



Polarcus Limited

Unaudited Interim Condensed Consolidated Financial Statements
30 June 2009

- Interim Consolidated Income Statement
- Interim Consolidated Balance Sheet
- Interim Consolidated Cash Flow Statement
- Interim Consolidated Statement of Changes in Equity

Interim Consolidated Income Statement

<i>(In USD)</i>	Notes	Quarter ended	Six months ended		Year ended
		30-Jun-09 (Unaudited)	30-Jun-09 (Unaudited)	30-Jun-08 (Unaudited)	31-Dec-08 (Audited)
Revenues		-	-	-	-
Salaries and G&A					
Salaries and Other Employee benefits	11	(3,309,092)	(6,454,665)	(2,026,766)	(8,045,202)
Office Rent and other general expenses		(549,153)	(1,172,491)	(512,722)	(1,407,907)
Legal and Consulting		(331,481)	(470,222)	(241,283)	(714,197)
Business Promotion		(194,473)	(256,799)	(57,338)	(417,908)
Travel Expenses		(259,309)	(434,753)	(200,799)	(558,329)
Depreciation		(77,923)	(129,941)	(5,070)	(88,067)
Impairment of vessels under construction	4, 16	(5,148,203)	(5,148,203)	-	-
Operating Loss		(9,869,634)	(14,067,074)	(3,043,978)	(11,231,610)
Financial Expenses					
Finance costs	12	(674,547)	(1,163,058)	(6,483,389)	(5,074,641)
Finance income	13	1,041,284	2,501,948	1,605,850	13,918,040
Net Financial Expenses		366,737	1,338,890	(4,877,539)	8,843,399
Profit/(loss) for the period before Tax		(9,502,896)	(12,728,184)	(7,921,517)	(2,388,211)
Income Tax Expense	14	-	-	-	-
Profit/(loss) for the period		(9,502,896)	(12,728,184)	(7,921,517)	(2,388,211)
Loss per share for loss attributable to the equity holders during the period					
- Basic		(0.047)	(0.063)	(0.119)	(0.018)
- Diluted		(0.047)	(0.063)	(0.119)	(0.060)

Interim Consolidated Statement of Comprehensive income

	Quarter ended	Six months ended		Year ended
	30-Jun-09 (Unaudited)	30-Jun-09 (Unaudited)	30-Jun-08 (Unaudited)	31-Dec-08 (Audited)
<i>(In USD)</i>				
Profit/(loss) for the period	(9,502,896)	(12,728,184)	(7,921,517)	(2,388,211)
Net gain/(loss) on cash flow hedges	307,021	7,161,584	-	(4,589,433)
Other comprehensive income/(loss) for the period	307,021	7,161,584	-	(4,589,433)
Total comprehensive income/(loss) for the period attributable to equity shareholders	(9,195,875)	(5,566,600)	(7,921,517)	(6,977,644)

Interim Consolidated Balance sheet

<i>(In USD)</i>	Notes	30-Jun-09 (Unaudited)	30-Jun-08 (Unaudited)	31-Dec-08 (Audited)
ASSETS				
Non Current Assets				
Property, plant and equipment	3	954,186	779,017	1,064,629
Vessels under Construction	4	349,319,745	64,899,872	180,080,689
Intangible assets	5	692,931	139,713	584,172
Restricted cash - Long term	6	1,089,726	735,696	735,696
Total Non Current Assets		352,056,588	66,554,298	182,465,186
Current Assets				
Prepaid Expenses		612,388	243,076	420,340
Advance to Employees		873,205	134,304	386,297
Deposits		72,299	27,416	36,675
Restricted cash - Short term	6	33,238,530	22,020,836	83,582,779
Cash and Bank	7	50,848,865	62,907,632	105,253,909
Total Current Assets		85,645,288	85,333,264	189,680,000
TOTAL ASSETS		437,701,876	151,887,562	372,145,186
EQUITY and LIABILITIES				
Equity				
Issued Share Capital	8	2,035,719	1,348,019	2,035,719
Share Premium		188,641,420	114,123,377	188,641,420
Other Reserves		9,136,002	-	1,314,832
Retained Earnings/(Loss)		(15,116,395)	(7,921,517)	(2,388,211)
Total Equity		184,696,746	107,549,879	189,603,760
Non Current Liabilities				
13% Senior Secured Bonds		53,338,579	-	53,191,115
8.5% Convertible Bonds		29,614,916	-	29,131,763
Sale Lease-back Fund	9	81,116,961	-	-
Liability for warrants	8	10,403,553	24,487,139	10,934,452
Employee Pension accrual	8	367,403	75,003	27,666
Total Non Current Liabilities		174,841,412	24,562,142	93,284,996
Current Liabilities				
Interest Payable	10	5,778,582	-	4,708,551
Employee accruals and payables		1,595,250	30,498	295,850
Other Accrued Expenses		163,455	-	125,892
Accounts Payable		70,626,431	19,690,547	83,997,403
Other Payables		-	54,496	128,734
Total Current Liabilities		78,163,718	19,775,540	89,256,430
TOTAL EQUITY and LIABILITIES		437,701,876	151,887,562	372,145,186

Interim Consolidated Cash Flow Statement

<i>(In USD)</i>	Quarter ended	Six months ended		Year ended
	30-Jun-09 (Unaudited)	30-Jun-09 (Unaudited)	30-Jun-08 (Unaudited)	31-Dec-08 (Audited)
Cash flows from Operating activities				
Profit/(loss) for the period before Tax	(9,502,896)	(12,728,184)	(7,921,517)	(2,388,211)
Adjustment for:				
Depreciation	77,923	129,941	5,070	88,067
Impairment of vessels under construction	5,148,203	5,148,203	-	-
Changes in fair value of financial instruments	(79,674)	(530,899)	5,770,751	(7,781,936)
Stock Options compensation provision	334,200	659,586	-	879,888
Interest income	(117,228)	(334,079)	(541,627)	(2,070,318)
Working capital adjustments:				
Increase in Current Assets	(182,406)	(714,580)	(404,796)	(843,312)
Increase in trade and other payables and accruals	6,506,871	7,056,226	481,412	1,403,677
Net cash flows from Operating activities	2,184,992	(1,313,786)	(2,610,707)	(10,712,145)
Cash flows from Investing activities				
Increase in restricted cash	26,643,100	49,990,219	(22,756,532)	(84,318,475)
Purchases of property, plant and equipment	(86,158,103)	(191,585,562)	(46,314,827)	(93,123,792)
Payments to acquire intangible assets	(51,458)	(108,759)	(139,713)	(584,172)
Interest income	-	220	-	268,081
Net cash flows used in Investing activities	(59,566,460)	(141,703,882)	(69,211,073)	(177,758,358)
Cash flows from Financing activities				
Proceeds from the issuance of ordinary shares	-	-	134,187,784	211,971,855
Transaction costs on issue of shares	-	-	-	(2,578,328)
13% Senior Secured Bond Proceeds	-	-	-	53,075,000
8.5% Convertible Bond Proceeds	-	-	-	33,775,000
Receipt from Sale lease-back fund	35,172,389	81,116,961	-	-
Interest income	117,228	334,079	541,627	2,070,318
Net cash flows from Financing activities	35,289,617	81,451,040	134,729,411	298,313,845
Hedged gain/(loss) on revaluation of restricted cash (Other Reserves)	307,022	7,161,584	-	(4,589,433)
Net increase/(decrease) in cash and cash equivalents	(21,784,829)	(54,405,044)	62,907,632	105,253,909
Cash and cash equivalents at the beginning of the period	72,633,694	105,253,909	-	-
Cash and cash equivalents at the end of the period	50,848,865	50,848,865	62,907,632	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 1 January 2009	203,571,855	2,035,719	188,641,420	1,314,832	(2,388,211)	189,603,760
Net gain in cash flow hedge		-	-	7,161,584	-	7,161,584
Net income and expense for 1H 2009 directly recognised in equity		-	-	7,161,584	-	7,161,584
Loss for the period		-	-	-	(12,728,184)	(12,728,184)
Total income and expense for 1H 2009		-	-	7,161,584	(12,728,184)	(5,566,600)
Employee stock options provision		-	-	659,586	-	659,586
Balance as at 30 June 2009	203,571,855	2,035,719	188,641,420	9,136,002	(15,116,395)	184,696,746

Notes to the consolidated financial statements

1 General Information

The interim condensed consolidated financial statements of Polarcus Limited (the “Company”) and its subsidiaries (together the “Group”) for the half year ended 30 June 2009 were authorized for issue in accordance with a resolution of the directors on 3 August 2009.

Polarcus Limited is a pure play marine geophysical company with a pioneering environmental agenda, specialising in high-end towed streamer data acquisition from Pole-to-Pole.

Polarcus Limited was incorporated on 17 December 2007 in the Cayman Islands with its registered office at Walker House, 87 Mary Street, George Town, Grand Cayman, Cayman Islands. The Group has its main administration office in Dubai, United Arab Emirates which is the domicile of the Group.

The Group is building ultra-modern seismic vessels at Drydocks World Dubai LLC (“DWD”) of the X-BOW type from Ulstein Design AS which Polarcus will operate from delivery and onwards.

1.1 Financing

The Group is, pursuant to the contracts with DWD and other vendors, committed to building six new vessels at a total cost of approximately USD 833 million. In addition, the Group estimates that it will spend approximately USD 35 million on general and administrative expenses related to the construction projects. Total expenditure is estimated at USD 868 million excluding the cost of financing.

As of 30 June 2009, the Group has arranged total financing of USD 542 million, as follows:

Equity	USD 212 million
Senior secured bond	USD 55 million
Convertible bond	USD 35 million
Sale & lease back (on first two vessels)	USD 180 million
Vendor financing	USD 60 million

A deferred payment arrangement has been entered into with DWD in relation to vessels 4 to 6, “Polarcus Selma”, “Polarcus Asima” and “Polarcus Alima”. Under this arrangement 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.

Accordingly, additional financial resources of approximately USD 326 million excluding cost of finance and working capital are required. With reference to Note 16, Subsequent Events, the Group has entered into a sales arrangement for 2 of its vessel-owning companies, thus bringing the remaining financing requirement down to USD 170 million. The Group expects to generate further financing from various sources, including equity and debt financing, and through operation of the vessels.

1.2 The going concern assumption

These interim condensed consolidated financial statements are presented based on the going concern assumption under International Financial Reporting Standards.

Because of the extremely difficult financial markets the Group has found it necessary to sell vessel owning entities Polarcus 4 and Polarcus 6 after the balance date, see further description in note 16, Subsequent Events. Because of this transaction the Group has lowered its total financial requirement to approximately USD 170 million including working capital. The Company is pursuing a number of alternatives in respect of this additional funding and is making progress on a plan to raise the remaining capital required in debt and equity. Consequently, the management believes that the going concern assumption is valid.

2 Significant Accounting Policies

These interim condensed consolidated financial statements for the half year ended 30 June 2009 have been prepared in accordance with IAS 34 Interim Financial Reporting. They do not include all the information required for full annual financial statements and should be read in conjunction with the audited consolidated financial statements of the Group for the year ended 31 December 2008.

The accounting policies applied by the Group in these interim condensed consolidated financial statements are consistent with those applied in the audited consolidated financial statements for the year ended 31 December 2008 unless otherwise stated. Refer to Note 2 *Summary of Significant Accounting Policies* to the Consolidated Financial Statements in the 2008 Annual report for information on the company's significant accounting policies.

2.1 New policies and standards adopted in 2009

Amendment to IAS 1 affect the presentation of owner changes in equity and of comprehensive income and does not impact on recognition and measurement as required by any other IFRS standards. The Group has presented a Consolidated Statement of Comprehensive Income separately, which includes all non-owner changes in shareholders' equity.

3 Property, plant and equipment

	Furniture and fixtures	Office IT Equipments	Office Equipments under construction	Total
Costs				
Balance at 1 January 2009	528,697	482,372	141,627	1,152,696
Additions	9,706	128,220	-	137,926
Disposals	-	-	141,627	141,627
Balance at 30 June 2009	538,403	610,592	-	1,148,995
Depreciation and impairment losses				
Balance at 1 January 2009	40,798	47,269	-	88,067
Depreciation for the period	53,112	53,630	-	106,742
Disposals	-	-	-	-
Balance at 30 June 2009	93,910	100,899	-	194,809
Carrying amounts				
At 1 January 2009	487,899	435,103	141,627	1,064,629
At 30 June 2009	444,493	509,693	-	954,186

4 Vessels under construction

The vessels under construction are capitalized at cost amounting to USD 349 million as of 30 June 2009. The total amount capitalised as vessels under construction during the half year ended 30 June 2009 is USD 169 million net of impairment loss of USD 5 million accrued on the book value of vessels Polarcus Selma and Polarcus Alima. The total value of vessels under construction as of 30 June 2009 is made up as follows;

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-1)	(Option-2)	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	90,625,491	74,056,269	42,273,031	41,223,004	46,668,914	34,737,951	3,769,273	3,769,273	337,123,206
Project Overheads	1,448,116	1,214,395	794,642	798,995	730,936	657,006	-	-	5,644,089
Project Financing costs	-	-	6,549,445	1,577,985	1,820,515	1,752,708	-	-	11,700,654
WIP value per Vessel	92,073,607	75,270,664	49,617,117	43,599,983	49,220,365	37,147,665	3,769,273	3,769,273	354,467,948
Less;									
Impairment loss accrued	-	-	-	(2,152,915)	-	(2,995,288)	-	-	(5,148,203)
Net book value	92,073,607	75,270,664	49,617,117	41,447,069	49,220,365	34,152,377	3,769,273	3,769,273	349,319,745

The Group has recorded an impairment loss of USD 5.1 million relating to prepaid seismic equipment for vessels 4 and 6 that will be cancelled as a result of sales of the vessels, see further description in note 16, Subsequent Events.

Vessel 3, Polarcus Samur is pledged as security for the senior secured bond loan and interest accrued thereon. Vessel 1 and 2 are subject to a sale and lease-back financing arrangement. The details of both these financing arrangements are available in the audited consolidated financial statements for the year ended 31 December 2008.

Commitments outstanding under vessel construction contracts as of 30 June 2009 are as per 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-1)	(Option-2)	Total
Vessel Type	SX 124	SX 124	SX 133	SX 133	SX 134	SX 134	SX 134	SX 134	
Total commitments	127,856,972	129,518,923	105,863,780	104,851,066	138,204,642	138,465,449	14,871,586	14,151,058	773,783,476
Total spent	90,625,491	74,056,269	42,273,031	41,223,004	46,668,914	34,737,951	3,769,273	3,769,273	337,123,206
Outstanding commitments	37,231,481	55,462,654	63,590,749	63,628,062	91,535,728	103,727,498	11,102,313	10,381,785	436,660,270

All of these commitments are due within two years from the reporting date.

5 Intangible assets

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

	<u>USD</u>
ERP System	290,438
Industry specific applications	402,493
	<u>692,931</u>

6 Restricted cash

6.1 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 30 June 2009 is NOK 7.25 million (USD 1.13 million).
- Escrow account for temporary deposit of senior secured bond loan proceeds. Balance of such deposit including the interest earned as of 30 June 2009 is USD 32.08 million.

6.2 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 2009 is AED 4 million (USD 1.09 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, share options and warrants

The total issued share capital of the Company as of 30 June 2009 is USD 2,035,718.55 divided into 203,571,855 shares at a par value of USD 0.01. All shares have been issued and fully paid in the year 2008. There have been no further issue of shares during the half year ended 30 June 2009.

The Group has issued 42,500,000 warrants to the founding share holders, each giving the right to subscribe for one new ordinary share. All the warrants were issued on 14 March 2008 and no further warrants were issued during the half year ended 30 June 2009. 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. A gain of USD 530,899 has been recorded during the half year ended 30 June 2009. As of 30 June 2009 no warrants have been exercised.

The Group has granted share options to executive management and other selected employees. As of 30 June 2009 the Group has issued 8,710,000 options of which 1,050,000 were issued during 1H 2009. The total fair value of options granted up to 30 June 2009 is USD 4.06 million calculated using Black-Scholes model, assuming all options will be exercised. In 1H 2009, the Group has expensed USD 659,586 towards stock options granted as employee compensation. As of 30 June 2009 none of the options were exercisable.

9 Advance from Sale Lease-back

The Group has a sale and lease-back financing arrangement for its first two vessels, Polarcus Nadia and Polarcus Naila. The total cash inflow from this arrangement will be USD 180 million (i.e. USD 90 million per vessel).

Under the terms of this arrangement, GSH2 Seismic Carrier I AS (the 'lessor') will pay the purchase price of USD 90 million per vessel to the Group in instalments throughout the vessel construction period, subject to the agreed payment schedule and conditions attached thereto. Accordingly, in 1H 2009 a total of USD 81.12 million has been received from the lessor as per below;

Advance payment received towards the Purchase price of;	USD
Polarcus Nadia	41,468,680
Polarcus Naila	39,648,281
	81,116,961

This advance has been disclosed as a current liability in the balance sheet for the half year ended 30 June 2009.

10 Interest payable

Interest payable as of 30 June 2009 under current liabilities includes;

	USD
Interest accrued on senior secured bonds	2,979,169
Interest accrued on convertible bonds	1,239,585
Interest accrued on deferred payments to DWD	1,559,828
	5,778,582

11 Employee salary and other benefits

Salaries and other benefits are comprised of the following;

	USD
Salaries	4,329,031
Board Remuneration	229,998
Bonus expenses (accrual)	1,307,763
Other Employee benefits	2,610,722
Pension	369,813
Stock Options expense	659,586
Less;	
Project related personnel cost capitalised	(3,052,248)
Total	6,454,665

12 Finance costs

	USD
Interest accrued on senior secured bond	3,095,282
Interest accrued on convertible bond	1,620,727
Interest accrued on deferred payments to the shipyard	1,559,828
Interest expenses capitalised to vessels under construction	(6,275,837)
Net interest expenses	-
Realised currency exchange loss	1,014,440
Unrealised currency exchange loss	148,618
	1,163,058

13 Finance income

	USD
Interest income from deposit with banks	334,079
Realised exchange gain	442,305
Unrealised exchange gain	1,194,665
Financial liabilities measured at fair value through profit and loss	530,899
	2,501,948

The changes in fair value of financial instruments comprise the gain on revaluation of fair value of liabilities on warrants issued. Also refer to Note 8 *Share capital, share options and warrants*.

14 Income taxes

Since the Group's main operations are in the Cayman Islands and United Arab Emirates, it is not liable to pay any taxes on its income. No deferred or current tax assets or liabilities have been recognised in these consolidated financial statements.

15 Related-party transactions

15.1 Subsidiaries

This set of interim condensed consolidated financial statements includes the financial statements of Polarcus Limited and the subsidiaries listed in following table;

Name of the Subsidiary	Country of Incorporation	Equity interest as at 30 June 2009
Polarcus DMCC	UAE	100%
Polarcus 1	Cayman Islands	100%
Polarcus 2	Cayman Islands	100%
Polarcus 3	Cayman Islands	100%
Polarcus 4	Cayman Islands	100%
Polarcus 5	Cayman Islands	100%
Polarcus 6	Cayman Islands	100%
Polarcus Seismic Limited	Cayman Islands	100%
Polarcus AS	Norway	100%

15.2 Transactions with related parties

DWD holds 36.84% of the paid-in share capital of the Company as of 30 June 2009. Below is a summary of major transactions between DWD and the Group during the half year ended 30 June 2009;

	<u>USD</u>
Payments made in the year under ship building contracts	58,645,633
Amount due at the end of reporting period under accounts payables:	
- within 12 months period from 30 June 2009	1,675,505
- after 12 months period from 30 June 2009	53,570,293
	<u>55,245,798</u>
Accrued finance cost at the end of reporting period on deferred payments	<u>1,559,828</u>

Also refer to Note 16 *Subsequent Events*

16 Subsequent Events

On 30 July 2009 the Group entered into a sales agreement of the two vessel owning entities Polarcus 4, owning the rights to “Polarcus Selma”, and Polarcus 6, owning the rights to “Polarcus Alima”. They are sold to Zickerman Holding Limited and Zickerman Group Limited (together “ZL”), the founders of Polarcus Limited, for total consideration of USD 1 each. ZL will after the transaction carry all financial obligations related to Polarcus 4 and Polarcus 6. ZL will complete the maritime work on “Polarcus Selma” and “Polarcus Alima” and include all fixed equipment that is required in order to qualify each vessel as a fully prepared seismic vessel.

Polarcus Limited has an option to repurchase each of “Polarcus Selma” and “Polarcus Alima” from ZL at a price equal to the total cost of completing each vessel for ZL. The options will be exercisable until delivery of each vessel, and subsequently will be replaced with a right of first refusal to purchase each of the vessels. Polarcus has already invested approximately USD 46 million in the two vessels which would be considered impaired if Polarcus does not exercise the options. As part of the purchase option agreement, Polarcus Limited will continue to supervise the ongoing construction of the vessels and liaise with the suppliers of equipment related to the vessels.

The transaction will significantly reduce the capital needs of the Polarcus Group. An estimated amount of USD 170 million is needed to complete the four vessels and meet working capital needs. Polarcus is actively pursuing a number of alternatives in respect of the remaining financing requirements.

The current expectation of management is that the company will get in a position to exercise the option to buy the vessel back for its own use or sale to other parties, and the carrying value of the vessels under construction reflects this expectation. If the vessels are bought back for the company's own use, additional financing will be required. If the vessels are bought back for a potential re-sale to others, additional impairment charges might be required.

