

**Polarcus Limited**  
Interim Report 2008

## Polarcus Limited

Unaudited Interim Condensed Consolidated Financial Statements  
30<sup>th</sup> June 2008

- Interim Consolidated Income Statement
- Interim Consolidated Balance Sheet
- Interim Consolidated Cash Flow Statement
- Interim Consolidated Statement of Changes in Equity
- Notes to the Interim Condensed Consolidated Financial Statements

## Interim Consolidated Income Statement

For the 6 months ended

**30-Jun-08**

(Unaudited)

**USD**

	Notes	
Revenues		-
<b>Salaries and G&amp;A</b>		
Salaries and Other Employee benefits	10	(2,026,766)
Office Rent and other expenses		(512,722)
Legal and Consulting		(241,283)
Marketing and Advertising		(57,338)
Travel Expenses		(200,799)
Depreciation		(5,070)
<b>Operating Loss</b>		<b>(3,043,978)</b>
<b>Financial Expenses</b>		
Changes in fair value of financial instruments	11	(5,770,751)
Net FX Gain/(Loss)	12	351,585
Interest Income		541,627
<b>Net Financial Expenses</b>		<b>(4,877,539)</b>
<b>Profit/(loss) for the period before Tax</b>		<b>(7,921,517)</b>
Income Tax Expense	13	-
<b>Profit/(loss) for the period</b>		<b>(7,921,517)</b>

**Interim Consolidated Balance sheet****30-Jun-08**  
(Unaudited)  
**USD****Notes**

<b>ASSETS</b>		
<b>Non Current Assets</b>		
Property, plant and equipment	3	779,017
Vessels under Construction	4	64,899,872
Intangible assets	5	139,713
Restricted cash - Long term		735,696
<b>Total Non Current Assets</b>		<b>66,554,298</b>
<b>Current Assets</b>		
Restricted cash - Short term	6	22,020,836
Cash and Bank	7	62,907,632
Deposits		27,416
Prepaid Expenses		243,076
Advance to Employees		134,304
<b>Total Current Assets</b>		<b>85,333,264</b>
<b>TOTAL ASSETS</b>		<b>151,887,562</b>
<b>EQUITY and LIABILITIES</b>		
<b>Equity</b>		
Issued Share Capital	8	1,348,019
Share Premium		114,123,377
Accumulated Deficit		(7,921,517)
<b>Total Equity</b>		<b>107,549,879</b>
<b>Non Current Liabilities</b>		
Liability for warrants	8	24,487,139
Employee Pension accrual	9	75,003
<b>Total Non Current Liabilities</b>		<b>24,562,142</b>
<b>Current Liabilities</b>		
Employee accruals and payables		30,498
Accounts Payable		19,690,547
Other Payables		54,496
<b>Total Current Liabilities</b>		<b>19,775,541</b>
<b>TOTAL EQUITY and LIABILITIES</b>		<b>151,887,562</b>

## Interim Consolidated Cash Flow Statement

<i>(In USD)</i>	As at <b>30-Jun-08</b>
<b>Cash flows from Operating activities</b>	
Profit/(loss) for the period before Tax	(7,921,517)
Adjustment for:	
Depreciation	5,070
Changes in fair value of financial instruments	5,770,751
<b>Working capital adjustments:</b>	
Increase in Current Assets	(404,796)
Increase in trade and other payables and accruals	481,412
<b>Net cash flows from Operating activities</b>	<b>(2,069,080)</b>
<b>Cash flows from Investing activities</b>	
Increase in restricted cash	(22,756,532)
Purchases of property, plant and equipment	(46,314,827)
Payments to acquire intangible assets	(139,713)
<b>Net cash flows used in Investing activities</b>	<b>(69,211,073)</b>
<b>Cash flows from Financing activities</b>	
Proceeds from the issuance of ordinary shares	134,187,784
<b>Net cash flows from Financing activities</b>	<b>134,187,784</b>
<b>Net (decrease)/increase in cash, cash equivalents and bank overdrafts</b>	<b>62,907,632</b>
Cash, cash equivalents and bank overdrafts at the beginning of the period	-
<b>Net (decrease)/increase in cash, cash equivalents at end of 1H</b>	<b>62,907,632</b>

## Interim Consolidated Statement of Changes in Equity

<i>(in USD)</i>	Issued Share capital	Share Premium	Accumulated Deficit	Total Equity
<b>Balance at inception (1st January 2008)</b>	-	-	-	-
Profit/(deficit) for the period	-	-	(7,921,517)	(7,921,517)
Issue of share capital (134,801,855 shares @ USD 1)	1,348,019	133,453,836	-	134,801,855
Exchange loss on Allotment of shares	-	(614,071)	-	(614,071)
Issue of warrants to shareholders	-	(18,716,388)	-	(18,716,388)
<b>Balance at 30 June 2008 (unaudited)</b>	<b>1,348,019</b>	<b>114,123,377</b>	<b>(7,921,517)</b>	<b>107,549,879</b>

(The accompanying notes are integral part of the financial statements)

## Notes to the interim condensed consolidated financial statements for the period from 1st January to 30th June 2008

### 1. General Information

Polarcus Limited (the “Company”) and its subsidiaries (together the “Group”) is a pure play marine geophysical group with a pioneering environmental agenda, specialising in high-end towed streamer data acquisition from pole to pole.

The Group is building six ultra modern seismic vessels at Drydocks World Dubai with an option for additional two vessels. The first two vessels are scheduled to be in operation by Q3 and Q4 2009 respectively. All of the first six vessels are projected to generate revenue within Q2 2010.

Polarcus Limited was incorporated on 17<sup>th</sup> December 2007 in Cayman Islands with its registered office at Walker House, 87 Mary Street, George Town in Grand Cayman. The Company had no activities in 2007 hence did not prepare any financial statements for 2007.

The Group will not have operating income until the first vessel becomes operational in Q4 2009. These set of interim condensed consolidated financial statements reflect the progress of construction projects through the period from 1<sup>st</sup> January 2008 to 30<sup>th</sup> June 2008 and were authorised for issue by the Board of Directors on 30<sup>th</sup> July 2008.

#### *The going concern assumption*

These interim condensed consolidated financial statements are presented based on the going concern assumption.

The Group is, according to the contracts with Drydocks World Dubai and other vendors, obliged to build six new vessels at a total cost of USD 850 million. In addition, the Group estimates to spend USD 50 million on general and administrative expenses related with the construction projects. Thus, total capital expenditure is budgeted at USD 900 million.

The Group has raised USD 212 million in equity and secured another USD 90 million through debt financing. The Group has also arranged a sale lease back financing for first two vessels for total USD 180 million. A further USD 60 million vendor financing is arranged for the seismic equipment to be installed on the vessels. All cash flow, including working capital, is secured for the first two vessels to be delivered.

The Group expects to generate sufficient financing from several funding sources including equity and debt financing together with contribution from operations before delivery of remaining vessels.

Consequently, the management believes that the going concern assumption is valid and that total financing shall be secured as and when necessary.

### 2. Summary of Significant Accounting Policies

The principle accounting policies applied in the preparation of these interim condensed consolidated financial statements are set out below.

#### *Basis of preparation*

These interim condensed financial statements for the six months ended 30 June 2008 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

## *Consolidation*

### **Subsidiaries**

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred.

## *Foreign Currency Translation*

### **Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in USD, which is the Company's functional and presentation currency. All subsidiaries have the USD as their functional currency.

### **Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss.

## *Property, Plant and Equipment*

Furniture and fixtures, vehicles, computers and office equipment are stated at cost less accumulated depreciation and impairment charges. Cost includes expenditure that is directly attributable to the acquisition of the items, including financing costs.

## Useful life and depreciation

Depreciation is calculated on a straight-line basis taking residual values into consideration. The estimated useful life of major assets in years is as follows:

Furniture and fixtures	5
Vehicles	4
IT Equipment	5
Seismic equipment	8
Vessels	30

Each component of the vessels, with a cost significant to the total cost, is separately identified and depreciated, on a straight-line basis, over that component's economic life. Day-to-day maintenance costs are charged to the income statement during the financial period in which they are incurred. The cost of major renovations and periodic maintenance of vessels are capitalized and depreciated over the useful lifetime of the parts replaced. The useful lifetime of regular vessels docking expenses will normally be the period until next docking. Maintenance and classification costs for ships are capitalized and charged to expenses over the period up to the next occasion when maintenance is carried out, normally 30 months. Accrued maintenance and classification costs are classified as other operating expenses. When ships are acquired/ constructed, a proportion of the acquisition cost is capitalized as periodic maintenance.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at least every balance sheet date. Adjustments, where applicable, are made on a prospective basis. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of net selling price or discounted cash flows over the remaining useful life of the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). An impairment charge recognised in prior years is reversed if the current estimated value in use is higher than at the time the impairment loss was recognised.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are presented net, in the income statement.

### *Vessels under construction*

Instalments on new building contracts are capitalised as vessels under construction as they are due for payment. The acquisition cost reported is the sum of such instalments due plus direct costs incurred during the construction period.

### *Derivative financial instruments*

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement or as part of the vessels under construction when they are relating to specific borrowing for the construction of vessels (see accounting policy on borrowing costs below).

### *Borrowing Costs*

Borrowing costs are recognised as an expense in the period in which they are incurred, except for borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Such borrowing costs are capitalised as part of the cost of that asset.

To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset is determined as the actual borrowing costs incurred in that borrowing during the period less any investment income on the temporary investment of those borrowings.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

The Group has not incurred and capitalised any borrowing cost during the period.

### *Intangible assets*

#### **Computer software**

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are and will be amortised over their estimated useful lives when available for use (not exceeding three years).

Computer software not yet available for use, is tested annually for impairment. Computer software initially recognised during the current period, are tested for impairment before the end of the current period.

### *Cash and cash equivalents*

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Cash and cash equivalents that are restricted from the Group's use are disclosed separately in the consolidated balance sheets and are classified as current or long-term depending on the nature of the restrictions. For the purpose of the cash flow statements restricted cash is disclosed as part of the "Investing activities".

### *Share capital*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

### *Trade payables*

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### *Provisions*

A provision is recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that there is an outflow of resources embodying economic benefits.

### 3. Property, plant and equipment

	Furniture and fixtures	Office IT Equipments	Office Equipments under construction	Total
<b>Costs</b>				
Balance at 1 January 2008	-	-	-	-
Additions	81,324	53,895	648,868	784,087
Disposals	-	-	-	-
Balance at 30 June 2008	<u>81,324</u>	<u>53,895</u>	<u>648,868</u>	<u>784,087</u>
<b>Depreciation and impairment losses</b>				
Balance at 1 January 2008	-	-	-	-
Depreciation for the period	2,846	2,224	-	5,070
Disposals	-	-	-	-
Balance at 30 June 2008	<u>2,846</u>	<u>2,224</u>	<u>-</u>	<u>5,070</u>
<b>Carrying amounts</b>				
At 1 January 2008	-	-	-	-
At 30 June 2008	<u>78,477</u>	<u>51,671</u>	<u>648,868</u>	<u>779,017</u>

### 4. Vessels under construction

The vessels under construction are capitalised at cost amounting to USD 65 million as of 30 June 2008. The cost element includes payments related to the construction of six vessels in Drydocks World, Dubai and down payments for securing delivery slots for certain equipments for the two optional vessels. The total value of vessels under construction is made up of below;

Vessel No	Type	USD
Vessel 1	SX 124	17,176,663
Vessel 2	SX 124	17,176,663
Vessel 3	SX 133	7,333,993
Vessel 4	SX 133	7,333,993
Vessel 5	SX 134	7,603,646
Vessel 6	SX 134	7,603,646
Vessel 7 (Option)	SX 134	335,634
Vessel 8 (Option)	SX 134	335,634
Total		<u>64,899,872</u>

## 5. Intangible assets

Intangible assets comprise the ERP system and industry specific applications company is developing through external software developers. It is the intention of the Company to accumulate the development cost as work in progress and to capitalise the software when ready for use in the business. Further breakdown of the intangible asset are as per below;

	<b>USD</b>
ERP System	122,671
KWIS2 Industry specific systems	<u>17,043</u>
Total	<u><b>139,713</b></u>

## 6. Restricted cash

### Short Term

Short term restricted cash represents the interest earning cash deposit in escrow account to secure payments to Ulstein Design AS as per agreements entered into by the company. The amount of such deposit made as of 30 June 2008 is NOK 111.12 million.

### Long Term

Long term restricted cash represents the cash margin deposits for bank guarantees in place for securing residence visa for Polarcus employees in Dubai. The amount of such deposit made as of 30 June 2008 is AED 2.7 Million.

## 7. Cash and Bank

Cash and cash equivalents include cash-in hand, deposits held at call with banks, other short-term highly liquid investments.

## 8. Share capital

The total issued share capital as of 30 June 2008 is USD 1,615,718.55 divided into 161,571,855 shares at a par value of USD 0.01. A total of USD 134,801,855 has been received against these shares as of 30 June 2008.

The Company's authorized share capital is USD 5,637,868.55 divided into 563,786,855 shares of par value USD 0.01. The board of directors has no restrictions on the authorized share capital, except the shares dedicated for warrants and stock option plan.

### Warrants

On 14 March 2008 the Group has issued 42.5 million warrants to the founding share holders, each giving right to subscribe for one new ordinary share. The warrants are exercisable at a price of USD 0.01 on or before 31 December 2012 and can only be exercised if all of the following conditions are met;

- Delivery of all six vessels to be built at Drydocks World Dubai on or before 1 April 2011
- Effective employment of all six vessels and
- The shares of the Company have been traded on an internationally recognized marketplace or stock exchange above a price per share of NOK 11.00 (or equivalent) for more than 30 days on average.

In the event of a change of control of the Company prior to the warrant expiration date, the shareholders may, regardless of whether or not the previous conditions are met, exercise the warrants at a price per share of;

- NOK 5.50 if the shares trade at an average price of less than NOK 11.00 for the 10 consecutive business days following such change of control or if the validity period of the offer is less than 10 trading days.

- USD 0.01 if the shares trade at an average share price of above NOK 11.00 for the 10 consecutive business days following such change in control.

As of 30 June 2008 no warrants have been exercised.

The warrants have been determined to be a liability because they fail to meet the requirements of fixed amount of cash for fixed amount of its own shares as required by IAS 32. Consequently, the fair value of the warrants at the issue date of USD 18.7 million has been recorded as a distribution to shareholders directly in equity. Subsequent to issuance, the liability is marked to market at each balance sheet date and the resulting change in fair value is recognized in the income statement within changes in fair value of financial instruments – net. In the period from issue date to 30 June 2008, a loss of USD 5.8 million has been recorded.

The fair value of warrants granted on 14 March 2008 was determined using a model consistent with Black-Scholes valuation model and assuming that all warrants will be exercised.

### Share Options

The Group has granted share options to executive management and other selected employees. As of 30 June 2008 the Group has issued 5.77 million options at an exercise price of USD 1 per share. The exercise of options is conditional to the employee completing three years of service (the vesting period). As of 30 June 2008 none of the options were exercisable.

## 9. Pension

A provision has been made towards the pension payable to the employees based on management’s policy under consideration. The pension is calculated based on one month basic salary for each year completed and prorated based on date of joining of each employee.

## 10. Employee salary and other benefits

Salaries and other benefits are comprised of the following;

	<b>USD</b>
Salaries	832,029
Sign on Bonus	590,556
Pension (provision)	75,003
Transport Allowance	64,001
House Allowance	314,923
Other personnel expenses	150,254
<b>Total</b>	<b><u>2,026,766</u></b>

## 11. Changes in fair value of financial instruments

The changes in fair value of financial instruments comprise the loss on revaluation of fair value of liabilities on warrants issued. Please also refer to notes on warrants in Note 8 *Share Capital*.

## 12. Foreign exchange gain and losses

The net foreign exchange gain or loss comprises the below elements;

Realised exchange gain	85,968
Realised exchange loss	(327,462)
Unrealised exchange gain	978,255
Unrealised exchange loss	(385,176)
<b>Net FX Gain/(loss)</b>	<b><u>351,585</u></b>

The realised part of the net FX gain or loss represents the effect of foreign currency payments and the unrealised part represents the effect of revaluation of foreign currency financial assets.

## 13. Income Taxes

Since the Group's main operations are in Cayman Islands and Dubai it is not liable to pay any taxes on its income. Hence no deferred or current tax assets/liabilities have been recognised in these condensed consolidated financial statements.

## 14. Important subsequent events

As of 14 July 2008 an additional USD 26,770,000 has been received against the shares issued. All shares issued as of 30 June 2008 have been fully paid up.

On 2 July 2008, Polarcus Limited completed a successful share offering with the issue of 42 million new shares at USD 1.20 per share. The shares were subscribed for by 24 institutional and professional investors. Polarcus Limited has more than 70 shareholders after the completion of the offering. The shares were listed on the Norwegian OTC on 8 July 2008 and the gross proceeds from the sale of new shares amounted to USD 50,400,000. The net proceeds of this offering were received on 16 July 2008.

Parallel to the share offering, Polarcus Limited made an offer for an issue of a subordinated convertible bond loan and a senior secured bond loan with following terms;

- Convertible USD 35,000,000 with a five year maturity at a fixed interest rate of 8.50% per annum payable semi-annually. The bond is convertible at USD 1.62.
- Senior Secured USD 55,000,000 with a five year maturity at a fixed interest rate of 13% per annum payable semi-annually. The vessels and its equipments to be owned by Polarcus 3 Ltd (a fully owned subsidiary of the Company) will be provided as security for this loan.

The agreements for these two loans were signed on 24 July 2008 and payment date for the proceeds is 30 July 2008.

