Polarcus Limited

THIRD QUARTER REPORT 2010

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SOLID OPERATIONAL PERFORMANCE

HIGHLIGHTS

- EBITDA of USD 8.5 million, driven by solid vessel performance and cost effectiveness
- Growing operational track record
- Fleet backlog secured for the next five months (at 2 November 2010)
- *Polarcus Asima* delivered in August and commenced production in September
- *Polarcus Samur* upgraded from six to eight streamers
- *Polarcus Alima* financed and reacquired, to be delivered in Q1 2011

Solid operational performance throughout the quarter again resulted in a profitable operating margin. Delivering on projects and exceeding client expectations, combined with stronger demand for seismic services, also contributed to an increased backlog during and after the quarter. A total of seventeen vessel months has been added to the backlog, corresponding to a total fleet visibility of more than five months.

Other important steps were taken towards further strengthening Polarcus' competitive position and becoming a new seismic major. *Polarcus Asima*, the third and most sophisticated 3D seismic vessel to join the Polarcus fleet, was delivered in August. *Polarcus Samur* is being upgraded from six- to eight-streamer capacity and, in October 2010, Polarcus successfully secured new financing of USD 195 million to enable the reacquisition and completion of the *Polarcus Alima*. This vessel is scheduled for delivery from the shipyard in Q1 2011. The new financing comprised a USD 60 million equity issue and a USD 80 million 5 year bond issue, both of which were significantly oversubscribed, and a USD 55 million bank loan facility.

KEY FINANCIALS

Revenues amounted to USD 30.8 million for Q3 and USD 66.4 million for the first nine months of 2010. Vessel operating expenses were USD 16.0 million for Q3 and USD 39.7 million for the first nine months. Group EBITDA was USD 8.5 million in Q3 and EBIT was USD 2.3 million in the same period. The Q3 loss was USD 5.1 million.

Key financial figures Amounts in USD thousands	**Quarter ended September 30**		**Nine months ended September 30**		**Year ended December 31**
	2010 (Unaudited)	**2009** (Unaudited)	**2010** (Unaudited)	**2009** (Unaudited)	**2009** (Audited)
Revenues	30,806	Nil	66,408	Nil	Nil
Vessel operating expenses	16,006	Nil	39,658	Nil	805
EBITDA	8,481	-4,922	9,303	-13,711	-19,358
EBIT excluding impairment charges (1)	2,320	-5,005	-4,253	-13,924	-20,076
Net Financial Income/(Expense)	-7,435	4,536	-19,005	5,875	6,190
Profit/(Loss) for the period	-5,115	-469	-23,259	-13,197	-19,034
Basic earnings per share ($ per share)	-0.019	-0.004	-0.088	-0.128	-0.089
Net cash from operating activities	-4,090	-27,542	-15,828	-28,856	-21,547
Total Assets (period end)	703,155	599,184	703,155	599,184	638,579
Total Liabilities (period end)	430,249	295,837	430,249	295,837	343,899
Total Equity (period end)	272,906	303,347	272,906	303,347	294,680
Equity Ratio	39%	51%	39%	51%	46%

(1) Impairment charges of USD 5.1 million in Q3 2009 as a result of the restructuring of Polarcus Selma and Polarcus Alima.

OPERATIONS

Revenues were USD 30.8 million for Q3 and USD 66.4 million for the first nine months.

Vessel operating expenses amounted to USD 16.0 million for Q3 and USD 39.7 million for the first nine months of 2010. Good cost control and new vessels combined with low-cost transits contributed positively to continued low vessel operating expenses in Q3.

Sales, general and administrative costs were USD 6.3 million in Q3 and depreciation came to USD 6.2 million for the same period.

Polarcus Nadia

Excellent performance continued throughout the quarter for TGS in the UK sector of the North Sea, with *Polarcus Nadia* towing in a 10 x 5100m x 50m HD configuration. Total technical downtime was less than 2.5% for the quarter, which is well below industry standards. Production continues and the survey is expected to be completed in early November.

Polarcus Naila

Polarcus Naila completed the 4D baseline survey for Gassnova Norway in a 10 x 5100m x 100m configuration on 4 July, ahead of schedule. An at-sea mobilisation and short transit with streamers in the water followed to the UK sector for Nexen, which was also in 10 x 5100m x 100m mode. *Polarcus Naila* then transited north of the Arctic Circle to the Barents Sea to acquire Polarcus' first Arctic survey. Continuing with the same streamer configuration avoided the need to reconfigure and permitted an extremely fast deployment time of about 26 hours for the 10-streamer spread.

Following this OMV survey in the Barents Sea, *Polarcus Naila* had secured a second Gassnova survey and mobilisation commenced. Owing to a conflict with the fishing season, however, it was eventually agreed that the survey should be delayed until 2011. During the waiting period, *Polarcus Naila* was on charter and took advantage of this time to sail to Amsterdam for warranty docking at a shipyard.

With the work completed on 12 September, *Polarcus Naila* sailed to Nigeria to commence a survey for Omel, arriving in Lagos on 28 September and departing for the survey in less than 24 hours. In the later stages of the survey an incident occurred causing some streamer damage and resulting in two weeks interruption. The issue has been resolved and the vessel is back in production.

Polarcus Asima

Polarcus Asima left her builders yard in Dubai, UAE on 31 August. The transit to Istanbul to mobilise for a Black Sea project was efficient, and *Polarcus Asima* commenced mobilisation on 22 September. Polarcus first 12 streamer deployment was efficiently conducted including the shakedown, in only eight days.

FINANCIALS

Financial expenses in Q3 totalled USD 7.4 million. Financial costs of USD 8.2 million were partly offset by a financial income of USD 0.9 million. Changes to the fair value of financial instruments resulted in a cost of USD 0.2 million. The fair value change is a non-cash item and relates to the loss on revaluation of the liability for warrants.

CAPITAL INVESTMENTS

In October 2010, Polarcus exercised the option of repurchasing Polarcus Alima after raising USD 195 million in new capital.

The total cash requirement for completing the five vessels is estimated at USD 952 million of which expenditures for seismic vessels and equipment is estimated at a total of USD 751 million and other expenditures at USD 201 million. Other expenditures include financing costs, costs related to options with the yard to build vessels 7 and 8, SG&A, working capital and buyback option costs for a remaining vessel. As of 2 November 2010, the Group has secured the following financing totalling USD 952 million:

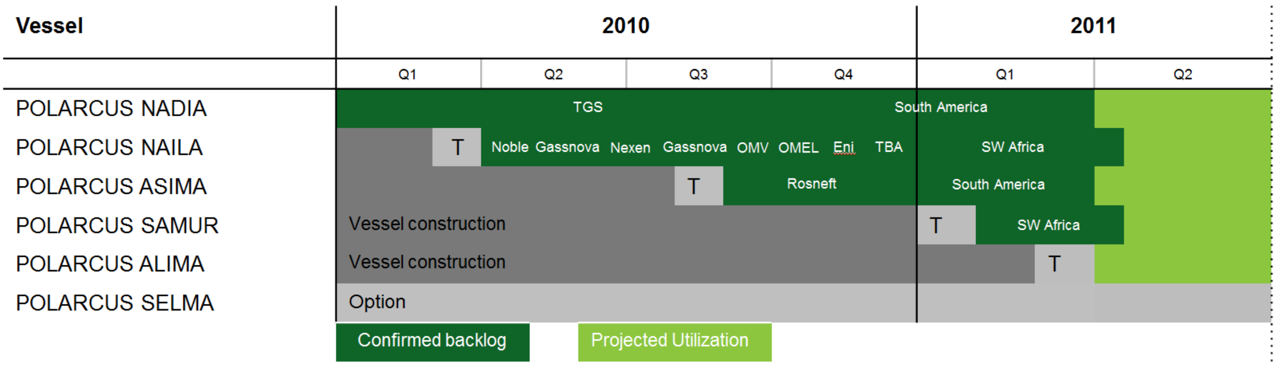
Equity	USD 397 million
Senior secured bond	USD 55 million
Convertible bond	USD 35 million
Sale & lease-back (on first two vessels)	USD 180 million
Vendor financing	USD 70 million
Loan facility	USD 80 million
Loan facility	USD 55 million
2nd lien bond	USD 80 million

Accordingly, the Group has secured the financing required to complete the construction of its five vessels including the working capital requirements of the Group. If the Group decided to exercise the buyback option for its sixth vessel, the 8 streamer Polarcus Selma, additional capital expenditure financing of approximately USD 100 million would be required.

UTILISATION

Utilisation Q3 2010 - *Vessel statistics for Q3 2010 include Polarcus Nadia and Polarcus Naila, and from 31 August Polarcus Asima*	**Total fleet**
Exclusive seismic contracts	79%
Multi-client seismic contracts	0%
Transit	17%
Yard stays and shakedown	4%

BACKLOG



The increase in seismic survey activity measured by the number of invitations to tender continued in Q3. Growing industry recognition of Polarcus' capabilities coupled with a continuing robust demand for high-end seismic services has enabled the Company to increase backlog by a total of seventeen vessel months. As a consequence 100 per cent of the Company's fleet capacity is fully booked through Q1 2011.

The company believes that a stable oil price is likely to support a continued strong demand for seismic contract work in general, and specifically for work in new frontier areas. This, in combination with the expanded Polarcus technology offering (see below), means that the company is confident in its ability to secure backlog for the vessels. The following new acquisition programmes have recently been announced:

26/07 Polarcus secured 100% fleet backlog for Q3 on confirmation of second Gassnova 3D project

04/08 Polarcus received letter of intent from Omel

17/09 Rosneft expanded Polarcus/DMNG project award in Black Sea OSE

04/10 Polarcus received letter of intent for 3D seismic acquisition

07/10 Polarcus received letter of intent for large 3D seismic acquisition programme

12/10 Polarcus received letter of intent for 3D seismic acquisition

20/10 Polarcus secured 100% Q4 backlog with letter of intent from Eni for 4D seismic acquisition

29/10 Polarcus secured 100% contract backlog through Q1 2011

TECHNOLOGY

First Pass™ – Cost effective 3D acquisition

During Q3, the Polarcus business development team identified a market opportunity through discussions with certain oil and gas companies for an exploration 3D solution targeted specifically at large frontier blocks. Such acreage typically requires the licensee to undertake an initial exploration study prior to a more thorough appraisal or partial relinquishment, or to support an equity participation plan (farm-in/farm-out agreement). Traditional approaches such as year-on-year expansion of regional 2D surveys or localised small-footprint 3D surveys often fail to provide the data attributes or area coverage necessary for such effective acreage evaluation.

Responding to this opportunity, the Polarcus in-house geophysical team has developed an operational technique designed to leverage the exceptionally high bollard pull of *Polarcus Samur*, the company's new eight-streamer vessel due for delivery in Q4 2010. Termed First Pass™ 3D by Polarcus, this technique uses an atypical lateral separation of 200m between streamer cables to double the operational efficiency of this particular class of seismic vessel, an option not attainable by equivalently sized competing vessels. This enables Polarcus to offer a high-quality exploration 3D solution at a reasonable price point. Subsequent concept testing conducted in conjunction with an oil and gas company sponsor and with the assistance of Polarcus' data processing partner, GX Technologies, has proven the technical and commercial efficiency of this technique.

Polarcus proposes to bring this offering to market in the first half of 2011 with the launch of *Polarcus Samur*. The company anticipates that, in addition to being very interesting to the African and Asia-Pacific markets, First Pass™ 3D – coupled with the vessel's unique and comprehensive Arctic-ready features – will be of special interest to companies exploring the Arctic frontier territories of Greenland, Canada and Alaska as well as the recently resolved border area between Norway and Russia.

Streamer capacity upgrade

Polarcus Samur was upgraded from the previous 6 streamer arrangement to an 8 streamer configuration. The upgrade will enable the Company to take advantage of the evolving seismic market environment and provide the flexibility to tender the vessel on a larger number of contracts. This will have a positive effect on the vessel's revenue generating capabilities that are projected to increase by an additional 25%. The Company's design studies have determined that the upgrade can be undertaken with a vessel CAPEX increase of only 2.5%, or USD 3 million, and with no material change to the present guided delivery date of end Q4 2010.

After the upgrade, to be undertaken at the Drydocks World - Dubai shipyard, prior to delivery of the vessel, *Polarcus Samur,* will be capable of deploying up to 8 streamers each of 6,000m length, or 6 streamers each of 8,000m length, with lateral streamer separations of between 25 and 200 meters. The additional 14 kilometers of streamer required for the new configuration has been ordered under the Company's existing vendor lease facility.

ORGANISATION

Well in excess of 3,000 job applications have been received this year alone, all from experienced professionals currently working for competing companies. This represents a clear endorsement that Polarcus is an employer of choice in the high-end 3D seismic industry. In Q3 the company secured crews for *Polarcus Samur*.

The Polarcus organisation continues to go from strength to strength – not just in numbers but also in the complexity of the services it can offer. Polarcus has implemented a field crew development programme which includes a series of training initiatives to enhance employee expertise and diversify its geophysical services. This has been supported by the completion of the many complex high-end seismic acquisition projects to date.

Recruitment continued with a strong pace throughout the quarter. Polarcus had 317 employees at 30 September, a rise of more than 70% from 1 January.

EHSQ

Following an extensive process, the Polarcus Group achieved certification in ISO 9001:2008 (Quality Management), ISO 14001:2004 (Environmental Management) and OHSAS 18001:2007 (Occupational Health and Safety). The ISO and OHSAS standards are formalized business processes that are consistently monitored and continually improved. The certification covers both the Company's head office and seismic vessels, including both maritime and seismic departments.

Internally at Polarcus the above certification tools are used to ensure business is managed by the controls and processes impacting the above aspects of the Company's operations, in addition to assuring that employees are an integral part of an organization that places the highest priority on its people, the environment and on quality assurance.

EVENTS AFTER THE END OF THE REPORTING PERIOD

New financing

In October, Polarcus announced the successful completion of its programme for raising a total of USD 195 million to enable the Company to i.a. finance the acquisition and completion of the vessel *Polarcus Alima*, scheduled to be delivered from the shipyard in Q1, 2011. The Polarcus fleet will count five vessels after the delivery. Both bond and equity issues were significantly oversubscribed.

- USD 60 million equity placement at NOK 5.15 (USD 0.90)
- USD 80 million bond issue with a coupon of 12.50%
- USD 55 million bank loan facility with an average interest rate of approximately 5%

New contracts

04/10 Polarcus received letter of intent for 3D seismic acquisition

07/10 Polarcus received letter of intent for large 3D seismic acquisition programme

12/10 Polarcus received letter of intent for 3D seismic acquisition

20/10 Polarcus secured 100% Q4 backlog with letter of intent from Eni for a 4D seismic acquisition

29/10 Polarcus secured 100% contract backlog through Q1 2011

FINANCIAL STATEMENTS

Interim consolidated income statement

(In USD thousands)	Notes	Quarter ended 30-Sep-10 (Unaudited)	Quarter ended 30-Sep-09 (Unaudited)	Nine months ended 30-Sep-10 (Unaudited)	Nine months ended 30-Sep-09 (Unaudited)	Year ended 31-Dec-09 (Audited)
Revenues		**30,806**	**-**	**66,408**	**-**	**-**
Vessel operating expenses		(16,006)	-	(39,658)	-	(805)
Sales, general and administrative costs	9	(6,319)	(4,921)	(17,447)	(13,710)	(18,553)
Depreciation		(6,161)	(83)	(13,556)	(213)	(718)
Impairment of vessels under construction		-	-	-	(5,148)	(5,148)
Total operating expenses		**(28,486)**	**(5,005)**	**(70,661)**	**(19,072)**	**(25,224)**
Operating profit/(loss)		**2,320**	**(5,005)**	**(4,253)**	**(19,072)**	**(25,224)**
Financial expenses						
Finance costs	10	(8,163)	(1,521)	(20,961)	(2,684)	(4,946)
Finance income	11	904	100	2,888	2,071	3,408
Changes in fair value of financial instruments	12	(176)	5,957	(932)	6,488	7,728
Net financial income/(expenses)		**(7,435)**	**4,536**	**(19,005)**	**5,875**	**6,190**
Profit/(loss) for the period before tax		**(5,115)**	**(469)**	**(23,259)**	**(13,197)**	**(19,034)**
Income tax expense		-	-	-	-	-
Net profit/(loss) for the period		**(5,115)**	**(469)**	**(23,259)**	**(13,197)**	**(19,034)**
Profit/(loss) per share for loss attributable to the equity holders during the period *(In USD)*						
- Basic		**(0.019)**	**(0.004)**	**(0.088)**	**(0.128)**	**(0.089)**
- Diluted		**(0.019)**	**(0.051)**	**(0.088)**	**(0.159)**	**(0.114)**

Interim consolidated statement of comprehensive income

(In USD thousands)	Notes	Quarter ended 30-Sep-10 (Unaudited)	Quarter ended 30-Sep-09 (Unaudited)	Nine months ended 30-Sep-10 (Unaudited)	Nine months ended 30-Sep-09 (Unaudited)	Year ended 31-Dec-09 (Audited)
Profit/(loss) for the period		**(5,115)**	**(469)**	**(23,259)**	**(13,197)**	**(19,034)**
Net gain/(loss) on cash flow hedges		-	192	-	7,353	4589
Other comprehensive income/(loss) for the period		**-**	**192**	**-**	**7,353**	**4,589**
Total comprehensive income/(loss)		**(5,115)**	**(277)**	**(23,259)**	**(5,843)**	**(14,445)**

Interim consolidated balance sheet

(In USD thousands)	Notes	**30-Sep-10** (Unaudited)	**30-Sep-09** (Unaudited)	**31-Dec-09** (Audited)
Assets				
Non-current assets				
Property, plant and equipment	3	450,160	911	160,158
Vessels under construction	4	103,709	372,120	266,019
Vessel buyback options	5	40,831	40,831	40,831
Intangible assets		4,247	4,126	4,279
Restricted cash - long term		-	1,362	1,362
Total non-current assets		**598,946**	**419,350**	**472,649**
Current assets				
Prepaid expenses		3,317	18,127	13,264
Other current assets		11,352	1,072	2,179
Restricted cash - short term		32,753	27,000	35,163
Cash and bank		37,735	133,635	115,324
Accounts receivable		19,052	-	-
Total current assets		**104,209**	**179,834**	**165,930**
Total assets		**703,155**	**599,184**	**638,579**
Equity and liabilities				
Equity				
Issued share capital	6	5,264	5,264	5,264
Share premium		303,612	303,993	303,583
Other reserves		8,710	6,911	7,255
Retained earnings/(loss)		(44,680)	(12,821)	(21,422)
Total equity		**272,906**	**303,347**	**294,680**
Non-current liabilities				
13% senior secured bonds		53,755	53,417	53,496
8.5% convertible bonds		30,972	29,870	30,131
Advance from sale lease-back fund		-	120,999	67,745
Long-term finance lease	7	194,319	15,079	100,836
Other long-term debt	8	74,001	8,711	7,250
Liability for warrants	6, 12	4,139	4,446	3,207
Employee pension accrual		1,544	610	933
Total non-current liabilities		**358,730**	**233,132**	**263,598**
Current liabilities				
Interest payable		2,120	2,460	5,306
Employee accruals and payables		4,583	2,656	2,293
Other accrued expenses		8,841	3,537	3,862
Deferred payments to vendors		-	29,138	29,138
Long-term finance lease current portion	7	19,844	7,061	9,123
Other long-term debt current portion	8	10,844	3,900	4,327
Accounts payable		25,289	13,952	26,252
Total current liabilities		**71,520**	**62,704**	**80,301**
Total equity and liabilities		**703,155**	**599,184**	**638,579**

Interim consolidated statement of cash flows

(In USD thousands)	Quarter ended 30-Sep-10 (Unaudited)	Quarter ended 30-Sep-09 (Unaudited)	Nine months ended 30-Sep-10 (Unaudited)	Nine months ended 30-Sep-09 (Unaudited)	Year ended 31-Dec-09 (Audited)
Cash flows from operating activities					
Profit/(loss) for the period before tax	(5,115)	(469)	(23,259)	(13,197)	(19,034)
Adjustment for:					
Depreciation	6,161	83	13,556	213	718
Impairment of vessels under construction	-	-	-	5,148	5,148
Finance costs	-	353	-	353	353
Changes in fair value of financial instruments	176	(5,957)	932	(6,488)	(7,728)
Stock option compensation provision	593	347	1,455	1,007	1,351
Interest income	(19)	(20)	(92)	(354)	(414)
Working capital adjustments:					
Decrease/(increase) in current assets	(10,866)	(17,641)	(18,277)	(18,356)	(14,600)
Increase in trade and other payables and accruals	4,980	(4,239)	9,857	2,818	12,660
Net cash flows from operating activities	**(4,090)**	**(27,542)**	**(15,828)**	**(28,856)**	**(21,547)**
Cash flows from investing activities					
Decrease/(increase) in restricted cash	591	5,967	3,772	55,957	47,794
Purchases of property, plant and equipment	(77,075)	(13,448)	(155,298)	(205,034)	(255,970)
Payments for vessel buyback options	-	(40,831)	-	(40,831)	(40,831)
Payments to acquire intangible assets	(48)	(33)	(259)	(142)	(295)
Interest income	1	-	5	-	-
Net cash flows used in investing activities	**(76,531)**	**(48,345)**	**(151,781)**	**(190,050)**	**(249,302)**
Cash flows from financing activities					
Proceeds from the issue of ordinary shares	-	124,625	-	124,625	124,625
Transaction costs on issue of shares	-	(6,044)	29	(6,044)	(6,456)
Proceeds from the issue of senior secured bonds	-	-	-	-	-
Proceeds from the issue of convertible bonds	-	-	-	-	-
Receipt from sale lease-back fund	-	39,882	22,255	120,999	157,745
Receipt from loans	80,000	-	80,000	-	-
Repayment of lease liabilities	(3,838)	-	(9,490)	-	-
Repayment of other long-term debt	(1,091)	-	(2,866)	-	-
Interest income	19	20	92	354	414
Net cash flows from financing activities	**75,090**	**158,482**	**90,020**	**239,933**	**276,329**
Hedged gain/(loss) on revaluation of restricted cash (other reserves)	-	192	-	7,353	4,589
Net increase/(decrease) in cash and cash equivalents	**(5,530)**	**82,786**	**(77,589)**	**28,381**	**10,070**
Cash and cash equivalents at the beginning of the period	43,266	50,849	115,323	105,254	105,254
Cash and cash equivalents at the end of the period	**37,735**	**133,635**	**37,735**	**133,635**	**115,324**

Interim consolidated statement of changes in equity

(In USD thousands except for number of shares)	Number of Shares	Issued Share capital	Share Premium	Other Reserves	Retained Earnings/ (Loss)	Total Equity
17 December 2007 at USD 1.00 per share	1	-	-	-	-	-
Balance at 1 January 2008	**1**	**-**	**-**	**-**	**-**	**-**
Total comprehensive income/(loss) for the period		-	-	-	(6,977)	(6,977)
Issue of share capital						
9 February 2008 at USD 1.00 per share	49,999,999	500	49,500	-	-	50,000
18 March 2008 at USD 1.00 per share	3,786,855	38	3,749	-	-	3,787
19 May 2008 at USD 1.00 per share	85,000,000	850	84,150	-	-	85,000
21 May 2008 at USD 1.00 per share	20,000,000	200	19,800	-	-	20,000
29 June 2008 at USD 1.00 per share	2,785,000	28	2,757	-	-	2,785
2 July 2008 at USD 1.20 per share	42,000,000	420	49,980	-	-	50,400
Transaction costs on issue of shares		-	(2,578)	-	-	(2,578)
Issue of warrants to shareholders		-	(18,716)	-	-	(18,716)
Issue of convertible bonds		-	-	5,024	-	5,024
Employee stock option provision		-	-	880	-	880
Balance at 1 January 2009	**203,571,855**	**2,036**	**188,641**	**5,904**	**(6,977)**	**189,605**
Total comprehensive income/(loss) for the period		-	-	-	(14,445)	(14,445)
Consolidation of share capital						
11 September 2009 (at 2:1 from USD 0.01 to USD 0.02 per share)	(101,785,928)	-	-	-	-	-
Issue of share capital						
17 September 2009 to avoid fractional shares after consolidation	3.50	-	-	-	-	-
29 September 2009 at NOK 4.50 (USD 0.77) per share	161,388,889	3,228	121,397	-	-	124,625
Transaction costs on issue of shares		-	(6,456)	-	-	(6,456)
Employee stock option provision		-	-	1,351	-	1,351
Balance at 31 December 2009	**263,174,820**	**5,264**	**303,583**	**7,255**	**(21,422)**	**294,680**
Total comprehensive income/(loss) for the period		-	-	-	(23,258)	(23,258)
Employee stock options provision		-	-	1,455	-	1,455
Transaction costs on issue of shares		-	29	-	-	29
Balance at 30 September 2010	**263,174,820**	**5,264**	**303,612**	**8,710**	**(44,680)**	**272,906**

1. General information

The interim condensed consolidated financial statements of Polarcus Limited (the "Company") and its subsidiaries (together the "Group") for the nine months ended 30 September 2010 were authorized for issue in accordance with a resolution of the Board of Directors on 2 November 2010.

Polarcus Limited is a pure play marine geophysical company with a pioneering environmental agenda, specializing 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 has three 12 streamer 3D vessels, Polarcus Nadia, Polarcus Naila and Polarcus Asima that are currently operational. The fourth vessel, Polarcus Samur, is expected to be delivered in Q4 2010 and the fifth vessel, Polarcus Alima is expected to be delivered in Q1 2011.

1.1 Financing

Due to global economic conditions, the Company in July 2009 carried out a restructuring of the Group. Under the restructuring the Company sold two of its vessel owning subsidiaries, Polarcus 4 owning the vessel Polarcus Selma and Polarcus 6 owning the vessel Polarcus Alima to Zickerman Holding Limited and Zickerman Group Limited (together "ZL") for a consideration of USD 1 each per vessel. ZL will, after this transaction, carry all financial obligations related to Polarcus 4 and Polarcus 6. The Group has an option to repurchase each of Polarcus Selma and Polarcus Alima or the corresponding vessel owning companies at a price equal to the remaining cost of completing each vessel.

In October 2010, Polarcus exercised the option of repurchasing Polarcus Alima after completing a programme of raising USD 195 million in new capital.

The total cash requirement for completing the five vessels is estimated at USD 952 million of which expenditures for seismic vessels and equipment is estimated at a total of USD 751 million and other expenditures at USD 201 million. Other expenditures include financing costs, costs related to options with the yard to build vessels 7 and 8, SG&A, working capital and buyback option costs for a remaining vessel. As of 2 November 2010, the Group has secured the following financing totalling USD 952 million:

Equity	USD 397 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 70 million
Loan facility	USD 80 million
Loan facility	USD 55 million
2nd lien bond	USD 80 million

Accordingly, the Group has secured the financing required to complete the construction of its five vessels including the working capital requirements of the Group. If the Group decided to exercise the buyback option for Polarcus Selma, additional capital expenditure financing of approximately USD 100 million would be required.

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.

2. Significant Accounting Policies

These interim condensed consolidated financial statements for the nine months ended 30 September 2010 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 2009.

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 2009 unless otherwise stated. Refer to Note 2 *Summary of Significant Accounting Policies* to the Consolidated Financial Statements in the 2009 Annual Report for information on the Company's accounting policies.

3. Property, Plant and Equipment

(In thousands of USD)

	Seismic vessels and equipment	Furniture and fixtures	Office IT Equipment	Total
Costs				
Balance as of 1 January 2010	159,692	551	647	160,890
Additional capital expenditures	155,450	1,073	61	156,583
Assets under finance leases	146,700	-	-	146,700
Disposals	-	-	-	-
Balance as of 30 September 2010	461,840	1,624	708	464,173
Depreciation and impairment losses				
Balance as of 1 January 2010	417	149	165	731
Depreciation for the period	13,047	130	105	13,282
Disposals	-	-	-	-
Balance as of 30 September 2010	13,464	279	270	14,013
Carrying amounts				
As of 1 January 2010	159,275	402	482	160,159
As of 30 September 2010	**448,377**	**1,345**	**438**	**450,160**
Carrying amounts held under finance lease as of 30 September 2010	**273,231**	**-**	**-**	**273,231**

In February 2010, the Group took delivery of its second vessel, Polarcus Naila. The cost of the vessel incurred up to delivery was USD 114.9 million. Polarcus Naila is subject to a sale and lease-back financing arrangement. Also refer to Note 7 *Long-term Finance Lease*. Further details of the sale and lease-back financing arrangement are available in the Group's audited consolidated financial statements for the year ended 31 December 2009.

In August 2010, the Group took delivery of its third vessel, Polarcus Asima. The cost of the vessel incurred up to delivery was USD 152.9 million. Polarcus Asima has been pledged as security for a facility agreement entered into with Eksportfinans ASA and DVB Bank SE for a USD 80 million loan facility. The Eksportfinans tranche of the facility (USD 55 million) relates to financing of Norwegian equipment on-board the vessels Polarcus Samur and Polarcus Asima. This has been guaranteed by the Norwegian Guarantee Institute for Export Credits (GIEK). The DVB Bank tranche (USD 25 million) relates to financing of the vessel Polarcus Asima. Also refer to Note 8 *Other Long-term Debt*.

4. Vessels under Construction

(In thousands of USD)

Vessel Name	POLARCUS NAILA	POLARCUS SAMUR	POLARCUS ASIMA	(Option-1)	(Option-2)	Total
Vessel Type	SX 124	SX 133	SX 134	SX 134	SX 134	
Balance as of 1 January 2010	94,033	71,990	92,458	3,769	3,769	266,019
Additions in the year:						
Vessel and equipment	16,674	15,669	54,362	-	-	86,705
Project Overheads	561	2,477	2,933	-	-	5,971
Project Financing costs	3,598	6,035	3,125	-	-	12,758
Disposals	-	-	-	-	-	-
Transfers to property, plant & equipment	114,866	-	152,878	-	-	267,744
WIP value per vessel as of 30 September 2010	**-**	**96,171**	**-**	**3,769**	**3,769**	**103,709**

The vessel Polarcus Naila was delivered on 24 February 2010. Refer to Note 3 *Property, Plant and Equipment* for further details.

The vessel Polarcus Asima was delivered on 31 August 2010. Refer to Note 3 *Property, Plant and Equipment* for further details.

The vessel Polarcus Samur is pledged as security for the senior secured bond and interest accrued thereon. The details of this financing arrangement are available in the Group's audited consolidated financial statements for the year ended 31 December 2009. Total commitments outstanding related to the construction of Polarcus Samur as of 30 September 2010 are USD 31.2 million, all of which are due within one year.

Related to the construction options 1 and 2, the Company is committed to pay a cancellation fee of approximately USD 2 million if the options are not exercised within Q2 2011.

5. Vessel Buyback Options

On 30 July 2009 the Group sold two of its vessel owning entities Polarcus 4, owning the rights to vessel Polarcus Selma, and Polarcus 6, owning the rights to vessel Polarcus Alima, to its main founders Zickerman Holding Limited and Zickerman Group Limited (together "ZL"). ZL will complete the maritime work on Polarcus Selma and Polarcus Alima and include all fixed equipment that is required in order to constitute each vessel as a fully prepared seismic vessel. Polarcus has cancelled the orders for movable seismic and positioning equipment related to these vessels. An impairment loss of USD 5 million relating to prepaid seismic equipment that was cancelled, capitalized internal interest costs and expenses, was recorded as impairment of vessels under construction at the time of the transaction.

After raising additional new financing of USD 195 million in October 2010, the Group exercised its option to repurchase Polarcus Alima from ZL. The Group had already invested USD 21 million in the vessel at the date of sale.

The Group retained its option to buy back Polarcus Selma. The option is exercisable until actual delivery of the vessel, and subsequently is replaced with a right of first refusal to purchase her. The remaining carrying value of USD 20 million for Polarcus Selma will be subtracted from the purchase price if the Group exercises its right to repurchase the vessel. The combined amounts of USD 41 million for both vessels is recorded as Vessel buyback options under Non-current Assets in the Group's Consolidated Balance Sheet as the transaction took place after the balance date. If the Polarcus Selma option is exercised, an additional capital expenditure financing of approximately USD 100 million will be required. If the Group chooses not to exercise the option, USD 20 million will be written-off as an impairment loss.

The value of vessel buyback options as of 30 September 2010 are made up as per below;

(In thousands of USD)

	Polarcus Selma	Polarcus Alima	Total
Total amount invested by the Group as of the date of sale	22,060	23,919	45,979
Impairment loss booked	(2,153)	(2,995)	(5,148)
Total	**19,907**	**20,924**	**40,831**

The Group will continue to supervise the on-going construction of the vessels and liaise with the suppliers of equipment related to the vessels. The cost related to this work is estimated at USD 1.7 million per vessel (USD 3.4 million in total) and is recorded as an intangible asset with credit in other accrued expenses as consideration for the options to buy back vessels Polarcus Selma and Polarcus Alima. If the Group chooses not, or is unable to exercise the buyback option on Polarcus Selma, USD 1.7 million will be written-off as an impairment loss.

6. Share capital, Share options and Warrants

6.1 Share Capital

The Company's authorized share capital is USD 7,040,000 divided into 352,000,000 shares at par value of USD 0.02.

The total issued share capital of the Company as of 30 September 2010 is USD 5,263,497 divided into 263,174,820 shares at par value of USD 0.02. All issued shares have been paid in as of 30 September 2010.

The Company closed a Private Placement on 13 October 2010, and the Board proposed to allocate 67,421,359 new shares at a subscription price of NOK 5.15 per share. Allocation notices was sent on 14 October 2010. The Managers entered into an agreement with certain shareholders to borrow existing shares. Hence allocated shares were immediately tradable. Payment of shares and delivery was completed 19 October 2010.

The share capital increase will be registered, with new shares registered at a separate ISIN number and may not be traded until the Company has issued a listing prospectus and the new shares have been registered in the VPS under the Company's ordinary ISIN.

The Board will propose to conduct a subsequent repair issue of up to USD 5 million at the same price to existing shareholders that were not offered or invited to participate in the Private Placement.

6.2 Warrants

The Group has issued 21,250,000 warrants to the founding shareholders, 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 nine months ended 30 September 2010. 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 a Company's 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 net loss of USD 932,414 has been recorded during the nine months ended 30 September 2010. Also refer to Note 12 *Changes in fair value of financial instruments*. As of 30 September 2010 no warrants were exercisable.

6.3 Stock Options

The Group has granted share options to executive management and other selected employees. As of 30 September 2010 the Group has issued 10,656,400 options of which 6,131,400 were issued during the nine months ended 30 September 2010. The total fair value of options granted up to 30 September 2010 is USD 7.29 million calculated using the Black-Scholes model, assuming all options will be exercised. For the nine months ended 30 September 2010, the Group has expensed USD 1,454,511 towards stock options granted as employee compensation. As of 30 September 2010 none of the options were exercisable.

7. Long-term Finance Lease

Upon delivery from the shipyard, the vessels Polarcus Nadia and Polarcus Naila were sold to GSH2 Seismic Carrier I AS (the 'lessor') according to the sale and lease-back financing arrangement entered into on 30 June 2008 as amended on 29 July 2009. The purchase price of USD 90 million each per vessel (total USD 180 million) is fully paid by the lessor to the Group in instalments throughout the vessel construction period. Immediately upon the sale of the vessels, the Group leased back the vessels from the lessor at a fixed charter rate of USD 35,000 per day, payable in arrears throughout the duration of the charter period. This arrangement falls under the category of finance lease as described under IAS 17. Accordingly at the inception of the lease USD 180 million has been recorded as a liability.

The Company has entered into lease agreements with Sercel Inc, Houston to acquire marine acquisition equipment (the "streamer systems"). The duration of each lease is 30 months and the Company has an option to purchase the streamer systems at any time during the lease period. As of 30 September 2010, streamer systems worth USD 46,869,322 were leased under this arrangement.

The outstanding liability under the above mentioned arrangements are disclosed in the Group's balance sheet as 'Long-term finance lease' which is further classified in to long-term and short-term portions as per below;

(In thousands of USD)	**30-Sep-10**	**30-Sep-09**	**31-Dec-09**
Lease payments due after 12 months from the balance sheet date	194,319	15,079	100,836
Lease payments due within 12 months from the balance sheet date	19,844	7,061	9,123
Total	**214,163**	**22,140**	**109,959**

8. Other Long-term Debt

The Group has on 14 September 2009 entered into a facility agreement with Eksportfinans ASA and DVB Bank SE for a USD 80 million loan facility. The Eksportfinans tranche of the facility (USD 55 million) relates to financing of Norwegian equipment on-board the vessels Polarcus Samur and Polarcus Asima. This has been guaranteed by the Norwegian Guarantee Institute for Export Credits (GIEK). The DVB Bank tranche (USD 25 million) relates to financing of the vessel Polarcus Asima. The vessel Polarcus Asima has been pledged as security for this loan facility. The facility has been drawn on 31 August 2010 post delivery of the vessel Polarcus Asima from the shipyard. As of 30 September 2010 no repayment has been made against this liability.

The Company has acquired some of the streamer systems from Sercel Inc, Houston by way of a 40% down payment. The remaining 60% of the purchase price is payable through 36 monthly instalments including interest at 8% per annum. The affected streamer system has been pledged as security for this arrangement. The total value of equipment acquired under this arrangement is USD 22,631,523. As of 30 September 2010, the Company has paid USD 13,920,561 against the liability under this arrangement.

The outstanding liability under the above mentioned arrangements are disclosed in the Group's balance sheet as 'Other long-term debt' which is further classified in to long-term and short-term portions as per below;

(In thousands of USD)	**30-Sep-10**	**30-Sep-09**	**31-Dec-09**
Installments due after 12 months from the balance sheet date	74,001	8,711	7,250
Installments due within 12 months from the balance sheet date	10,844	3,900	4,327
Total	**84,845**	**12,611**	**11,577**

9. Sales, General and Administrative Costs

Sales, general and administrative costs consist of the following;

(In thousands of USD)

	Quarter ended		Nine months ended		Year ended
	30-Sep-10	**30-Sep-09**	**30-Sep-10**	**30-Sep-09**	**31-Dec-09**
Salaries and other employee benefits	4,680	3,402	12,009	9,857	12,263
Other general and administrative expenses	1,639	1,519	5,438	3,853	6,290
Total	**6,319**	**4,921**	**17,447**	**13,710**	**18,553**

10. Finance Costs

(In thousands of USD)

	Quarter ended		Nine months ended		Year ended
	30-Sep-10	**30-Sep-09**	**30-Sep-10**	**30-Sep-09**	**31-Dec-09**
Interest expenses on senior secured bond	1,877	2,493	5,621	5,588	7,455
Interest expenses on convertible bond	1,035	1,349	3,073	2,970	3,974
Interest expenses on deferred payments to the shipyard	163	(1,286)	1,148	274	588
Interest expenses on lease arrangements	6,221	-	16,342	-	1,198
Other interest expenses	2,580	-	4,447	-	-
Interest expenses capitalized to vessels under construction	(4,174)	(1,917)	(11,132)	(8,193)	(10,737)
Net interest expenses	**7,702**	639	**19,499**	**639**	**2,478**
Realized currency exchange loss	159	9	543	1,023	1,251
Unrealized currency exchange loss	302	520	920	669	864
Other financial losses	-	353	-	353	353
Total	**8,163**	**1,521**	**20,961**	**2,684**	**4,946**

11. Finance Income

(In thousands of USD)

	Quarter ended		Nine months ended		Year ended
	30-Sep-10	**30-Sep-09**	**30-Sep-10**	**30-Sep-09**	**31-Dec-09**
Interest income from deposit with banks	21	21	97	355	414
Interest income offset against capitalized interest expenses	(2)	(1)	(5)	(1)	-
Net interest income	**19**	**20**	**92**	**354**	**414**
Realized exchange gain	484	8	2,322	450	556
Unrealized exchange gain	401	72	474	1,267	2,438
Total	**904**	**100**	**2,888**	**2,071**	**3,408**

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

12. Changes in Fair value of Financial Instruments

The changes in fair value of financial instruments represent the profit or loss on revaluation of liabilities on warrants issued. Also refer to Note 6.2 *Warrants*. The fair value of the warrant liability at each balance sheet date and the profit or loss on revaluation for the periods reported are as per below;

(In thousands of USD)

	Quarter ended		Nine months ended		Year ended
	30-Sep-10	**30-Sep-09**	**30-Sep-10**	**30-Sep-09**	**31-Dec-09**
Warrant liability at fair value on the balance sheet dates	4,139	4,446	4,139	4,446	3,207
Profit/(loss) on revaluation of the fair value of warrant liability	(176)	5,957	(932)	6,488	7,728

13. Transactions with Related Parties

Drydocks World Dubai ("DWD") holds 14.25% of the paid-in share capital of the Company as of 30 September 2010. Below is a summary of major transactions between DWD and the Group during the nine months ended 30 September 2010;

(In thousands of USD)

Payments made under ship building contracts	40,775
Payments made under the deferred payment arrangement	33,732
Financing costs paid	2,235
Total payments made during the nine months ended 30 September 2010	**76,742**
Payments due included in Accounts payable (due within 12 months from 30 September 2010)	**9,541**
Equipment sold at cost by the Company during the restructuring (Refer to Note 1.1)	21,730
Payments received towards equipment sold prior to 31 December 2009	13,456
Payments received towards equipment sold during the nine months ended 30 September 2010	8,274
Balance receivable as of 30 September 2010	-

14. Subsequent events

New financing and equity/bond issues

In October, Polarcus announced the successful completion of its programme for raising a total of USD 195 million to enable the Company to i.a. finance the acquisition and completion of the vessel *Polarcus Alima*, scheduled to be delivered from the shipyard in Q1, 2011. The Polarcus fleet will count five vessels after the delivery. Both bond and equity issues were significantly oversubscribed.

- USD 60 million equity placement at NOK 5.15 (USD 0.90)
- USD 80 million bond issue with a coupon of 12.50%
- USD 55 million loan facility with an average interest rate of approximately 5%

New contracts

04/10 Polarcus received letter of intent for 3D seismic acquisition

07/10 Polarcus received letter of intent for large 3D seismic acquisition programme

12/10 Polarcus received letter of intent for 3D seismic acquisition

20/10 Polarcus secured 100% Q4 backlog with letter of intent from Eni for a 4D seismic acquisition

29/10 Polarcus secured 100% contract backlog through Q1 2011

STRATEGY

Vision

"To be a pioneer in an industry where the frontiers of seismic exploration are responsibly expanded without harm to our world".

Core values

In support of the vision, a set of 'core values' define Polarcus' ethos and the way management, employees and contractors are expected to perform within the business:

Responsibility – for our actions, for each other, and for the environment and the world around.
Innovation – in business and in operations.
Excellence – in delivery for shareholders and clients alike.

Goal

"By 2012 to be the most environmentally responsible towed marine seismic service provider, with a strong focus on risk management and specializing in the high end 3D market and the Polar Regions whilst achieving 40% EBITDA margin, 10% market share and long term shareholder value".

Execution

Polarcus' has a nine point business execution strategy comprising the following key elements:

Pioneering the environmental agenda.
Optimize fleet configuration and composition.
Recruit, develop and retain the highest calibre industry professionals.
Develop a world-class service offering.
Maximize operational performance.
Develop and maintain an effective marketing and sales organization.
Build a strong risk management culture and ensure adoption in key decision making processes.
Optimize financing requirements.
Establish an optimal organizational structure and cost control programs.

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