Polarcus Limited

FOURTH QUARTER REPORT 2010

FOURTH QUARTER AND PRELIMINARY YEAR END 2010 REPORT

STRENGTHENING CAPACITY AND POSITION

HIGHLIGHTS

- Revenue of USD 56.3 million and EBITDA of USD 21.2 million with three vessels in operation
- Positive Net Cash Flow from operating activities
- High end operational capabilities and fleet backlog continued to grow
- Reacquired and financed *Polarcus Alima* for delivery in March 2011
- Ordered two new high-end seismic vessels on advantageous terms for delivery H1 2012
- Entered multi-client cooperation agreement for Asia Pacific
- *Polarcus Nadia* granted TGS Annual Safety award
- *Polarcus Samur* delayed, expected to be operational in March 2011

With three vessels in operation in Q4, margins improved further compared to previous quarters. Economy of scale, solid operational performance and good utilization contributed to this positive development. At the same time, Q4 had higher daily operational expenses compared to previous quarters, mainly driven by higher fuel prices, regional uplift of operating expenses in specific countries, and the multi vessel survey conducted for AGIP in Nigeria. The higher costs related to the last was offset by higher revenue for the 4D high-end undershoot survey.

Polarcus' growth story continued when Polarcus Asima completed the first 12 streamer acquisition in the company's history. Her performance, straight from delivery from the yard, exceeded client expectations and she immediately added value to the fleet and to the company's financial performance.

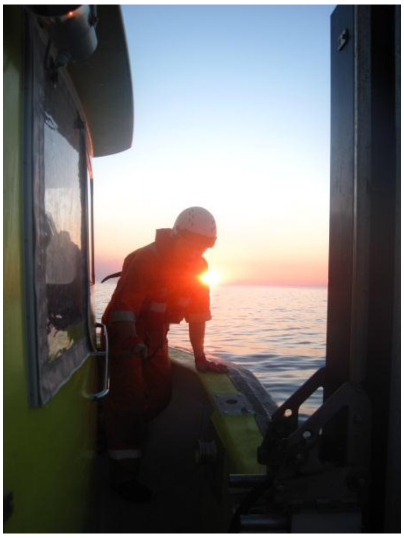
In Q4, Polarcus took important new steps towards further strengthening the company's position as a major seismic player. New financing of USD 200 million was successfully secured to enable the reacquisition and completion of the Polarcus Alima, scheduled for delivery in March 2011. Furthermore, Polarcus signed shipbuilding contracts for two new ultramodern 12-14 streamers seismic vessels for delivery in the first half of 2012. Following the latest new build orders, the Polarcus' high-end 3D seismic fleet will consist of seven vessels. Correspondingly the projected market share after delivery of all vessels in 2012 will be approximately 12%.

KEY FINANCIALS

Key financial figures Amounts in USD thousands	Quarter ended December 31		Year ended December 31	
	2010 (Unaudited)	2009 (Unaudited)	2010 (Unaudited)	2009 (Audited)
Revenues	56,325	Nil	122,734	Nil
Vessel operating expenses	(27,475)	(805)	(67,134)	(805)
EBITDA	21,156	(5,649)	30,459	(19,358)
EBIT excluding impairment charges (1)	7,863	(6,153)	3,610	(20,076)
Net Financial Income/(Expenses)	(11,945)	315	(30,950)	6,190
Profit/(Loss) for the period	(5,081)	(5,837)	(28,341)	(19,034)
Basic earnings/(Loss) per share ($ per share)	(0.015)	(0.022)	(0.100)	(0.089)
Net cash flows from operating activities	725	7,309	(15,103)	(21,547)
Total Assets (period end)	974,110	638,578	974,110	638,578
Total Liabilities (period end)	582,548	343,900	582,548	343,900
Total Equity (period end)	391,563	294,678	391,563	294,678
Equity Ratio	40%	46%	40%	46%

(1) 2010 Q4 impairment of $1 million as a result of prepaid slot reservation fees to another shipyard for vessels 7 & 8, 2009 Q2 impairment of $5.1 million as a result of restructuring Polarcus Selma and Polarcus Alima.

OPERATIONS



Revenues were USD 56.3 million for Q4 and USD 122.7 million for the year 2010. Other income of USD 3.5 million is related to insurance claims less deductibles on damaged seismic equipment.

Vessel operating expenses (opex) amounted to USD 27.5 million for Q4 and USD 67.1 million for the year 2010. The increase in opex compared to previous quarters is mainly driven by higher fuel prices, regional uplifts of operating expenses in specific countries, and the multi vessel survey conducted for AGIP in Nigeria. The higher costs related to the last were offset by higher revenue from its 4D high-end undershoot survey.

Sales, general and administrative costs were USD 7.7 million in Q4 and USD 25.1 for the year 2010. Depreciation came to USD 13.3 million of which USD 3.8 million was related to damaged seismic equipment.

Polarcus Nadia

A TGS survey in the UK sector of the North Sea, with *Polarcus Nadia* towing 10 x 5100m x 50m high density configuration was completed on the 13th November. The survey was Polarcus first HD3D & HD4D acquisition and it was successfully completed despite challenges with weather and obstructions. Total project downtime at less than 3% was well above industry standards.

Based on this performance TGS has announced that *Polarcus Nadia* will receive their 2010 HSE Award.

> *"… From the very beginning of the project, the crew and management team demonstrated a high commitment to safety, as well as good operational procedures and excellent quality standards …"*
>
> **TGS Management**

Polarcus Nadia then transited to the Falkland Islands where she commenced production on the 26th November.

Polarcus Naila

As reported in the Q3 report *Polarcus Naila* had an incident causing streamer damage and resulting in two weeks interruption. The issue was resolved and the survey for Omel offshore Nigeria was completed on 15th November. The vessel then took on Polarcus' first multi-vessel 4D monitor survey for AGIP in Nigeria. The survey was completed on 28th December 2010 within time and budgetary constraints. The client was highly complimentary of the excellent quality of 4D data:

> *"… Congratulations to all involved in successfully and safely completing this 4D acquisition … the job was well planned & professionally executed …"*
>
> **AGIP Management**

The day after the successful completion *Polarcus Naila* commenced production on a 4D monitor survey for Tap Oil offshore Ghana with a 10 x 8100m @ 100m streamer separation.

Polarcus Asima

Polarcus Asima left her builders yard in Dubai, UAE on 31st August and commenced mobilisation for Rosneft in the Black Sea on 22 September. Polarcus first 12 streamer deployment was efficiently conducted including the shakedown, in only eight days. The survey was completed on 6th December and was Polarcus' first turnkey project. Seismic data covering 2069 km² was delivered on time after 75 days in operation in challenging environmental conditions. The client commented on the performance as follows:

> *"… Completing this project while working within parameters which were very tight … the results achieved certainly exceeded all expectations …"*
>
> **Onboard Client Representatives**

The vessel then transited to the Falkland Islands where she arrived in January 2011.

Polarcus Samur

Polarcus Samur is delayed and is expected to become operational in March 2011. The delay is mainly due to the upgrade from 6 to 8 streamers.

UTILISATION

Utilisation Q4 2010 - *Vessel statistics for Q4 2010 include Polarcus Nadia, Polarcus Naila and Polarcus Asima*	**Total fleet**
Exclusive seismic contracts	89%
Multi-client seismic contracts	0%
Transit	10%
Yard stays and shakedown	1%

FINANCIALS

Net financial expenses in Q4 totalled USD 11.9 million. Financial costs of USD 11.0 million were partly offset by a financial income of USD 1.7 million related to foreign exchange gains. Changes to the fair value of financial instruments resulted in a cost of USD 2.7 million. This fair value change is a non-cash item and relates to the loss on revaluation of the liability for warrants.

CAPITAL INVESTMENTS

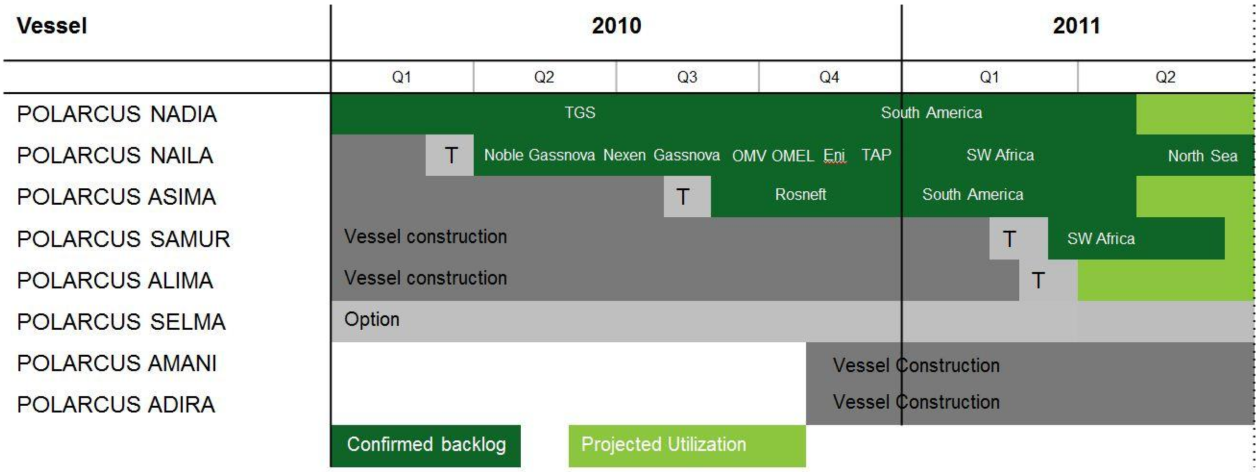
In October 2010, Polarcus exercised the option to repurchase *Polarcus Alima* after raising USD 200 million in new capital comprising USD 65 million in equity, placed at NOK 5.15 (USD 0.90), a USD 80 million bond with a coupon of 12.50% and a USD 55 million bank loan facility with an average interest rate of approximately 5%.

Furthermore, in November Polarcus signed shipbuilding contracts for two additional high-end 3D seismic vessels for delivery in the first half of 2012. To partly finance the new vessels' total estimated project capital expenditure of USD 168 million per vessel the company raised USD 65 million of equity at NOK 5.30 (USD 0.93) in a private placement. Polarcus has also received a proposal from Eksportfinans ASA for 12 years financing for the two vessels of an amount up to 80% of the total project capital expenditure at a favourable interest rate. The Eksportfinans facility is subject to approval by the Norwegian Guarantee Institute for Export Credits(“GIEK”).

The total cash requirement for completing Polarcus’ seven vessels is estimated at USD 1,282 million of which expenditures for seismic vessels and equipment is estimated at a total of USD 1,087 million and other expenditure at USD 195 million. Other expenditure includes financing costs, SG&A, working capital and buyback option costs for *Polarcus Selma*. As of 31 December 2010, the Group has secured the following financing totalling USD 1,022 million:

Equity	USD 467 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

BACKLOG



Projects announced in Q4 have been firmed up and in many cases have been extended with optional elements resulting in an increased backlog lasting well into Q2 2011. With increased activity, measured by invitations to tender and the increase in E&P spending already announced, Polarcus believes it is well positioned to take advantage of this increased activity.

On December 7th 2010 Polarcus signed a multi-client cooperation agreement with Searcher Seismic Pty. Ltd of Australia, to jointly develop and license marine 3D multi-client acquisition projects across Australia and Indonesia. The agreement is intended to see the development of highly funded multi-client projects to complement potential future contract operations in the strategic Asia-Pacific market. Searcher Seismic is the largest and best known independent multi-client company in Australia with a reputation for delivering the highest quality multi-client projects. The agreement complements the existing cooperation agreement with Geo Partners covering northwest Europe and Africa.

ORGANISATION

2010 was a year in which Polarcus transitioned from being a vessel building company to becoming a vessel operating company. Polarcus doubled its workforce from 186 at the beginning of the year start to 373 at the end of the year, and the company has proven to its clients that it can deliver high-end services from all its vessels.

On 01 December 2010 Polarcus opened a third regional marketing office in Singapore, this time to service the Asia-Pacific region including Australasia. Coincident with the opening, Polarcus announced the appointment of Cameron Astill to the position of Vice President Marketing, Asia-Pacific. Cameron brings over 30 years seismic industry experience and extensive industry knowledge of Asia-Pacific to this new role, where he will be directly responsible for managing and expanding the Polarcus brand presence across the region.

FINANCIAL STATEMENTS

Interim consolidated income statement

(In thousands of USD)	Notes	Quarter ended 31-Dec-10 (Unaudited)	Quarter ended 31-Dec-09 (Unaudited)	Year ended 31-Dec-10 (Unaudited)	Year ended 31-Dec-09 (Audited)
Revenues		52,848	-	119,256	-
Other income		3,478	-	3,478	-
Total revenues		**56,325**	**-**	**122,734**	**-**
Vessel operating expenses		(27,475)	(805)	(67,134)	(805)
Sales, general and administrative costs	10	(7,695)	(4,843)	(25,141)	(18,553)
Depreciation and amortization	11	(13,293)	(504)	(26,849)	(718)
Impairment of vessels under construction		(1,000)	-	(1,000)	(5,148)
Total operating expenses		**(49,462)**	**(6,153)**	**(120,124)**	**(25,224)**
Operating profit/(loss)		**6,863**	**(6,153)**	**2,610**	**(25,224)**
Financial expenses					
Finance costs	12	(11,022)	(2,262)	(31,983)	(4,946)
Finance income	13	1,706	1,337	4,594	3,408
Changes in fair value of financial instruments	14	(2,629)	1,240	(3,561)	7,728
Net financial income/(expenses)		**(11,945)**	**315**	**(30,950)**	**6,190**
Profit/(Loss) for the period before tax		**(5,081)**	**(5,837)**	**(28,341)**	**(19,034)**
Income tax expense		-	-	-	-
Net profit/(loss) for the period		**(5,081)**	**(5,837)**	**(28,341)**	**(19,034)**
Profit/(Loss) per share for loss attributable to the equity holders during the period *(In USD)*					
- Basic		**(0.015)**	**(0.022)**	**(0.100)**	**(0.089)**
- Diluted		**(0.015)**	**(0.025)**	**(0.100)**	**(0.114)**

Interim consolidated statement of comprehensive income

(In thousands of USD)	Quarter ended 31-Dec-10 (Unaudited)	Quarter ended 31-Dec-09 (Unaudited)	Year ended 31-Dec-10 (Unaudited)	Year ended 31-Dec-09 (Audited)
Profit/(loss) for the period	**(5,081)**	**(5,837)**	**(28,341)**	**(19,034)**
Net gain/(loss) on cash flow hedges	-	(2,764)	-	4,589
Other comprehensive income/(loss) for the period	**-**	**(2,764)**	**-**	**4,589**
Total comprehensive income/(loss)	**(5,081)**	**(8,601)**	**(28,341)**	**(14,445)**

Interim consolidated balance sheet

(In thousands of USD)	Notes	31-Dec-10 (Unaudited)	31-Dec-09 (Unaudited)
Assets			
Non Current Assets			
Property, plant and equipment	3	478,544	160,158
Vessels under construction	4	200,531	266,019
Vessels buyback options	5	19,907	40,831
Vessel prepayments	4	28,060	-
Intangible assets		2,633	4,279
Restricted cash - Long term		-	1,362
Total Non Current Assets		**729,675**	**472,649**
Current Assets			
Prepaid expenses		2,440	13,264
Other current assets		26,052	2,179
Restricted cash - short term		110,749	35,163
Cash and bank		86,836	115,324
Accounts receivable		18,357	-
Total Current Assets		**244,435**	**165,930**
Total Assets		**974,110**	**638,579**
Equity and Liabilities			
Equity			
Issued share capital	6	8,194	5,264
Share premium		423,822	303,583
Other reserves		9,308	7,255
Retained earnings/(loss)		(49,762)	(21,422)
Total Equity		**391,563**	**294,680**
Non Current Liabilities			
Senior Secured Bonds	7	130,850	53,496
Convertible Bonds		31,269	30,131
Advance from sale lease-back fund		-	67,745
Long-term finance lease	8	194,407	100,836
Other long-term debt	9	72,953	7,250
Liability for warrants	6, 14	6,768	3,207
Employee pension accrual		292	933
Total Non Current Liabilities		**436,540**	**263,598**
Current Liabilities			
Interest payable		8,766	5,306
Employee accruals and payables		6,586	2,293
Other accrued expenses		7,166	3,862
Deferred payments to vendors		59,874	29,138
Long-term finance lease current portion	8	22,388	9,123
Other long-term debt current portion	9	10,936	4,327
Accounts payable		30,291	26,252
Total Current Liabilities		**146,008**	**80,301**
Total Equity and Liabilities		**974,110**	**638,579**

Interim consolidated statement of cash flows

(In thousands of USD)	Quarter ended		Year ended	
	31-Dec-10	**31-Dec-09**	**31-Dec-10**	**31-Dec-09**
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Cash flows from operating activities				
Profit/(loss) for the period before tax	(5,081)	(5,837)	(28,341)	(19,034)
Adjustment for:				
Depreciation	13,293	504	26,849	718
Impairment of vessels under construction	1,000	-	1,000	5,148
Finance costs	-	-	-	353
Changes in fair value of financial instruments	2,629	(1,240)	3,561	(7,728)
Stock Options compensation provision	598	344	2,053	1,351
Interest income	(64)	(60)	(157)	(414)
Working capital adjustments:				
Decrease/(Increase) in current assets	(13,128)	3,756	(31,406)	(14,600)
Increase in trade and other payables and accruals	1,480	9,843	11,337	12,660
Net cash flows from operating activities	**725**	**7,309**	**(15,103)**	**(21,547)**
Cash flows from investing activities				
Decrease/(Increase) in restricted cash	(77,996)	(8,163)	(74,224)	47,794
Purchases of property, plant and equipment	(67,926)	(50,936)	(219,305)	(255,970)
Payments for vessels buyback options	-	-	-	(40,831)
Payments to acquire intangible assets	(183)	(153)	(443)	(295)
Interest income	6	-	10	-
Net cash flows used in investing activities	**(146,101)**	**(59,252)**	**(293,962)**	**(249,302)**
Cash flows from financing activities				
Proceeds from the issuance of ordinary shares	129,672	-	129,672	124,625
Transaction costs on issue of shares	(6,802)	(412)	(6,773)	(6,456)
Proceeds from the issuance of senior secured bonds	77,200	-	77,200	-
Receipt from sale lease-back fund	-	36,746	22,255	157,745
Receipt from loans	-	-	76,081	-
Repayment of lease liabilities	(4,544)	-	(14,034)	-
Repayment of other long-term debt	(1,115)	-	(3,981)	-
Interest income	64	60	157	414
Net cash flows from financing activities	**194,476**	**36,395**	**280,578**	**276,329**
Hedged gain/(loss) on revaluation of restricted cash (Other Reserves)	-	(2,764)	-	4,589
Net increase/(decrease) in cash and cash equivalents	**49,101**	**(18,311)**	**(28,488)**	**10,070**
Cash and cash equivalents at the beginning of the period	37,735	133,635	115,323	105,254
Cash and cash equivalents at the end of the period	**86,836**	**115,324**	**86,836**	**115,324**

Interim consolidated statement of changes in equity

(In thousands of USD 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 as 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 options provision		-	-	880	-	880
Balance as 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 options provision		-	-	1,351	-	1,351
Balance as at 31 December 2009	**263,174,820**	**5,264**	**303,583**	**7,255**	**(21,422)**	**294,680**
Total comprehensive income/(loss) for the period		-	-	-	(28,340)	(28,340)
Employee stock options provision		-	-	2,053	-	2,053
Issue of share capital						
19 October 2010 at NOK 5.15 (USD 0.90) per share	67,421,359	1,348	59,063	-	-	60,411
24 November 2010 at NOK 5.30 (USD 0.93) per share	73,400,000	1,468	62,876	-	-	64,344
21 December 2010 at NOK 5.15 (USD 0.86) per share (repair issue)	5,700,000	114	4,803	-	-	4,917
Transaction costs on issue of shares		-	(6,503)	-	-	(6,503)
Balance as at 31 December 2010	**409,696,179**	**8,194**	**423,822**	**9,308**	**(49,762)**	**391,563**

Notes to the interim 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 period ended 31 December 2010 were authorized for issue in accordance with a resolution of the Board of Directors on 15 February 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 and fifth vessels, *Polarcus Samur* and *Polarcus Alima* are both expected to be delivered in Q1 2011. Shipbuilding contracts have been signed for *Polarcus Amani* and *Polarcus Adira* with delivery first half of 2012.

1.1 Financing

Due to global economic conditions at the time, 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 to repurchase *Polarcus Alima* after raising USD 200 million in new capital comprising USD 65 million in equity, placed at NOK 5.15 (USD 0.90), a USD 80 million bond with a coupon of 12.50% and a USD 55 million bank loan facility with an average interest rate of approximately 5%.

Furthermore, in November Polarcus signed shipbuilding contracts for two additional high-end 3D seismic vessels for delivery in the first half of 2012. To partly finance the new vessels' total estimated project capital expenditure of USD 168 million per vessel the company raised USD 65 million of equity at NOK 5.30 (USD 0.93) in a private placement. Polarcus has also received a proposal from Eksportfinans ASA for 12 years financing for the two vessels of an amount up to 80% of the total project capital expenditure at a favourable interest rate. The Eksportfinans facility is subject to approval by the Norwegian Guarantee Institute for Export Credits("GIEK").

The total cash requirement for completing Polarcus' seven vessels is estimated at USD 1,282 million of which expenditures for seismic vessels and equipment is estimated at a total of USD 1,087 million and other expenditure at USD 195 million. Other expenditure includes financing costs, SG&A, working capital and buyback option costs for *Polarcus Selma*. As of 31 December 2010, the Group has secured the following financing totalling USD 1,022 million:

Equity	USD 467 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

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 period ended 31 December 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	185,539	1,085	61	186,685
Assets under finance leases	157,353	-	-	157,353
Disposals	(2,810)	-	-	(2,810)
Balance as of 31 December 2010	499,774	1,636	708	502,118
Depreciation and impairment losses				
Balance as of 1 January 2010	417	149	165	731
Depreciation for the period	22,694	227	141	23,062
Disposals	(219)	-	-	(219)
Balance as of 31 December 2010	22,892	376	306	23,574
Carrying amounts				
As of 1 January 2010	159,275	402	482	160,159
As of 31 December 2010	**476,882**	**1,260**	**402**	**478,544**
Carrying amounts held under finance lease as of 31 December 2010	**274,822**	**-**	**-**	**274,822**

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 8 *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 9 *Other Long-term Debt.*

4. Vessels under Construction

(In thousands of USD)

Vessel Name	POLARCUS NAILA	POLARCUS SAMUR	POLARCUS ASIMA	POLARCUS ALIMA	Vessel-7	Vessel-8	Total
Vessel Type	SX 124	SX 133	SX 134	SX 134	SX 134	SX 134	
Balance as at 1 January 2010	94,033	71,990	92,458	-	3,769	3,769	266,019
Additions in the year:							
Vessel and equipment	16,674	21,555	54,362	84,442	10,761	10,761	198,555
Project Overheads	561	3,416	2,933	1,252	-	-	8,162
Project Financing costs	3,598	8,010	3,125	9,866	-	-	24,598
Impairments	-	-	-	-	(500)	(500)	(1,000)
Transfers to property, plant & equipment	(114,866)	-	(152,878)	-	-	-	(267,744)
Payments treated as advance to suppliers	-	-	-	-	(14,030)	(14,030)	(28,060)
WIP value per vessel as of 31 December 2010	**-**	**104,971**	**-**	**95,560**	**-**	**-**	**200,531**

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 a 13% interest bearing senior secured bond and interest accrued thereon. Refer to Note 7 *Senior Secured Bonds* for further details on this financing arrangement. Total commitments outstanding related to the construction of Polarcus Samur as of 31 December 2010 are USD 20.1 million, all of which are due within one year.

On 20 October 2010, the Company exercised the option of repurchasing Polarcus Alima from ZL. As of the date of repurchase, the Group had already invested USD 21 million. Subsequent to the repurchase, an additional investment of USD 74.6 million was made during the period ended 31 December 2010. Also refer to note 5 *Vessel Buyback Options*. The vessel Polarcus Alima is pledged as security for a 12.5% interest bearing senior secured bond and interest accrued thereon. Refer to Note 7 *Senior Secured Bonds* for further details on this financing arrangement. Total commitments outstanding relating to the construction of Polarcus Alima as of 31 December 2010 are USD 74.1 million, all of which are due within one year.

The payments made for vessels 7 and 8 as shown above represents the advance payments made to the shipyard for construction of these vessels. The remaining commitment of USD 94.5 million per vessel are not payable before Q1 2012 and Q2 2012 respectively.

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"). 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.

ZL will complete the maritime work on Polarcus Selma and include all fixed equipment that is required in order to constitute each vessel as a fully prepared seismic vessel. 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 first transaction.

The Group retains 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 the vessel. If the Polarcus Selma option is exercised, an additional capital expenditure financing of approximately USD 115 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 31 December 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)
Buyback option exercised	-	(20,924)	(20,924)
Total	**19,907**	**-**	**19,907**

The Group will continue to supervise the on-going construction of Polarcus Selma and liaise with the suppliers of equipment related to the vessel. The cost related to this work is estimated at USD 1.7 million and is recorded as an intangible asset with credit in other accrued expenses as consideration for the options to buy back Polarcus Selma. 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 11,190,000 divided into 559,500,000 shares at par value of USD 0.02.

The total issued share capital of the Company as of 31 December 2010 is USD 8,193,924 divided into 409,696,179 shares at par value of USD 0.02. All issued shares have been paid in as of 31 December 2010.

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 period ended 31 December 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 3,561,315 has been recorded during the period ended 31 December 2010. Also refer to Note 14 *Changes in fair value of financial instruments*. As of 31 December 2010 no warrants were exercisable.

6.3 Stock Options

The Group has granted share options to executive management and other selected employees. As of 31 December 2010 the Group has issued 10,796,400 options of which 6,271,400 were issued during the year ended 31 December 2010. The total fair value of options granted up to 31 December 2010 is USD 7.30 million calculated using the Black-Scholes model, assuming all options will be exercised. For the year ended 31 December 2010, the

Group has expensed USD 2,052,670 towards stock options granted as employee compensation. As of 31 December 2010 none of the options were exercisable.

7. Senior Secured Bonds

On 30 July 2008, the Company issued 550 senior secured callable bonds at par value of USD 100,000 each, totalling USD 55 million, bearing interest of 13% per annum. The net proceeds of the issue were employed to part-finance the construction of the vessel Polarcus Samur through the vessel owning company Polarcus Samur Ltd (formerly known as Polarcus 3). The interest for this loan 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. On the date of the issue, net proceeds of USD 53,075,000 have been booked under Non-Current Liabilities. Further details of this financing arrangement are available in note 16 of the Group's audited consolidated financial statements for the year ended 31 December 2009.

On 27 October 2010, the Group issued 800 senior secured callable bonds at par value of USD 100,000 each, totalling USD 80 million, bearing an interest of 12.5% per annum. The net proceeds of the issue were employed to part-finance the construction of the vessel Polarcus Alima through the vessel owning company Polarcus 6. The interest for this loan is payable semi-annually in arrears on 29 April and 29 October each year. The bonds will mature five years from the date of issue at their nominal value. On the date of issue, net proceeds of USD 77,200,000 were booked under Non-Current Liabilities.

The balance sheet value the above two loans are as below;

(In thousands of USD)	**31-Dec-10**	**31-Dec-09**
13% Senior secured callable bonds	53,846	53,496
12.5% Senior secured callable bonds	77,004	-
Total	**130,850**	**53,496**

8. 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 31 December 2010, streamer systems worth USD 54,647,604 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 into long-term and short-term portions as below;

(In thousands of USD)	**31-Dec-10**	**31-Dec-09**
Lease payments due after 12 months from the balance sheet date	194,407	100,836
Lease payments due within 12 months from the balance sheet date	22,388	9,123
Total	**216,796**	**109,959**

9. Other Long-term Debt

The Group 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 was drawn on 31 August 2010 post delivery of the vessel Polarcus Asima from the shipyard. As of 31 December 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 31 December 2010, the Company has paid USD 15,035,171 against its liability under this arrangement.

The outstanding liability under the above mentioned arrangements is 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)	**31-Dec-10**	**31-Dec-09**
Installments due after 12 months from the balance sheet date	72,953	7,250
Installments due within 12 months from the balance sheet date	10,936	4,327
Total	**83,889**	**11,577**

10. Sales, General and Administrative Costs

Sales, general and administrative costs consist of the following;

(In thousands of USD)	Quarter ended		Year ended	
	31-Dec-10	**31-Dec-09**	**31-Dec-10**	**31-Dec-09**
Salaries and other employee benefits	5,550	2,406	17,558	12,263
Other general and administrative expenses	2,145	2,437	7,583	6,290
Total	**7,695**	**4,843**	**25,141**	**18,553**

11. Depreciation and amortisation

	Quarter ended		Year ended	
	31-Dec-10	**31-Dec-09**	**31-Dec-10**	**31-Dec-09**
Depreciation of seismic vessels and equipment	9,270	417	22,317	417
Depreciation of office equipment	133	61	368	227
Amortization of intangible assets	97	27	314	74
Disposal of office equipment	-	-	57	-
Disposal of seismic equipment	3,793	-	3,793	-
	13,293	**504**	**26,849**	**718**

12. Finance Costs

(In thousands of USD)

	Quarter ended		Year ended	
	31-Dec-10	**31-Dec-09**	**31-Dec-10**	**31-Dec-09**
Interest expenses on senior secured bond	3,614	1,867	9,235	7,455
Interest expenses on convertible bond	1,041	1,004	4,114	3,974
Interest expenses on deferred payments to the shipyard	2,625	314	3,773	588
Interest expenses on lease arrangements	6,287	1,198	22,629	1,198
Other interest expenses	2,902	-	7,348	-
Interest expenses capitalized to vessels under construction	(7,517)	(2,544)	(18,651)	(10,737)
Net interest expenses	**8,951**	**1,839**	**28,447**	**2,478**
Realized currency exchange loss	830	228	1,373	1,251
Unrealized currency exchange loss	667	195	1,587	864
Other financial losses	576	-	576	353
Total	**11,022**	**2,262**	**31,983**	**4,946**

13. Finance Income

(In thousands of USD)

	Quarter ended		Year ended	
	31-Dec-10	**31-Dec-09**	**31-Dec-10**	**31-Dec-09**
Interest income from deposit with banks	70	59	167	414
Interest income offset against capitalized interest expenses	(5)	-	(10)	-
Net interest income	**65**	**59**	**157**	**414**
Realized exchange gain	347	106	2,669	556
Unrealized exchange gain	1,294	1,172	1,768	2,438
Total	**1,706**	**1,337**	**4,594**	**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.

14. 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		Year ended	
	31-Dec-10	**31-Dec-09**	**31-Dec-10**	**31-Dec-09**
Warrant liability at fair value on the balance sheet dates	6,768	3,207	6,768	3,207
Profit/(loss) on revaluation of the fair value of warrant liability	(2,629)	1,240	(3,561)	7,728

15. Transactions with Related Parties

Zickerman Holding Limited and Zickerman Group Limited (together "ZL") hold 12.03% of the paid-in share capital of the Company as of 31 December 2010. In October 2010, the Company exercised the option of repurchasing Polarcus Alima from ZL. The Company paid USD 1.5 million to ZL towards the purchase price of shares in Polarcus 6, owning the rights to vessel Polarcus Alima. Also refer to Note 1.1 *Financing* and Note 5 *Vessel Buyback Options*.

Drydocks World Dubai ("DWD") holds 9.15% of the paid-in share capital of the Company as of 31 December 2010. Below is a summary of major transactions between DWD and the Group during the year ended 31 December 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 year ended 31 December 2010	**76,742**
Payments included in Accounts payable (due within 12 months from 31 December 2010)	13,737
Payable under the deferred payment arrangement (due within 12 months from 31 December 2010)	59,874
Total payable as of 31 December 2010	73,612
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 June 2010	8,274
Balance receivable as of 31 December 2010	-

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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