

Polarcus Limited
Q4 Report 2008



Polarcus Limited

Unaudited Fourth Quarter and Preliminary Full Year 2008 Report

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Interim Consolidated Income Statement

<i>(In USD)</i>	Notes	Q 4 2008	Year end 31-Dec-08
Revenues		-	-
Salaries and G&A			
Salaries and Other Employee benefits	13	(3,240,462)	(8,045,202)
Office Rent and other general expenses		(449,925)	(1,407,907)
Legal and Consulting		(266,235)	(714,197)
Business Promotion		(284,173)	(417,908)
Travel Expenses		(224,489)	(558,329)
Depreciation	3	(51,601)	(88,067)
Operating Loss		(4,516,885)	(11,231,610)
Financial Expenses			
Changes in fair value of financial instruments	14	13,623,760	7,781,936
Net FX Gain/(Loss)	15	(913,792)	(1,008,856)
Net Interest Income/(Expense)		1,276,490	2,070,319
Net Financial Expenses		13,986,458	8,843,399
Profit/(loss) for the period before Tax		9,469,573	(2,388,211)
Income Tax Expense	16	-	-
Profit/(loss) for the period		9,469,573	(2,388,211)

Interim Consolidated Balance sheet

<i>(In USD)</i>	Notes	31-Dec-08
ASSETS		
Non Current Assets		
Property, plant and equipment	3	1,064,629
Vessels under Construction	4	165,743,135
Intangible assets	5	584,172
Restricted cash - Long term	6	735,696
Total Non Current Assets		168,127,632
Current Assets		
Prepaid Expenses		420,340
Advance to Employees		386,297
Deposits		36,675
Restricted cash - Short term	6	83,582,779
Cash and Bank	7	105,253,909
Total Current Assets		189,680,000
TOTAL ASSETS		357,807,632
EQUITY and LIABILITIES		
Equity		
Issued Share Capital	8	2,035,719
Share Premium		188,641,420
Other Reserves		1,314,832
Retained Earnings/(Loss)		(2,388,211)
Total Equity		189,603,760
Non Current Liabilities		
13% Senior Secured Bonds	11	53,191,115
8.5% Convertible Bonds	10	29,131,763
Liability for warrants	8	10,934,452
Employee Pension accrual	9	27,666
Total Non Current Liabilities		93,284,996
Current Liabilities		
Interest Payable	12	4,708,551
Employee accruals and payables		295,850
Other Accrued Expenses		125,892
Accounts Payable		69,659,849
Other Payables		128,734
Total Current Liabilities		74,918,876
TOTAL EQUITY and LIABILITIES		357,807,632

Interim Consolidated Cash Flow Statement

<i>(In USD)</i>	31-Dec-08
Cash flows from Operating activities	
Profit/(loss) for the period before Tax	(2,388,211)
Adjustment for:	
Depreciation	88,067
Changes in fair value of financial instruments	(7,781,936)
Stock Options compensation provision	879,888
Working capital adjustments:	
Increase in Current Assets	(843,312)
Increase in trade and other payables and accruals	1,403,677
Net cash flows from Operating activities	(8,641,827)
Cash flows from Investing activities	
Increase in restricted cash	(84,318,475)
Hedged loss on revaluation of restricted cash (Other Reserves)	(4,589,433)
Purchases of property, plant and equipment	(92,855,711)
Payments to acquire intangible assets	(584,172)
Net cash flows used in Investing activities	(182,347,791)
Cash flows from Financing activities	
Proceeds from the issuance of ordinary shares	209,393,527
13% Senior Secured Bond Proceeds	53,075,000
8.5% Convertible Bond Proceeds	33,775,000
Net cash flows from Financing activities	296,243,527
Net increase/(decrease) in cash and cash equivalents	105,253,909
Cash and cash equivalents at the beginning of the period	-
Cash and cash equivalents at the end of the period	105,253,909

Interim Consolidated Statement of Changes in Equity

<i>(in USD)</i>	Number of Shares	Issued Share capital	Share Premium	Other Reserves	Retained Earnings /(Loss)	Total Equity
Balance at inception (1st January 2008)		-	-	-	-	-
Profit/(deficit) for the period		-	-	-	(2,388,211)	(2,388,211)
Issue of share capital						
17 December 2007 at USD 1.00 per share	1	0.01	1	-	-	1
9 February 2008 at USD 1.00 per share	49,999,999	500,000	49,499,999	-	-	49,999,999
18 March 2008 at USD 1.00 per share	3,786,855	37,869	3,748,986	-	-	3,786,855
19 May 2008 at USD 1.00 per share	105,000,000	1,050,000	103,950,000	-	-	105,000,000
29 June 2008 at USD 1.00 per share	2,785,000	27,850	2,757,150	-	-	2,785,000
2 July 2008 at USD 1.20 per share	42,000,000	420,000	49,980,000	-	-	50,400,000
Transaction costs on issue of shares		-	(2,578,328)	-	-	(2,578,328)
Issue of warrants to shareholders		-	(18,716,388)	-	-	(18,716,388)
Issue of convertible bonds		-	-	5,024,377	-	5,024,377
Employee stock options provision		-	-	879,888	-	879,888
Gain/Loss on FX Hedge		-	-	(4,589,433)	-	(4,589,433)
Balance as at 31 December 2008	203,571,855	2,035,719	188,641,420	1,314,832	(2,388,211)	189,603,760

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

Notes to the interim condensed consolidated financial statements

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, specializing in high-end towed streamer data acquisition from Pole to Pole.

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

The Group is building six ultra modern seismic vessels at Drydocks World Dubai LLC (“DWD”) of the X-BOW type from Ulstein Design AS.

Vessels 1 and 2 are scheduled to be in operation by Q3 and Q4 2009, respectively. The construction of these vessels is progressing well and the vessels are expected to be delivered within guided dates.

A potential delay beyond the guided delivery dates is expected for vessels 3 and 4 due to delays in production of drawings. No formal notification of such delays from DWD has yet been received, but Polarcus expects currently a delay of up to 2 months beyond guided dates. The situation is continuously monitored and the Company is together with Ulstein Design AS and DWD working hard in order to avoid further delays and potentially recoup some of the time already lost.

In respect of vessels 5 and 6, the building progress is ahead of schedule. The current expected operational dates for these vessels are therefore well within previously guided dates.

The Group will not have operating income until the first vessel becomes operational. This set of interim condensed consolidated financial statements reflects the progress of construction projects through the period from 1st January 2008 to 31st December 2008 and was authorized for issue by the Board of Directors on 4th February 2009.

Financing

As of 31 December 2008, the Group has arranged total financing of USD 542 million as follows;

Equity	USD 212 million
Senior Secured Bond loan	USD 55 million
Convertible Bond loan	USD 35 million
Sale Lease back (on first two vessels)	USD 180 million
Vendor financing on seismic equipment	USD 60 million

Also, a deferred payment arrangement has been established with Drydocks World Dubai LLC, the shipyard, in relation to the vessels 4 to 6, “Polarcus Selma”, “Polarcus Asima” and “Polarcus Alima”. Accordingly, certain payment instalments due under the original ship building contracts for these vessels will be deferred from the scheduled milestone payment dates to the contractual delivery dates of the vessel. The total value of the deferred instalments amounts to USD 99 million. The interest rate is LIBOR+3 per cent.

The Group is, according to the contracts with Drydocks World Dubai LLC and other vendors, committed to build six new vessels at a total cost of USD 876 million. In addition, the Group estimates to spend approximately USD 50 million on general and administrative expenses related with the construction projects. Thus, total capital expenditure is estimated to USD 926 million excluding the cost of financing.

The Group expects to generate further financing from various sources including equity and debt financing, and through operations of the vessels.

The going concern assumption

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

As per above, the Group has secured about sixty percent of total financing requirement for the construction project. Further financing is required in August 2009 to meet the Group’s payment obligations.

The deferred payment arrangement with Drydocks World Dubai LLC contributes positively to the Group’s short-term financial position and provides flexibility in timing to secure remaining project funding. The company is pursuing a number of alternatives in this regard. Consequently, the management believes that the going concern assumption is valid.

2. Summary of Significant Accounting Policies

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

Basis of preparation

These condensed consolidated financial statements for the period ended 31 December 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, except when deferred in equity as qualifying cash flow hedges.

Translation differences on non-monetary financial assets and liabilities such as equity instruments 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 and office equipments 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 is as follows:

Furniture and fixtures	5	Years
Vehicles	4	Years
IT Equipment	5	Years
Seismic equipments	3-30	Years
Maritime Equipments	5-30	Years
Vessels	30	Years

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 capitalised 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 vessels 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 vessels 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.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement or capitalised in accordance with the accounting policy for borrowing costs as mentioned below, over the period of the borrowings using effective interest method.

Interest payable on borrowings is classified as a current liability unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Convertible Bonds

Convertible bond loans are separated into debt and equity component based on the terms of the contract.

On issuance of the convertible bonds, the fair value of the liability excluding conversion option is measured at fair value of cash flows at inception and recorded in the non-current liabilities section of the balance sheet. It is amortised to the redemption value over the bond life, accruing interest at the effective rate. The rest of convertible bond issue proceeds are recorded as equity.

Transaction costs are apportioned between the debt and equity components of the convertible bonds based on the allocation of the proceeds of to the debt and equity components when the instruments are initially recognised.

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 qualifying assets, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on those assets. 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 amount of borrowing costs capitalised during a period does not exceed the amount of borrowing costs incurred during that period.

Intangible assets

Computer software

Costs associated with developing or maintaining computer software programs 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.

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, is 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.

Employee Benefits

Pension Plan

The Company has made a contribution to employee's pensions as of 31 December 2008. Contributions made are expensed as incurred.

Bonus Plans

The Group recognises a provision for bonuses where it is contractually obliged or where there is a past practice that has created a constructive obligation.

The Group recognises a liability and an expense for bonuses prescribed in the employment contracts.

Share-based compensation

The Group has an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted measured at grant date.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Derivative financial instruments and hedging

The Group uses derivative financial instruments to reduce risk exposure related to fluctuations in foreign currency rates and interest rates. Derivative instruments are recognized in the consolidated balance sheets at their fair values while realised and unrealised gains and losses attributable to derivative instruments that do not qualify for hedge accounting are recognised in the consolidated income statement as they arise. The Group applies either fair value or cash flow hedge accounting when a transaction meets the specified criteria. To qualify for hedge accounting, the instrument should be designated as a hedge at inception of a hedge relationship. At the time a financial instrument is designated as a hedge, the Group documents the relationship between the hedging instrument and the hedged item. Documentation includes risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. Accordingly, the Group formally assesses, both at the inception of the hedge and on an ongoing basis, whether the hedging derivatives have been "highly effective" in offsetting changes in the fair value or cash flows of the hedged item. Hedge accounting will be discontinued when (a) the Company determines that a derivative is not, or has ceased to be, highly effective as a hedge, (b) the derivative expires, or is sold, terminated or exercised, (c) the hedged item matures or is sold or repaid, or (d) a forecast transaction is no longer deemed highly probable.

Fair value hedges

The Group applies fair value hedge while hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk).

The change in fair value of the hedging instrument is recognized in the consolidated income statement. The change in fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognized in the consolidated income statement. When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in the consolidated income statement.

Cash flow hedges

Cash flow hedging is applied while hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

The effective portion of the gain or loss on the hedging instrument is recognized directly in equity, while any ineffective portion is recognized immediately in the consolidated income statement. Amounts recorded to equity are transferred to the consolidated income statement when the hedged transaction affects profit or loss. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken into equity are transferred to the initial carrying amount of the non-financial asset or liability.

3. Property, plant and equipment

	Furniture and fixtures	Office IT Equipment	Office Equipment under construction	Total
Costs				
Balance at 1 January 2008	-	-	-	-
Additions	528,697	482,372	141,627	1,152,696
Disposals	-	-	-	-
At 31 December 2008	528,697	482,372	141,627	1,152,696
Depreciation and impairment losses				
Balance at 1 January 2008	-	-	-	-
Depreciation for the period	40,798	47,269	-	88,067
Disposals	-	-	-	-
At 31 December 2008	40,798	47,269	-	88,067
Carrying amounts				
At 1 January 2008	-	-	-	-
At 31 December 2008	487,899	435,103	141,627	1,064,629

4. Vessels under construction

The vessels under construction are capitalized at cost amounting to USD 165 million as of 31 December 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 equipment for the two optional vessels. The total value of vessels under construction is made up of below;

Vessel Number	1	2	3	4	5	6	7	8	
Vessel Name	Polarcus Nadia	Polarcus Naila	Polarcus Samur	Polarcus Selma	Polarcus Asima	Polarcus Alima	(Option)	(Option)	Total (USD)
Vessel Type	SX 124	SX 124	SX 133	SX 133	SX 134	SX 134	SX 134	SX 134	
Values in USD									
Vessel and Equipments	40,740,233	33,383,201	22,499,488	22,567,065	16,679,858	16,675,754	3,449,719	3,449,719	159,445,037
Project Overheads	261,610	261,610	156,966	156,966	261,610	261,610	-	-	1,360,373
Project Financing costs	-	-	2,827,199	614,755	749,797	745,974	-	-	4,937,725
WIP value per Vessel	41,001,843	33,644,811	25,483,653	23,338,786	17,691,265	17,683,338	3,449,719	3,449,719	165,743,135

5. Intangible assets

Intangible assets comprise of the ERP system and an industry specific application, which the Group is developing through external software developers. Further breakdown of the intangible assets are as per below;

	USD
ERP System	296,107
Industry specific applications	288,065
Total	<u>584,172</u>

6. Restricted cash

Short Term

Short term restricted cash represents the interest earning cash deposits in;

- Letter of credit escrow account to secure payment to suppliers in NOK. The balance of such deposit as of 31 December 2008 is NOK 199 million (USD 28.3 million).
- Escrow account for temporary deposit of senior secured bond loan proceeds. Balance of such deposit including the interest earned as of 31 December 2008 is USD 55.3 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 31 December 2008 is AED 2.7 million (USD 0.74 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 31 December 2008 is USD 2,035,718.55 divided into 203,571,855 shares at a par value of USD 0.01. All issued shares have been paid in as of 31 December 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, share option plan and convertible bonds.

Warrants

On 14 March 2008 the Group has issued 42,500,000 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 an average price per share of NOK 11.00 (or equivalent) for more than 30 days.

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 31 December 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 or 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 recorded at fair value 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 31 December 2008, a gain of USD 7.8 million has been recorded.

The fair value of warrants granted on 14 March 2008 and at each subsequent balance sheet dates were 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 31st December 2008 the Group has issued 7,710,000 options. The exercise price of options is based on the weighted average price of the shares for the 30 days prior to acceptance of offer of employment. The options cliff vest three years after grant date and can be exercised up to five years after the grant date. The exercise of options is conditional to the employee completing three years of service (the vesting period)

and being an employee of the group at the exercise date. As of 31 December 2008 none of the options were exercisable.

The fair value of options granted is determined using the Black-Scholes valuation model. The total fair value of options granted up to 31 December 2008 is USD 3.94 million, assuming all options will be exercised. For the period ended 31 December 2008, the Group has expensed USD 0.88 million towards stock options granted as employee compensation.

9. Pension

A provision has been made towards the pension payable to 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 the date of joining of each employee.

10. Convertible Bonds

On 30 July 2008 the Group has issued 350 subordinated unsecured callable convertible bonds at a par value of USD 100,000 each totaling USD 35 million, bearing 8.5% interest per annum. The interest is payable semi-annually in arrears on 30 January and 30 July each year. The bonds mature five years from issue date at their nominal value of USD 35 million or can be converted into a total of 21,604,940 shares at the holders' option at a conversion price of USD 1.62 per share.

On the date of issue, the value of the convertible bonds has been split into debt (measured as the fair value of the debt) and equity components (measured as the residual difference between proceeds and the fair value the liability component). The liability component has been valued by discounting the expected future cash flows using a discount rate of 13% per annum.

On the issue date, the following mentioned values have been ascribed to the convertible bonds;

Fair Value of debt component	USD 28,750,623
Fair Value of equity component	USD 5,024,377

Amortization of issue cost up to 31 December 2008 (added to the debt component) amounts to USD 381,140. Total interest payable accrued for the same period is USD 1,239,584.

11. Senior secured Bonds

On 30 July 2008, the Group issued 550 senior secured callable bonds at par value of USD 100,000 each totaling USD 55 million, bearing 13% interest per annum. The interest is payable semi-annually in arrears on 30 January and 30 July each year. The bonds will mature five years from the date of issue at their nominal value.

The loan including the accrued interest and expenses are secured by the vessel to be owned by Polarcus 3 Limited, a 100% owned subsidiary of Polarcus Limited.

On the date of issue, net proceeds of USD 53,075,000 have been booked under non-current liabilities. Issue costs amortized up to 31 December 2008 is USD 116,115. Total interest payable accrued for the same period amounts to USD 2,979,167.

12. Interest Payable

Interest payable under current liabilities includes;

	USD
Interest accrued on convertible bonds (see note number 10)	1,239,584
Interest accrued on senior secured bonds (see note number 11)	2,979,167
Interest accrued on deferred payments to the shipyard	<u>489,800</u>
Total	<u>4,708,551</u>

13. Employee salary and other benefits

Salaries and other benefits are comprised of the following;

	USD
Salaries	3,936,689
Board Remuneration	275,000
Loyalty Bonus (accrual)	180,930
Other Employee benefits	3,367,401
Pension	318,705
Stock Options expense	879,888
Less;	
Project related personnel cost capitalized	<u>(913,411)</u>
Total	<u>8,045,202</u>

14. Changes in fair value of financial instruments

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

15. Foreign exchange gain and losses

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

	USD
Realized exchange gain	2,789,041
Realized exchange loss	(1,280,881)
Unrealized exchange gain	1,276,744
Unrealized exchange loss	<u>(3,793,760)</u>
Net FX Gain/(loss)	<u>(1,008,856)</u>

The realized FX gain or loss represents the effect of foreign currency payments made and the unrealized FX gain or loss represents the effect of revaluation of foreign currency financial assets other than those treated as cash flow hedge instruments.

16. 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 recognized in these condensed consolidated financial statements.

