the ordinary course of its business, is subject to various claims, suits and complaints. The Group will provide for a contingent loss in the financial statements if the contingency has been incurred and the likelihood of loss is deemed to be probable at the date of the financial statements and the amount of the loss can be reasonably estimated. In accordance with the accounting for contingencies, if the Group has determined that the reasonable estimate of the loss is a range and there is no best estimate within the range, the Group will accrue the lower amount of the range. The Group participates in Protection and Indemnity (P&I) insurance coverage plans provided by mutual insurance societies known as P&I clubs. Under the terms of these plans, participants may be required to pay additional premiums to fund operating deficits incurred by the clubs ("deferred calls"). Obligations for deferred calls are accrued annually based on information provided by the clubs regarding supplementary calls.

Provisions for estimated losses on uncompleted voyages and vessels time chartered to others are provided for in the period in which such losses are determined. At December 31, 2019 and 2018, the balance for provision for loss making voyages in progress was nil.

Revenue Recognition: Revenue is recognized when (or as) the Group transfers promised goods or services to its customers in amounts that reflect the consideration to which the Group expects to be entitled to in exchange for those goods or services, which occurs when (or as) the Group satisfies its contractual obligations and transfers control of the promised goods or services to its customers. Revenues are recognized 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.

In determining the appropriate amount of revenue to be recognized as it fulfills its obligations under its agreements, the Group performs the following steps: (i) identification of the promised goods or services in the contract; (ii) determination of whether the promised goods or services are performance obligations, including whether they are distinct in the context of the contract; (iii) measurement of the transaction price, including the constraint on variable consideration; (iv) allocation of the transaction price to the performance obligations based on estimated selling prices; and (v) recognition of revenue when (or as) the Group satisfies each performance obligation.

Revenue is generated from time charters, spot voyage charters and pooling arrangements.

The Group's contract revenues from time charters and pooling arrangements are governed by ASU 2016-02 (ASC 842) "Leases". The Group elected to early adopt ASC 842 as of December 1, 2018 (please refer to "Leases" above). Upon adoption of ASC 606, the timing and recognition of earnings from the pool arrangements and time charter contracts to which the Group is party did not change from previous practice. The performance obligations in a time charter contract are satisfied over term of the contract beginning when the vessel is delivered to the charterer until it is redelivered back to the Group.

The Group's revenues earned under voyage contracts (revenues for the transportation of cargo) were previously recognized ratably over the estimated relative transit time of each voyage. A voyage was deemed to commence when a vessel was available for loading and was deemed to end upon the completion of the discharge of the current cargo. Estimated losses on voyages are provided for in full at the time such losses become evident. Under a voyage charter, a vessel is provided for the transportation of specific goods between specific ports in return for payment of an agreed upon freight per ton of cargo. Upon adoption of ASC 606, the Group recognizes revenue ratably from port of loading to when the charterer's cargo is discharged as well as defer costs that meet the definition of "costs to fulfill a contract" and relate directly to the contract.

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2. Significant Accounting Policies (continued)

As a result of the adoption ASC 606, there was no effect on the Group's opening retained earnings, Consolidated Balance Sheets and Consolidated Statements of Comprehensive income.

Revenue from Time Charters

Revenues from time chartering of vessels are accounted for as operating leases and are thus recognized on a straight line basis as the average revenue over the rental periods of such charter agreements, as service is performed. Time charter revenue involves placing a vessel at the charterers' disposal for a period of time during which the charterer uses the vessel in return for the payment of a specified daily hire rate. Under time charters, operating costs such as for crews, maintenance and insurance are typically paid by the owner of the vessel. 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 returned to the Group.

Revenues are recorded net of address commissions. Address commissions represent a discount provided directly to the charterers based on a fixed percentage of the agreed upon charter or freight rate. Since address commissions represent a discount (sales incentive) on services rendered by the Group and no identifiable benefit is received in exchange for the consideration provided to the charterer, these commissions are presented as a reduction of revenue.

Revenue from Pooling arrangements ("pool revenues")

For vessels operating in pooling arrangements, the Group earns a portion of total revenues generated by the pool, net of expenses incurred by the pool. Operating revenue and voyage expenses of the pool are posted and allocated to the pool participants on a time charter equivalent basis, according to an agreed formula. Formulas used to allocate net pool revenues vary among different pools but generally allocate revenues to pool participants on the basis of the number of days a vessel operates in the pool with weighting adjustments made to reflect vessels' differing capacities and performance capabilities. Certain pools are responsible for paying voyage expenses and distribute net pool revenues to the participants.

Certain pools require the participants to pay and account for voyage expenses, and distribute gross pool revenues to the participants such that the participants' resulting net pool revenues are equal to net pool revenues calculated according to the agreed formula. Revenue under pooling arrangements is accounted for as variable rate operating leases on the accrual basis and is recognized in the period in which the variability is resolved. The Group recognizes net pool revenue on a monthly basis, when the vessel has participated in a pool during the period and the amount of pool revenue can be estimated reliably based on the pool report. The allocation of such net revenue may be subject to future adjustments by the pool however, such changes are not expected to be material.

Revenue from spot voyage charters

Under a spot voyage charter, a vessel is provided for the transportation of specific goods between specific ports in return for payment of an agreed upon freight per ton of cargo. Upon adoption of ASC 606, the Group recognizes revenue ratably from port of loading to when the charterer's cargo is discharged as well as defer costs that meet the definition of "costs to fulfill a contract" and relate directly to the contract. Revenue is a factor of the weight of the cargo which is known at the time of loading and before the voyage begins. Probable losses on voyages are provided for in full at the time such losses can be estimated.

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2. Significant Accounting Policies (continued)

Deferred Revenue: Deferred revenue primarily relates to cash received from charterers prior to it being earned. These amounts are recognized as revenue over the voyage or charter period, when the service is provided.

Commissions: Commissions calculated on hires and freights generated from the vessels represent discounts and fees respectively, provided directly to the charterers and brokers based on a fixed percentage of the agreed upon charter or freight rate of the vessels.

General and Administrative Expenses: General and administrative expenses include bookkeeping, audit and accounting services, legal and insurance services, administrative and clerical services, banking and financial services, advisory services, client and other services.

Vessels Operating Expenses: Vessel operating expenses include crew wages and related costs, the cost of insurance, expenses for repairs and maintenance, the cost of spares and consumable stores, lubricants, exchange differences, crew travelling, provision, communication, tonnage taxes and other miscellaneous expenses related to the operation of the vessel. Aggregate expenses increase as the size of the Group's fleet increases.

Dividends: Dividends are recorded in the Group's financial statements in the period in which they are declared.

Financial Instruments: Financial instruments carried on the balance sheet include trade receivables and payables, other receivables and other liabilities and long term debt. The particular recognition methods applicable to each class of financial instrument are disclosed in the applicable significant policy description of each item, or included below as applicable.

- a) **Financial risk management:** Group's activities expose it to a variety of financial risks including fluctuations in future freight rates, time charter hire rates, and fuel prices, credit and interest rate risk. Risk management is carried out under policies approved by executive management. Guidelines are established for overall risk management, as well as specific areas of operations.
- b) **Credit risk:** The Group closely monitors its exposure to customers and counterparties for credit risk. The Group has entered into the Management Agreement with the Manager, pursuant to which the Manager agreed to provide commercial and technical management services to the Group. When negotiating on behalf of the Group various employment contracts, the Manager has policies in place to ensure that it trades with customers and counterparties with an appropriate credit history. For significant customers constituting more than 10% of the total revenue refer to Note 17, "Operating Revenue".
- c) **Foreign exchange risk:** Foreign currency transactions are translated into the measurement currency rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of operations.

Investments in affiliates: Affiliates are entities over which the Group has the ability to exercise significant influence, but it does not exercise control. As of December 31, 2019, the Group's equity method investments consist solely of an approximately 18,435% and 18,343% common stock ownership interest in non-related party entities, Crude Tankers I AS and Crude Tankers II AS respectively, over which it has the ability to exercise

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2. Significant Accounting Policies (continued)

significant influence due to the fact that any shareholder above 10% is entitled to appoint a member of the Board. Both investments took place during 2019. In accounting for these investments, the Group has elected to use the fair value option, available under ASC 825 for investments subject to the equity method of accounting, as management believes it more accurately reflects the economic substance of its ownership interest in Crude Tankers I AS and Crude Tankers II AS. The initial election of the fair value option did not have any impact on the Group's earnings. The Group has elected to adopt the fair value option under ASC 825 to account for its investments and is required to present those investments at fair value at each reporting period, with changes in fair value reported in the consolidated statement of comprehensive income. Fair value is measured based on the Group's proportionate share of the investee's adjusted net assets. Our share of gains and losses in the fair value of the investments as well as dividend income are recorded in "Gain/ (loss) from change in fair value of investments" in the Consolidated Statement of Comprehensive Income. As of December 31, 2019, the Group did not have any cost method investments accounted for under the equity method.

Recent Accounting Pronouncements:

June 2016, the FASB issued ASU 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"), which amends the impairment model by requiring entities to use a forward-looking approach based on expected losses to estimate credit losses on certain types of financial instruments, including trade receivables. ASU 2016-02 is effective for fiscal years beginning years beginning after December 15, 2022, including interim periods within those fiscal years, with early adoption permitted. The Group is currently evaluating the impact of the adoption of this accounting standard update on its consolidated financial statements and footnotes disclosures.

In August 2018, FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement". This update modifies the disclosure requirements on fair value measurements. ASU 2018-13 is effective for fiscal years beginning after December 15, 2019, and earlier adoption is permitted. The Group is currently evaluating the impact of the adoption of this accounting standard update on its consolidated financial statements and footnotes disclosures.

3. Cash and cash equivalents

	December 31, 2019	December 31, 2018
Cash on hand and at bank	3,592	4,691
Short-term deposits	4,560	4,528
	8,152	9,219

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4. Inventories

	December 31, 2019	December 31, 2018
Bunkers	177	143
Lubricants	439	635
Stores	235	230
	851	1,008

5. Vessels, net

	Vessels' Cost	Accumulated Depreciation	Net Book Value
December 31, 2017	150,378	(16,960)	133,418
Additions	88	-	88
Transfer from vessels under construction	30,776	-	30,776
Depreciation for the year	-	(7,307)	(7,307)
December 31, 2018	181,242	(24,267)	156,975
December 31, 2018	181,242	(24,267)	156,975
Additions	1,389	-	1,389
Disposals (Cost)	(12,635)	-	(12,635)
Disposals (Accumulated dep'n)	-	5,485	5,485
Depreciation for the year	-	(7,507)	(7,507)
December 31, 2019	169,996	(26,289)	143,707

The scrap value of the Group's vessels was determined by multiplying their light displacement weight (ldt) by an estimated price for scrap of \$380 per ldt.

(i) Sale of vessels

On December 10, 2019, the Group (seller/lessee) entered into a sale transaction for the vessel PGC Strident Force with Gawcott Investment Inc. (buyer/lessor) an unrelated third party. More specifically, the Group sold the vessel for an aggregate sale price of \$8,744. The sale price consisted of \$600 cash consideration, 48 consecutive monthly instalments and a final instalment of \$1,750 (refer to note 6).

The Group will retain the right of use of this vessel for the next 12 months under a time charter agreement with the buyer (refer to note 6).

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5. Vessels, net (continued)

The gain resulting from the transaction comprises of:

	2019
Fair value of the proceeds from sale of vessel, including the cash consideration	8,235
Less: transaction expenses	(82)
Net proceeds from sale of vessel	8,153
Cost of vessel sold	12,635
Accumulated depreciation of vessel sold	(5,485)
Net book amount at the date of sale	7,150
Special survey written-off on vessel disposal	704
Total gain on sale of vessel	299

(ii) Delivery of Vessel under construction

On March 5, 2018 PGC took delivery of Hull No S533 (related to “PGC Eirini”)

6. Sale and lease back transactions and leases

On May 22, 2015, the Group (seller/lessee) entered into a sale transaction for the M/V Ikaros with Crude Tankers I AS (buyer/lessor) an unrelated third party. More specifically, the Group sold the vessel, for an aggregate sale price of \$20,200, resulting in a gain of \$2,632.

On the same date, the Group leased back the vessel under a bareboat charter agreement (lease) for a period of 4 years, with no purchase or renew options attached after that date. The transaction did not meet the criteria of ASC 840 for the recognition of a finance lease and therefore the lease was classified as an operating lease.

Based on the memorandum of agreement an amount equal to \$2,000 (from the total sale price of \$20,200) remained unpaid to the Group until the end of the bareboat agreement in May 2019. This seller’s credit represents a guarantee, effectively providing security to the buyer/lessor for the Group’s obligations under the bareboat charter agreement. The amount was classified as a current receivable in the Balance Sheet as at December 31, 2018 due to its short maturity and was fully collected during 2019.

On the vessel’s delivery date, the Group received the purchase price less the amount of the seller’s credit and the first instalment of charter hire.

Based on the provisions of ASC 840, the gain of \$2,632 resulting from the sale was deferred and recognized over the bareboat charter period based on the lease payments. For the year ended December 31, 2019 and December 31, 2018, an amount of \$266 and \$657 respectively has been recognized as a gain in the consolidated statement of comprehensive income.

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6. Sale and lease back (continued)

The gain resulting from the transaction comprises of:

	2019	2018
Deferred gain at January 1 st	266	923
Less: Portion transferred to Consolidated Statement of Comprehensive Income	(266)	(657)
Deferred gain as of December 31	-	266

During 2018, the Group elected to early adopt the requirements of Accounting Standard Update ("ASU") 2016-02, "Leases (Topic 842)" effective from January 1, 2018 using the modified retrospective method and has also elected the use of the practical expedients.

The Group acts also as a lessee under a bareboat agreement for the M/V Ikaros which was accounted for as an operating lease with remaining duration of 18 months as of January 1, 2018. As a result of the adoption ASU 2016-02, an amount of \$1,295 had been recognized as a right of use asset and lease liability in the consolidated balance sheet as of January 1, 2018. The incremental borrowing rate used in order to estimate the right of use asset and the lease liability is 4,58%.

On December 10, 2019, the Group entered into a sale and lease back agreement for PGC Strident Force with Gawcott Investments Inc. (buyer), an unrelated third party company whereby the vessel was sold for an aggregate sale price of \$8,774.

Based on the memorandum of agreement, the aggregate sale price of \$8,774 comprises of:

- The cash consideration of \$ 600 that has been collected as of December 31, 2019
- 48 consecutive average monthly payments of approximately \$6,424 based on the bareboat charter agreement (entered into on the same date) and;
- the final instalment amount of \$1,750 due on December 13, 2023.

The Group does not have a purchase option nor an obligation to acquire the vessel at the end of the lease term and under ASC 842-40, the transaction was accounted for as a sale. In accordance with ASC 842, the Group has derecognized the vessel from its Balance Sheet (refer to Note 5) and recognized a lease receivable of \$7,653 as of December 31, 2019.

Also, the Group acts as a lessee under a time charter agreement for the PGC Strident Force for a fixed period of 1 year months (plus/minus 30 days) with a renew option for 3 periods of 2 months each at the charterer's option which was accounted for as an operating lease. As of December 10, 2019, a right of use asset and a corresponding lease liability of \$ 4,043 was recognized on the consolidated balance sheet. The incremental borrowing rate used to estimate the right of use asset and the lease liability is 1,6%.

The lease expense recorded on a straight-line basis over the lease term under the line item "Time Charter Expenses" of the consolidated statement of comprehensive income for the years ended December 31, 2019 and 2018 amounted to \$1,575 and \$2,642, respectively.

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7. Deferred charges, net

	Dry-dockings and Special Surveys
As of December 31, 2017	2,861
Additions	1,617
Amortization	(1,903)
As of December 31, 2018	2,575
Additions	3,046
Amortization	(1,564)
Write-off on vessel disposal	(705)
As of December 31, 2019	3,352

8. Accounts Payable

Accounts payable comprise of the following:

	December 31, 2019	December 31, 2018
Suppliers and other creditors	4,727	2,342
Brokers	16	15
Agents	242	181
Due to charterers	184	192
Other	143	50
	5,312	2,780

9. Borrowings, net of deferred financing costs

Loan	As of December 31, 2019	Current Portion	Long- term Portion	As of December 31, 2018	Current Portion	Long- term Portion
A	14,037	2,025	12,012	15,870	2,025	13,845
B	58,184	4,512	53,672	62,695	4,512	58,183
C	8,703	1,436	7,267	9,971	1,320	8,651
D	4,127	792	3,335	4,832	728	4,104
	85,051	8,765	76,286	93,368	8,585	84,783

Loans

- A) On March 27, 2015, two vessel owning companies of the Group (Aspropyrgos II Maritime Ltd. and PST S.A) entered jointly and severally into a loan agreement with HSBC Bank plc, for a loan facility amounting to \$22,000, in order to refinance part of the acquisition cost of the already acquired vessels (Aspropyrgos and PGC Ikaros). On June 23, 2015 and following the amending and restating of the loan agreement, PST S.A was substituted by Marina Maritime and Trading Ltd. During the year ended December 31, 2015, the Group fully drew down the loan facility.

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9. Borrowings, net of deferred financing costs (continued)

On October 14, 2019, following the amending and restated agreement, the Group agreed with the Lender the extension of the maturity and the amendment of the repayment schedule.

As at 31 December, 2019, the outstanding balance of the loan amounted to \$14,037 net of deferred borrowing costs (2018: \$15,870).

The loan bears interest at 3.1% over Libor.

- B)** On December 15, 2016, Paradise Gas Carriers Corp. entered into a new loan facility with DVB Bank amounting to \$67,000 in order to partly finance the four new building LPG's, currently under construction at Kyokuyo Shipyard Corporation. During 2017, the Group drew down three out of four tranches following the delivery of three hulls and during 2018 drew down the last tranche following the delivery of the last hull. Refer to Note 5, "Vessels, net". As at 31 December, 2018, the outstanding balance of the loan amounted to \$58,184 net of deferred borrowing costs (2018: \$62,695).

The loan bears interest at 3% over Libor.

- C)** On August 31, 2018, the Group entered into a sale and lease back agreement for PGC Aratos with Awavi Co, an unrelated third party company whereby the vessel was sold for \$17,200 and leased back on a bareboat basis for \$0,179 per month. The Group has a bargain option to acquire the vessel at the end of the lease term and in accordance with ASC 842-40 the transaction was accounted for as a failed sale.

Accordingly, the Group did not derecognize the vessel from its Balance Sheet and accounted for the amount received under the sale and lease back agreement as a financial liability within borrowings.

The Group is obligated to make 36 consecutive average monthly payments of approximately \$6,372 in total. The agreement mature in the third quarter of 2021 with a purchase option of \$6,330 on the last repayment day. As of December 31, 2019, the total outstanding balance was \$8,703 (2018: \$9,971).

- D)** In September 28, 2018, the Group entered into a sale and lease back agreement for PGC Strident Force with Vom Co Ltd, an unrelated third party company whereby the vessel was sold for \$9,000 and leased back on a bareboat basis for \$0,094 per month. The Group has a bargain option to acquire the vessel at the end of the lease term and under ASC 842-40, the transaction was accounted for as a failed sale. In accordance with ASC 842-40.

Accordingly, the Group did not derecognize the vessel from its Balance Sheet and accounted for the amount received under the sale and lease back agreement as a financial liability within borrowings.

The Group is obligated to make 48 consecutive average monthly payments of approximately \$4,464 in total. The agreement mature in the third quarter of 2021 with a purchase option of \$1,850 on the last repayment day. As of December 31, 2019, the total outstanding balance was \$4,127 (2018: \$4,832).

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9. Borrowings, net of deferred financing costs (continued)

Loan A

Loan A is collateralized by a Corporate Guarantee of Paradise Gas Carriers Corp..

The debt agreement includes positive and negative covenants, the most significant of which are:

- The borrowers shall procure that the Guarantor shall at all times during a Security Period maintain:
 - a) leverage which does not exceed 70%
 - b) minimum cash at the consolidated balance sheet of the Guarantor exceeding the amount of \$750 per fleet vessel.
 - c) at all times, during the Security Period an amount equal to \$1,500, but during the Minimum Liquidity Reduction Period, an amount equal to \$900.
- The Borrowers shall ensure and procure that the Security Value (the aggregate of the Market Values of the Mortgaged Vessels and the market value of any additional security) is at least equal to the Security Requirement (the amount in Dollars which, at any relevant time during the Security Period, is below 130% of the Loan) and if at any such time the Security Value is less than the Security Requirement, the Lenders may give notice to the Borrowers requiring that such deficiency be remedied.

Loan B

Loan B is collateralized by a Corporate Guarantee of Paradise Gas Carriers Corp..

The debt agreement includes positive and negative covenants, the most significant of which are:

- The borrowers shall procure that the Guarantor shall at all times during a Security Period maintain:
 - a) leverage which does not exceed 70%
 - b) minimum cash at the consolidated balance sheet of the Guarantor exceeding the amount of \$750 per fleet vessel.
- The Borrowers shall ensure and procure that the Security Cover (the aggregate of the Market Values of the Mortgaged Vessels and the net realizable value of the additional security) is at least equal to the Security Requirement (the amount in Dollars which, at any relevant time during the Security Period, is below 135% of the Loan until the 2nd anniversary of the first drawdown and 145% at all times thereafter) and if at any such time the Security Value is less than the Security Requirement, the Lenders may give notice to the Borrowers requiring that such deficiency be remedied.

Borrowing costs

	December 31, 2019	December 31, 2018
Deferred financing cost	294	250
Additions	71	275
Amortization of deferred borrowing cost	(115)	(231)
	250	294

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9. Borrowings, net of deferred financing costs (continued)

Repayment Terms

The annual repayments of the above loan facilities and financing arrangements as of 31 December 2019 are as follows:

Year	31/12/2019
2020	8,765
2021	14,225
2022	22,719
2023	27,996
Thereafter	11,595
	85,300

10. Investments in affiliates

In May, 2019 the Group invested \$1,004 in Crude Tankers I AS, an unrelated party entity, through participation in a private offering. As a result of this investment, the Group became a significant investor in Crude Tankers I AS, holding a total of approximately 115,324 shares of common stock, which was approximately 18,4% of the then issued and outstanding shares of Crude Tankers I AS.

In December, 2019 the Group invested \$1,515 in Crude Tankers II AS, an unrelated party entity, through participation in a private offering. As a result of this investment, the Group became a significant investor in Crude Tankers II AS, holding a total of approximately 12,840 shares of common stock, which was approximately 18,4% of the then issued and outstanding shares of Crude Tankers II AS.

As under the shareholders agreements any shareholder above 10% is entitled to appoint a member of the Board of these entities, the Group is deemed to exercise significant influence over those entities. The Group has elected to adopt the fair value option under ASC 825 to account for its equity method investments and is required to present those equity method investments at fair value at each reporting period, with changes in fair value reported in the consolidated statement of comprehensive income. The gain from the change in the fair value of \$34 for Crude Tankers I AS and \$247 for Crude Tankers II AS, respectively, was recognized in the consolidated statement of comprehensive income for the year ended December 31, 2019.

	December 31, 2019
Beginning balance	-
Investment in Crude Tankers I AS	1,004
Investment in Crude Tankers II AS	1,515
Gain (loss) from change in fair value from the investments	281
	2,800

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11. Accrued Liabilities

Accrued liabilities consist of the following:

	December 31, 2019	December 31, 2018
Accrued commissions	66	47
Accrued interest and finance cost	736	853
Accrued voyage and operating expenses	146	192
	948	1,092

12. Preferred Stock

In January 2017, the Group decided to amend its articles of association allowing the issuance of preferred stock. During 2019, the Group issued 19.18 (2018: 33.78) preferred shares with a nominal value of \$0.1 each, i.e. an amount of \$1,918 (2018: \$3,378) in total was contributed by 6 (2018: 15) different shareholders as preferred equity in the Group. The key terms of the preferred shares are as follows:

- The preferred shares were offered to the existing shareholders, as well as to new shareholders.
- Preferred shares have no voting rights.
- The preferred shares rank pari passu with common shares and junior to existing Group's indebtedness.
- The preferred shares are entitled to quarterly dividends at a rate per annum equal to 4.5%, payable quarterly in arrears, prior to payment of any dividends to holders of common shares in the Group, provided always that the Group has earned sufficient amounts for such distribution.
- During 2019, the Board of Directors declared preferred share dividends amounting to \$309 (2018: \$303). As at December 31, 2019 an amount of \$128 (2018: \$57) was declared but not paid. This amount was settled during 2020.
- During 2019, an amount of \$600 (2018: \$405) was redeemed and the share certificates were cancelled.
- The preferred shares may be converted, at the option of the Group. The Group may buy back any preferred shares so issued at their abovementioned intrinsic value, but not before eighteen (18) months have elapsed from issuance thereof.

13. Related Party Transactions

a) Technical Management Services

Pursuant to the ship management agreement between each of the vessel owning companies and Paradise Navigation S.A. (the "Management Company") acts as the fleet's technical manager responsible for (i) recruiting qualified officers and crews, (ii) managing day to day vessel operations and relationships with charterers, (iii) purchasing of stores, supplies and new equipment for the vessels, (iv) performing general vessel maintenance, reconditioning and repair, including commissioning and supervision of shipyards and subcontractors of dry-dock facilities required for such work, (v) ensuring regulatory and classification society compliance, (vi) performing operational budgeting and evaluation, (vii) arranging financing for vessels and (viii) providing accounting, treasury and finance services, (ix) supervising the sale and physical delivery of the Vessel under the sale agreement, (x) arranging for the sampling and testing of bunkers, (xi) arranging crew insurances and (xii) providing information technology software and hardware in support of the Group's processes.

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13. Related Party Transactions (continued)

For the services rendered during 2019, the Technical Manager charged the Group's vessels management fees of \$2,056 (2018: \$2,098).

b) Commercial Management Services

The Group has employed Paradise Navigation S.A. also acts as the "Commercial Manager" for its vessels, for which it charges a commission of 1.25% on all time-charter hire, voyage freight, dead freight, demurrage, pool revenue and any other income earned by the vessels. For the services rendered during 2018, the Management Company in its acting as commercial manager charged the Group's vessels fees of \$471 (2018: \$460).

c) Due from / to related parties

Due to related parties related to balances outstanding with the Technical and Commercial manager.

	December 31, 2019	December 31, 2018
Due from related parties		
Paradise Navigation SA	90	10
	90	10

The balance outstanding as at December 31, 2019 and as at December 31, 2018 as due to Paradise Navigation S.A. represents mainly outstanding amounts relating to the management and commercial management fees.

d) Loan due to shareholders

During 2017, a loan facility amounting to \$1,696 was advanced to the Group by Mystic Ventures Inc. and Isadora Holding Ltd (Group's shareholders). The balance outstanding as at December 31, 2019 is \$387 (2018: \$838) and includes an accrued interest amounted to \$17 (2018: \$15). The loan had an interest at 4.5% per annum.

e) Loan due to related parties

During 2017, a loan facility amounting to \$123 was advanced to the Group by Paradise Capital Management Ltd (Group's related party). The balance outstanding as at December 31, 2019 is \$105 (2018: \$108) and includes an accrued interest amounted to \$5 (2018: \$8). The loan had an interest at 4.5% per annum.

f) Preferred stock

During 2019, the Group issued and sold 1.3 preferred shares (2018: 9) amounting to \$130 (2018: \$900) to officers and directors of the Group (refer to Note 12 – Preferred Stock).

Also during 2019, the Group issued and sold preferred shares amounting to \$900 (refer to Note 12 – Preferred Stock) to the following related party entity:

- Panthir Holding Ltd.

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13. Related Party Transactions (continued)

The Group also redeemed preferred shares amounting to \$500 (refer to Note 12 – Preferred Stock) to the following related party entity:

- Panthir Holding Ltd.

During 2018, the Group issued and sold preferred shares amounting to \$2,973 (refer to Note 12 – Preferred Stock) to the following related party entities:

- Panthir Holding Ltd.
- Paradise Navigation S.A

The Group also redeemed preferred shares amounting to \$405 (refer to Note 12 – Preferred Stock) to the following related party entities:

- AF Finance Corp.
- Paradise Navigation S.A

g) Stylida Maritime Ltd.

During 2018, the Group acquired the totality of shares issued and outstanding of Stylida Maritime Ltd for a nil consideration. Registered shares amounting to One Hundred (100) and have no par value.

h) Loan receivable from affiliates

In September 2019, the Group made available to Crude Tankers I AS a shareholder's loan to fund working capital requirements based on its ownership in the investee. The Crude Tankers I AS shareholder's loan earns interest at 10 basis points per annum, on a compounding basis and will be repaid from free cash flow (as defined in the loan agreement) to the fullest extent possible once the Company's cash balance is above \$1,000. There are no covenant requirements or stated maturity dates. The receivable amount of \$189 as of December 31, 2019 was recorded under the caption "Loans receivable from affiliate" and includes the accrued interest income of \$5.

14. Taxes

The Group is not liable for corporate income tax, either in the country of incorporation or in the country of the vessel's registration. The Group therefore does not provide either for corporate income tax or for deferred taxation.

An annual tonnage tax is payable to the tax authorities of the country where the vessel is registered. Effective from January 1, 2013 and pursuant to Law 4110/2013, an annual tonnage tax is also payable to the tax authorities of Greece where the management company has its offices established under article 25 of law 27/1975. This tax is calculated based on the same criteria, rates and scales applicable to vessels registered under the Greek flag pursuant to article 13 of LD 2687/1953. Any equivalent taxes or duties paid to the state of the vessels' registration are set off against the Greek tonnage tax. These taxes have been included in vessel operating expenses in the accompanying consolidated statement of comprehensive income.

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15. Financial Instruments

Fair Value of Financial Instruments:

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and cash equivalents: The carrying amounts reported in the consolidated balance sheets for interest bearing deposits approximate their fair value because of the short maturity of these investments.

Seller's credit: The carrying amount reported in the consolidated balance sheets for seller's credit guarantee approximate its fair value.

Due from related parties and Loans due to shareholders: The carrying amounts of due from / to related parties and loans due to shareholders reported in the consolidated balance sheets approximate their fair value due to the short-term nature of these amounts.

Long-term debt: The carrying amounts of the floating rate loans approximates their fair value due to their variable interest rates.

Long receivable from affiliate: The carrying amounts of the floating rate loans approximates their fair value due to their variable interest rates.

Investments in affiliates: The fair value of the Group's investment in affiliates is estimated based on the its proportionate share of the investee's adjusted net assets.

The following table presents the carrying amounts and estimated fair values of the Group's financial instruments at December 31, 2019 and 2018.

	December 31, 2019		December 31, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and cash equivalents	8,152	8,152	9,219	9,219
Amounts due from related parties	90	90	10	10
Seller's credit	-	-	2,000	2,000
Loan receivable from affiliate	189	189	-	-
Investments in affiliates	2,800	2,800	-	-
Liabilities				
Amounts due to related parties	-	-	-	-
Long-term borrowings	85,051	85,051	93,368	93,368
Loan due to shareholders	387	387	838	838
Loan due to related parties	105	105	108	108

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15. Financial Instruments (continued)

Fair value Hierarchy

The estimated fair value of the financial instruments that are not measured at fair value on a recurring basis, categorized based upon the fair value measurement, are as follows:

Level I: Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets that have the ability to be accessed. Valuation of these items does not entail a significant amount of judgment.

Level II: Inputs other than quoted prices included in Level I that are observable for the asset or liability through corroboration with market data at the measurement date.

Level III: Inputs that are unobservable. The Group did not use any Level III inputs as of December 31, 2019.

Fair value December 31, 2019

	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	8,152	8,152	-	-
Long-term borrowings	85,051	-	85,051	-

Fair value December 31, 2018

	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	9,219	9,219	-	-
Seller's credit	2,000	-	2,000	-
Long-term borrowings	93,368	-	93,368	-

The fair value of the Group's long-term debt is estimated based on currently available debt with similar contract terms, interest rate and remaining maturities as well as taking into account the Group's creditworthiness.

The following table sets forth our assets that are measured at fair value on a recurring basis categorized by fair value hierarchy level. As required by the fair value guidance, assets are categorized in their entirety based on the lowest level of input that is significant to the fair value measurement.

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15. Financial Instruments (continued)

Fair value Measurements as of December 31, 2019

	Total	Quoted Prices in Active Markets For Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
Investments in affiliates	<u>2,800</u>		<u>2,800</u>	<u>-</u>
Total	<u>2,800</u>		<u>2,800</u>	

16. Leases

The future minimum revenue, expected to be earned on non-cancellable time charters consisted of the following as at December 31, 2019:

	<u>2019</u>
2020	15,127
2021	<u>831</u>
	<u>15,958</u>

Revenues from time charters are not generally received when a vessel is off-hire, including time required for normal periodical maintenance of the vessel. In arriving at the minimum future charter revenues, an estimated time of off-hire to perform periodic maintenance on each vessel has been deducted, although there is no assurance that such estimate will be reflective of the actual off-hire in the future. The off-hire assumptions used relate mainly to drydocking and special survey maintenance carried out approximately every 2.5 years and 5 years respectively.

17. Operating Revenue

	January 1, 2019 to December 31, 2019	January 1, 2018 to December 31, 2018
Time charter hires	35,028	34,298
Voyages	4,983	6,503
Pool revenue	<u>(482)</u>	<u>(41)</u>
	<u>39,529</u>	<u>40,760</u>

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17. Operating Revenue (continued)

Operating revenue from significant customers (constituting more than 10% of total revenue) for the year ended December 31, was as follows:

	January 1, 2019 to December 31, 2019	January 1, 2018 to December 31, 2018
Charterer		
Penfield Marine LLC	36%	37%
Gasmare Synergy	12%	13%
Eni Trading	13%	10%
Shell International	-	25%
Oman Trading	10%	2%
Cepsa Trading	10%	1%

18. Vessels' Operating Expenses

	January 1, 2019 to December 31, 2019	January 1, 2018 to December 31, 2018
Wages	9,415	10,228
Victualling	617	684
Insurances	1,346	1,358
Lubricants	635	815
Repairs & Maintenance	3,908	3,085
Components & Spares	886	1,027
Tonnage tax	86	116
Crew travelling & other expenses	714	798
Water & Laundry	5	19
Other expenses	670	359
	18,282	18,489

19. Voyage Expenses

	January 1, 2019 to December 31, 2019	January 1, 2018 to December 31, 2018
Bunkers	1,463	3,189
Port expenses	1,219	1,760
Agency fees	211	314
Other voyage expenses	94	115
	2,987	5,378

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20. Commitments and Contingencies

Commitments

a) Commitments under operating leases

As of December 31, 2019 and 2018, the outstanding balance of the Group's contractual commitments is analyzed as follows:

	2019	2018
No later than 1 year	<u>939</u>	<u>1,295</u>
	939	1,295

Contingencies

Various claims, suits, and complaints, including those involving government regulations and product liability, 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 Group's vessels.

On December 29, 2015, a writ was filed with Piraeus City Court by ETEKA S.A (the "Claimant") against Aratos Maritime Ltd (the "Owners") being the owner of vessel PGC Aratos. The Claimant is a bunkering company alleging to have a claim arising from the provision of bunkers to the vessel PGC Aratos. The Owners had never contracted with the claimant but with the Trading Company called OW Bunker Ltd of Malta and the value of such bunkers have been properly settled and therefore the claim as filed is unfounded. The hearing of the case was held on September 27, 2016 and the court decision 3141/2016 rejected the claim of ETEKA.

On March 8, 2017, ETEKA filed an appeal before the Piraeus Court of Appeal and the hearing took place on March 1, 2018. The Piraeus Court of Appeal issued the decision 391/2018 in favor of the Owners. In addition, ETEKA filed for a further appeal before the High Court of Justice (The Supreme Court) and the relevant hearing has been scheduled for October 5, 2020. Management estimates that the final court decision to be issued by the Supreme Court in 2021 will be in favor of the Owners.

As at December 31, 2019 a dispute between Aratos Maritime Ltd and Cafiero Mattioli Finanziaria di ml Cafiero arising under a memorandum of agreement (the "MOA") between the same dated August 5, 2013 for the sale and purchase of a Liquid Ethylene Gas Carrier. Aratos Maritime Ltd are Claimants/Buyers (the "Buyers") and Cafiero Mattioli Finanziaria di ml Cafiero are Respondents/Sellers (the "Sellers").

The dispute relates to the Buyers' claim for damages in the sum of \$550 plus interest and costs, arising out of the Sellers' alleged breach of the MOA and/or misrepresentation. Buyers are alleging, amongst other things, that the Sellers, in breach of contract, failed to deliver to the Buyers a vessel that was capable of carrying ethylene. This dispute has been referred to arbitration in London and is at the pleadings stage, with Buyers currently preparing their Reply to Seller's Defence Submissions.

21. Subsequent Events

The following events and transactions occurred after the balance sheet date and were evaluated up to June 30, 2020, being the date these consolidated financial statements were available to be issued:

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21. Subsequent Events (continued)

1. In 2020, the Group redeemed preferred shares amounting to \$1,150 and cancelled the share certificate.
 2. On May 26, 2020, the Group entered into a loan agreement with Hellenic Bank Public Company Ltd, for a loan facility amounting to \$17,600, to refinance the existing indebtedness of PGC Taormina and for general working capital.
 3. On June 5, 2020, following the loan agreement with Hellenic Bank Public Company Ltd, the Group fully repaid the outstanding balance for PGC Taormina's loan with DVB bank.
 4. On June 4, 2020, the Group entered into a sale and lease back agreement for PGC Patreas and PGC Periklis with Fortune July Shipping Ltd and Fortune May Shipping Ltd, unrelated third party companies whereby the vessels were sold for \$14,525 each and leased back on a fixed bareboat of \$0,074 plus a variable bareboat payable both every month. The Group is obligated to make 132 consecutive average monthly payments for each vessel. The agreements mature in the second quarter of 2031 with a purchase option for each vessel of \$4,793, an amount equal to the 33% of the Financing Principal on the last repayment day. The Group has a bargain option to acquire the vessels at the end of the lease term and under ASC 842-40, the transaction was determined to be a failed sale.
 5. On June 10, 2020, following the failed sale and lease back agreement with Fortune July Shipping Ltd and Fortune May Shipping Ltd, the Group fully repaid the outstanding balance for PGC Patreas' and PGC Periklis' loan with DVB bank.
 6. During 2020, the Group invested an additional \$2,686 million in Crude Tankers II AS. As a result of this investment, the Group increased its ownership to Crude Tankers II AS to 51.1%.
 7. Towards the end of 2019, the effects of the infectious disease, 2019 Novel Coronavirus (the "Covid-19"), emerged and infections started to occur around the globe. Subsequently, on March 11, 2020, the World Health Organization ("WHO") declared Covid-19 outbreak a pandemic. In response to the outbreak, many countries, ports and organizations, including those where the Group conducts a large part of its operations, have implemented a range of policies and measures to combat the outbreak, such as quarantines and travel restrictions. The Group's financial and operating performance may be adversely affected by the recent coronavirus outbreak. The long term impact of COVID-19 on world economies and the Group in particular, while currently uncertain, could have a material and adverse effect on the Group's business operations, and financial condition. However, as the development of the pandemic is currently ongoing, an estimate of the impact cannot be made at this time. Management will continue to monitor developments and their impact on the Group including its operations, lending arrangements and debt covenants, and value and estimates reported in the consolidated financial statements and accompanying notes.
 8. On February 19, 2020, the Group entered into a secured promissory note with Penfield Holding Co. for a loan facility amounting to \$500. The loan was fully repaid in May, 2020.
 9. On June 12, 2020, the Group received the loan receivable from Crude Tankers I AS, including interest receivable, amounting to \$203.
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