

SeaBird Exploration PLC

Annual Report 2011

Parent Company

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**Board of Directors**

Henrik A Christensen  
Melvin Teigen  
Jon Olav Økland  
Per Inge Remmen  
Kjell H Mathiassen

**Company Secretary**

Adam Montanios  
Diagoras House  
16 Pantelis Catelaris Street  
P.O. Box 25001  
CY-1306 Nicosia  
CYPRUS

**Registered office**

333, 28th October Street  
Ariadne House, 1st floor  
Limassol  
Cyprus

**Auditors**

BDO Ltd  
Certified Public Accountants and Registered Auditors (CY)  
Antonis Zenios Tower  
1 Erethiou Street  
PO Box 25277, CY2413, Nicosia  
CYPRUS

## **Report of the Board of Directors**

### **Principal activities**

1 The principal activity of the Company, which is unchanged from last year, is ownership of companies operating within the seismic industry, including providing financing to subsidiaries.

### **Review of developments, position and performance of the Company's business**

2 The net profit of the Company for the year ended 31 December 2011 was a loss of USD 100,371 (2010: loss of USD 38,402). On 31 December 2011 the total assets of the Company were USD 131,057 (2010: USD 253,061) and the net assets were USD 41,892 (2010: USD 120,771) The financial position, development and performance of the Company as presented in these financial statements are considered satisfactory.

### **Principal risks and uncertainties**

3 The principal risks and uncertainties faced by the Company are outlined in Notes 3 and 4 of the financial statements.

### **Future developments of the Company**

4 These parent company financial statements are prepared under a going concern assumption. These consolidated financial statements are prepared under a going concern assumption.

The Group is currently contemplating several new contracts for the fleet of seismic vessels. So far in 2012, the market has improved with both more activity and higher day-rates. SeaBird expects this trend to last for the remainder of 2012, and as a consequence, the utilisation of the total vessel fleet will be higher than the two previous years and in this way improve the cash flow of the Group. Current backlog is approximately USD 120 million. It is anticipated that working capital needs will be funded through cash from operations as well as potential sales of geophysical data in the ordinary course of business and capital markets transactions.

For further details see note 2.16.



## **Results**

5 The Company's results for the year are set out in the income statement. The loss for the year will be covered by retained earnings.

## **Dividends**

6 The Board of Directors recommends no dividend will be distributed for the year ended 31 December 2011.

7 No dividend was paid for the year 2010.

## **Research and development activities**

8 The company has no research and development activities.

## **Share capital**

9 The Company is a publicly listed company. Changes in the share capital are outlined in Note 10 of the financial statements.

## **Board of Directors**

10 The Board has the following members; Henrik A Christensen (Chairman), Kjell Mathiassen, Per Ingen Remmen, Melvin Teigen, John Olav Økland.

Directors Mathiassen and Teigen were re-elected as directors at the AGM held on 11 May 2011 until the AGM in 2012. Directors Christensen, Remmen and Økland were elected as directors at the EGM held on 9 December 2011 until the AGM in 2012. All directors' terms thus expire on the AGM in 2012.

11 In accordance with the Company's Articles of Association, the members of the Board of Directors, being eligible, offer themselves for re-election.

12 There were no significant changes in the assignment of responsibilities and remuneration of the Board of Directors.

## **Subsequent events**

13 On 6 February 2012, Mr. Tim Isden stepped down from his position as CEO with immediate effect and he left the Company end of February 2012. Mr. Dag Reynolds has been appointed as new CEO of SeaBird. Mr. Reynolds will assume the position with effect no later than 1 May 2012. Mr. Jan-Eivind Fondal, previously a member of the Board of Directors of the Company, will assume the position as interim CEO from 6 February 2012 and until Mr.

Reynolds assumes the position.

On 20 February 2012, the Company announced that Mr. Dag Reynolds (SeaBird's new CEO, expected to join the Company on or about 1 May 2012) was granted 30,000,000 share options at a strike price of NOK 0.25 (equaling the average share price on the trading day 6 February 2012 + 10% approx.). The share options are exercisable with 1/3 from 16 February 2013 to 16 April 2013, 1/3 from 16 February 2014 to 16 April 2014 and 1/3 from 16 February 2015 to 16 April 2015.

With effect from 28 February 2012, as an organising measure upon completion of client service contracts committed prior to OBN divesture commitment, the Company acquired title to 100% of the shares in Seabed Navigation Company Ltd. from Fugro Norway AS for a consideration of USD 22.7 million. Additionally, debt in Seabed Navigation Company Ltd to other SeaBird companies amounting to USD 27.9 million was acquired by the Company from Fugro Norway AS. On the same date, marine and seismic equipment in Seabed Navigation Company Ltd was acquired by Fugro Norway AS for consideration of USD 50.6 million.

#### **Independent Auditors**

14 The Independent Auditors, BDO Limited, Certified Public Accountants and Registered Auditors (CY), have expressed their willingness to continue in office. A resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

The Board of Directors and Chief Executive Officer  
SeaBird Exploration PLC

20 March 2012

Henrik A Christensen  
Chairman (sign.)

Melvin Teigen  
Director (sign.)

Jon Olav Økland  
Director (sign.)

Per Inge Remmen  
Director (sign.)

Kjell H Mathiassen  
Director (sign.)

Jan-Eivind Fondal  
CEO (sign.)

## STATEMENT OF FINANCIAL POSITION

<i>All figures in USD 1,000</i>	Note	As of 31 December	
		2011	2010
<b>ASSETS</b>			
<b>Non-current assets</b>			
Shares in subsidiaries	17	53,024	150,477
<b>Total non-current assets</b>		<b>53,024</b>	<b>150,477</b>
<b>Current assets</b>			
Trade receivables	5	1,397	-
Other current assets	8	102	377
Due from related parties	19	76,469	102,150
Cash and cash equivalents	9	65	57
<b>Total current assets</b>		<b>78,033</b>	<b>102,584</b>
<b>TOTAL ASSETS</b>		<b>131,057</b>	<b>253,061</b>
<b>EQUITY</b>			
<b>Shareholders equity</b>			
Paid in capital	10	166,720	161,113
Equity component of convertible loan		6,296	-
Revaluation reserve		-	-
Currency translation reserve		12	12
Share options granted	10	7,687	7,593
Retained earnings		(138,823)	(47,947)
<b>TOTAL EQUITY</b>		<b>41,892</b>	<b>120,771</b>

<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Loans and borrowings	12	86,411	105,548
Fair value of conversion rights	12	-	6,506
Other long-term liabilities		173	148
<b>Total non-current liabilities</b>		<b>86,584</b>	<b>112,202</b>
<b>Current liabilities</b>			
Trade and other payables	11	2,581	1,251
Loans and borrowings	12	-	18,837
<b>Total current liabilities</b>		<b>2,581</b>	<b>20,088</b>
<b>TOTAL LIABILITIES</b>		<b>89,165</b>	<b>132,290</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>131,057</b>	<b>253,061</b>

On 20 March 2012 the Board of Directors of SeaBird Exploration PLC authorised these consolidated financial statements for issue.

\_\_\_\_\_  
Henrik A Christensen (sign.)  
Chairman

\_\_\_\_\_  
Per Inge Remmen (sign.)  
Director

\_\_\_\_\_  
Kjell Mathiassen (sign.)  
Director

\_\_\_\_\_  
Jan-Eivind Fondal (sign.)  
CEO

\_\_\_\_\_  
Jon Olav Økland (sign.)  
Director

\_\_\_\_\_  
Melvin Teigen (sign.)  
Director

## STATEMENT OF INCOME

<i>All figures in USD 1,000</i>	Note	Year ended 31	
		2011	2010
Selling, general and admin expenses	14	(916)	(1,601)
Impairment	17,19	(89,959)	(40,000)
<b>Earnings before interest, tax, depreciation and amortisation (EBITDA)</b>		<b>(90,875)</b>	<b>(41,601)</b>
Depreciation and Amortisation		-	-
<b>Earnings before interest and taxes (EBIT)</b>		<b>(90,875)</b>	<b>(41,601)</b>
Interest expense	15	(15,559)	(7,251)
Other financial items, net	13	13,975	13,200
Change in fair value of conversion rights	13	(3,014)	(2,716)
Income (loss) from Sale of OBN	13	(4,898)	-
<b>Profit (loss) before income tax</b>		<b>(100,371)</b>	<b>(38,368)</b>
Income tax	7	-	(34)
<b>Profit/(loss) for the year</b>		<b>(100,371)</b>	<b>(38,402)</b>

## STATEMENT OF COMPREHENSIVE INCOME

<b>Profit/(loss)</b>	<b>(100,371)</b>	<b>(38,402)</b>
Other comprehensive income		
Net movement in currency translation reserve and other changes	-	-
Changes in revaluation reserve	-	-
<b>Total other comprehensive income, net of tax</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income</b>	<b>(100,371)</b>	<b>(38,402)</b>
Total comprehensive income attributable to:		
Shareholders of the parent	(100,371)	(38,402)
<b>Total</b>	<b>(100,371)</b>	<b>(38,402)</b>

## STATEMENT OF CHANGES IN EQUITY

<i>All figures in USD 1,000</i>	Paid in capital	Equity component of convertible loan	Share options granted	Revaluation reserve	Retained earnings	Currency translation reserve	Total
<b>Balance at 1 January 2010</b>	<b>161,113</b>	-	<b>7,158</b>	-	<b>(9,545)</b>	<b>12</b>	<b>158,738</b>
Revaluation surplus	-	-	-	-	-	-	-
Currency translation difference	-	-	-	-	-	-	-
Net income /(loss) recognised directly in equity	-	-	-	-	-	-	-
Income for the year	-	-	-	-	(38,402)	-	(38,402)
Total recognised income /(loss) for the year	-	-	-	-	(38,402)	-	(38,402)
Share issue	-	-	-	-	-	-	-
Share option granted/cancelled	-	-	435	-	-	-	435
<b>Balance at 31 December 2010</b>	<b>161,113</b>	-	<b>7,593</b>	-	<b>(47,947)</b>	<b>12</b>	<b>120,771</b>
<b>Balance at 1 January 2011</b>	<b>161,113</b>	-	<b>7,593</b>	-	<b>(47,947)</b>	<b>12</b>	<b>120,771</b>
Revaluation surplus	-	-	-	-	-	-	-
Currency translation difference	-	-	-	-	-	-	-
Net income /(loss) recognised directly in equity	-	-	-	-	-	-	-
Income for the year	-	-	-	-	(100,371)	-	(100,371)
Total recognised income /(loss) for the year	-	-	-	-	(100,371)	-	(100,371)
Share issue	5,607	-	-	-	-	-	5,607
Equity component of convertible loan	-	6,296	-	-	9,495	-	15,791
Share option granted/cancelled	-	-	94	-	-	-	94
<b>Balance at 31 December 2011</b>	<b>166,720</b>	<b>6,296</b>	<b>7,687</b>	-	<b>(138,823)</b>	<b>12</b>	<b>41,892</b>



## STATEMENT OF CASH FLOW

<i>All figures in USD 1,000</i>	Note	Year ended 31 December	
		2011	2010
<b>Cash flows from operating activities</b>			
Profit/(loss) before income tax		(100,371)	(38,402)
Adjustments for:			
Gain on extinguishment of debt		(11,015)	-
Change in fair value of conversion rights		2,678	2,716
Gain/loss on sale of shares		4,898	-
Impairment		89,959	40,000
Amortisation of interest		4,968	446
Paid income tax		-	(34)
Earned on employee stock option plan		94	435
(Increase)/decrease in trade and other receivables		(1,122)	503
(Increase) in due from related parties		(93,076)	(15,490)
Increase/(decrease) in trade and other payables		(3,801)	64
<b>Net cash from operating activities</b>		<b>(106,788)</b>	<b>(9,762)</b>
<b>Cash flows from investing activities</b>			
Capital expenditures		-	-
Shares in subsidiaries		125,000	-
<b>Net cash used in investing activities</b>		<b>125,000</b>	<b>-</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		5,607	-
Movements in borrowings		(40,404)	10,207
Equity component of convertible loan		15,791	-
Net movement in currency fluctuations		802	(456)
<b>Net cash from financing activities</b>		<b>(18,204)</b>	<b>9,751</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>8</b>	<b>(11)</b>
<b>Cash and cash equivalents at beginning of the period</b>		<b>57</b>	<b>68</b>
<b>Cash and cash equivalents at end of the period</b>	9	<b>65</b>	<b>57</b>

## **1. General information**

### **Country of incorporation**

The Company was incorporated in British Virgin Islands ("BVI") as a limited liability company. Management and control of the Company was moved to Cyprus during 2008 and the Company re-domiciled from BVI to Cyprus on 18 December 2009. The primary business address of the Company is 333, 28th October Street, Ariadne House, 1st floor, Limassol, Cyprus.

### **Principal activities**

The principal activity of the Company, which is unchanged from last year, is ownership of companies operating within the seismic industry, including providing financing to subsidiaries.

## **2. Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### **2.1 Basis of preparation**

The financial statements of the parent company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap. 113. The group's consolidated financial statements are available from the registered office of the Company. The financial statements have been prepared under the historical cost convention, as modified by long term investment, and financial assets held for trading at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Actual results may differ from these estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

During the current year the Company adopted all the new and revised International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2011. This adoption did not have a material effect on the accounting policies of the Company or the Company.

At the date of approval of these financial statements, standards and interpretations were issued by the International Accounting Standards Board which were not yet effective. Some of them were adopted by the European Union and others not yet. The Board of Directors expects that the adoption of these accounting standards in future periods will not have a material effect on the financial statements of the Company or the Company.

At the date of approval of these financial statements the following accounting standards were issued by the International Accounting Standards Board but were not yet effective:



## 2.2 Adoption of new and revised IFRSs

During the current year the Company adopted all the new and revised International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2011. This adoption did not have a material effect on the accounting policies of the Company.

At the date of approval of these financial statements the following accounting standards were issued by the International Accounting Standards Board but were not yet effective:

### (i) Standards and Interpretations adopted by the EU

#### Amendments

- *IFRS Interpretations Committee*
- *IFRS 7 (Amendment) Financial Instruments: Disclosures Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011)*

### (ii) Standards and Interpretations not adopted by the EU

#### New standards

- *IFRS 9 "Financial Instruments" issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition. (effective for annual periods beginning on or after 1 January 2013).*
- *IFRS 10 "Consolidated Financial Statements" (effective for annual periods beginning on or after 1 January 2013).*
- *IFRS 11 "Joint Arrangements" (effective for annual periods beginning on or after 1 January 2013).*
- *IFRS 12 "Disclosure of Interests in Other Entities" (effective for annual periods beginning on or after 1 January 2013).*
- *IFRS 13 "Fair Value Measurement" (effective for annual periods beginning on or after 1 January 2013).*

#### Amendments

- *Amendments to IAS 1, "Presentation of Financial Statements" (effective for annual periods beginning on or after 1 July 2012).*
- *Amendments to IAS 12 "Deferred tax": Recovery of Underlying Assets: (effective for annual periods beginning on or after 1 January 2012).*
- *Amendments to IAS 19 "Employee Benefits" (amendments) (effective for annual periods beginning on or after 1 January 2013).*

- *IAS 27 (Revised): "Consolidated and Separate Financial Statements" (effective for annual periods beginning on or after 1 January 2013).*
- *Amendment to IAS32 "Offsetting Financial Assets and Financial Liabilities" (effective for annual periods beginning on or after 1 January 2014).*
- *Amendments to IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First Time Adopters (effective for annual periods beginning on or after 1 July 2011).*
- *Amendments to IAS 1, "Presentation of items of other Comprehensive Income" (effective for annual periods beginning on or after 1 July 2012).*
- *IFRS 7 (Amendment) Financial Instruments: Disclosures "Offsetting Financial Assets and Financial Liabilities" (effective for annual periods beginning on or after 1 January 2013)*
- *IFRS 19 "Financial Instruments" (issued 12 November 2009) and subsequent amendments (amendments to IFRS 9 and IFRS 7 issued 16 December 2011) (effective for annual periods beginning on or after 1 January 2015).*

#### **New IFRICs**

- *IFRIC 20: "Stripping Costs in the Production Phase of a Surface Mine" (effective for annual periods beginning on or after 1 January 2014).*

The Board of Directors expects that the adoption of these standards or interpretations in future periods will not have a material effect on the financial statements of the Company.

### **2.3 Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts, and after eliminating sales within Company.

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

### **2.4 Foreign currency translation**

#### *(a) Functional and presentation currency*

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in US dollars, which is the Company's functional and the Company's presentation currency.

#### *(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange

gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

## **2.5 Tax**

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The Company establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

However, the deferred income tax, if it is not accounted for, arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

## **2.6 Dividend distribution**

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

## **2.7 Shares in subsidiaries**

Investments in subsidiaries are stated at cost less any provision for impairment.

## 2.8 Financial assets

### 2.8.1 Classification

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

#### *(a) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

#### *(b) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Company's loans and receivables comprise 'trade receivables' and 'cash and cash equivalents' in the balance sheet (notes 2.13 and 2.14)

#### *(c) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

### 2.8.2 Recognition and measurement

Regular purchases and sales of investments are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'other financial items – net' in the period in which they arise.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Company's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a Company of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

## **2.9 Share capital/Paid in capital**

Ordinary share capital, calculated at a nominal value as originally established, and additional paid in capital are classified as equity.

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

## **2.10 Provisions**

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

## 2.11 Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. The financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs. The subsequent measurement of the financial liabilities depends on their classification.

The Company's financial liabilities include trade and other payables, loans and borrowings and derivative financial instruments.

### *(a) Interest-bearing debts and borrowings*

Interest-bearing debts and borrowings are recognised initially at fair value, net of transaction costs incurred. Interest-bearing debts and borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Interest-bearing debts and borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### *(b) Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Derivatives, including separated embedded derivatives are classified as held for trading unless they are designated as effective hedging instruments.

Financial liabilities at fair value through profit or loss are carried in the income statement at fair value with changes in fair value recognised under financial items. The conversion right on the convertible bond denominated in Norwegian Kroner is measured at fair value at each reporting date.

### *(c) Trade payables*

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

## 2.13 Cash and cash equivalents

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

## **2.12 Impairment of non-financial assets**

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

If as a result of annual fair value calculations in respect of vessels and seismic equipment, there is an indication of impairment, the impairment loss is firstly recognised in revaluation reserve, and any excess is charged to the statement of comprehensive income. Any reversal of a prior period impairment loss is reversed against any loss taken to the statement of comprehensive income.

## **2.13 Cash and cash equivalents**

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

## **2.14 Trade receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'selling, general and admin expenses'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'selling, general and admin expenses' in the income statement.

## **2.15 Comparatives**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.



## **2.16 Going Concern assumption**

These financial statements are prepared under a going concern assumption.

Following the financial restructuring closed in December 2011, SeaBird has one bond loan and one convertible loan outstanding. The bond loan has an outstanding amount of USD 89.9 million, with bi-annually instalments of USD 2 million until final maturity on 19 December 2015. The USD 14.9 million unsecured Perestroika convertible loan has a maturity at 22 September 2014, and has no instalments due before the loan matures (PIK-loan).

The Group is currently contemplating several new contracts for the fleet of seismic vessels. So far in 2012, the market has improved with both more activity and higher dayrates. SeaBird expects this trend to last for the remainder of 2012, and as a consequence, the utilisation of the total vessel fleet will be higher than the two previous years and in this way improve the cash flow of the Group. Current backlog is approximately USD 120 million. It is anticipated that working capital needs will be funded through cash from operations as well as potential sales of geophysical data in the ordinary course of business and capital markets transactions.

Based on the above and the information available on the date of these financial statements, the Company is confident that the above mentioned improvement in the market conditions for the business, the effect of the refinancing in December 2011 and potentially bank facilities will be successful in enabling SeaBird to meet its financial commitments through 2012. This is, however, based on several assumptions made in the forecast, including for example assumptions related to operations, markets and customer payment behaviour.

Should the above measures prove insufficient to secure SeaBird as a going concern, alternative sources of financing, including bank facilities, new bond loan, equity issue, asset sales, and/or decrease in discretionary capital expenditures will be evaluated and pursued.

Failure to achieve such measures or achieve its projected cash flows would result in the Group being unable to meet its liabilities as they fall due and to continue as a going concern. In such event the Group would be unable to realise the carrying value of its property, plant and equipment, whose values on a forced sale basis would be lower than their fair values, and goodwill and intangibles would be written off as their carrying values largely represent their values in use.

Also the contractual amount of liabilities to the bondholders is significantly higher than the carrying value which reflects the fair value of the below market interest rate at which it was granted.

## **3. Risk factors and financial risk management**

### **3.1 Financial risk factors**

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Company's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.



The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

(a) *Market risk*

(b) *Foreign exchange risk*

The Company and its subsidiaries operate internationally and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Euro, Norwegian kroner, Pound Sterling, Nigerian Naira and UAE Dirham. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the Company's functional currency.

Management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

(c) *Price risk*

The Company has no significant exposure to price risk.

(d) *Cash flow and fair value interest rate risk*

Interest rate risk arises from interest-bearing loans and borrowings. Interest-bearing loans and borrowings issued at variable rates expose the Company to cash flow interest rate risk. Loans and borrowings issued at fixed rates expose the Company to fair value interest rate risk. . All the outstanding debts as of 31st December 2011 were issued at fixed interest rates.

Further, the Company has significant long-term intercompany receivables, and operating cash flows depend on changes in market interest rates. However, for SeaBird Group as a whole, this risk will be fully eliminated.

(e) *Credit risk*

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

(f) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of available debt funding and the ability to close out market positions. Due to the dynamic nature of the underlying businesses and the significant investment program in 2006 to 2008, the Company has been aiming to maintain flexibility in funding by a mixture of debt and equity financing.

Ultimate responsibility for risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Company's short, medium and long term funding and liquidity requirements. The Company manages liquidity risk by maintaining

sufficient cash and marketable securities, ensuring the availability of funding through an adequate amount of available debt funding, and by continuously monitoring forecast and actual cash flows.

*(g) Risks related to debt arrangements*

The Company's current and future debt arrangements through the Company's external financing may include covenants and undertakings of a general, financial and technical nature and such debt arrangements may contain cross-default provisions. Failure to meet any of the covenants or undertakings could result in all outstanding amounts under the different debt arrangements becoming immediately due for payment. In addition, security rights granted to the lenders could be enforced. If outstanding debts were declared due for immediate payment, there would be no assurances that the Company would be able to meet its obligations, and there are no assurances that the Company would be able to obtain alternative financing, either on a timely basis or at all. Any breach of existing covenants and undertakings with a subsequent claim for repayment of all debts outstanding would thus have a material adverse effect on the Company's financial position and is likely to have a material adverse effect on the Company's operations and results.

### **3.2 Other risk factors**

The Company is subject to various other risk factors. The risks described below are not exhaustive as additional risks not presently known to the Company or which the Company currently deems immaterial may also impair the Company's business operations. If any of the following risks actually materialise, the Group's business, financial position and operating results could be materially and adversely affected.

The Company is exposed to the economic cycle, as changes in the general economic situation could affect demand for the Company's subsidiaries' services. Demand for offshore geophysical services depends on the level of capital spending by oil and gas companies, particularly exploration and development expenditures.

The market for the Company's products and services is competitive. The Company and the Group may face competition from certain companies within the seismic industry, and many of these companies may have greater resources than the Company itself. Furthermore, overcapacity in the seismic market would have a negative effect on the operating results of the Company. The Group has a strategy of exposing its vessel both towards the long-term market as well as the more volatile spot market. There can be no guarantee that the Group will be able to secure contracts at such rates and utilization rates that are needed. In addition, the Group may experience significant off-hires between charters. Furthermore, disputes under the charter parties may occur, which can result in responsibility and losses for the Company.

### **3.3 Capital risk management**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce loans and borrowings.

### **3.4 Fair value estimation**

The fair value of financial instruments traded in active markets (such as trading and available for sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Company is the current bid price.

## **4. Critical accounting estimates and judgments**

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Judgements made by management in the application of IFRSs that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the next year are discussed below.

### *(a) Estimates for financial assets*

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

### *(b) Income taxes*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The Company establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

### *(c) Share-based payments*

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value requires

determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them.

*(d) Fair value of financial instruments*

Where the fair value of financial assets and financial liabilities recorded in the income statement cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flow model. The inputs to this model are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

## 5. Trade receivables

	2011	2010
Trade receivables	1,397	-
Less: provision for impairment of receivables	-	-
<b>Trade receivables – net</b>	<b>1,397</b>	<b>-</b>

## 6. Derivative financial assets

SeaBird has not entered into any derivative financial instruments in the years 2009-2011.

## 7. Income tax expense and deferred tax assets

	2011	2010
<b>Current tax</b>		
Current period	-	34
Adjustment for prior periods	-	-
<b>Total current tax</b>	-	34
<b>Deferred tax</b>		
Origination and reversal of temporary differences	-	-
<b>Total deferred tax</b>	-	-
<b>Total income tax expense</b>	-	34
<b>Deferred tax asset</b>		
Deferred tax assets 1 January 2010		-
Exchange rate effect on opening balance		-
<b>Tax losses carry-forward</b>		-
<b>Deferred tax asset 31 December 2010 – to be recovered after more than 12 months</b>		-
Exchange rate effect on opening balance		-
<b>Tax losses carry-forward</b>		-
<b>Deferred tax asset 31 December 2011 – to be recovered after more than 12 months</b>		-

## 8. Other current assets

	2011	2010
Accrued income	-	-
Bond loan issue, prepaid expense	-	367
Prepaid expenses	102	-
Other current assets	-	10
<b>Total other current assets</b>	<b>102</b>	<b>377</b>

## 9. Cash and cash equivalents

	2011	2010
<b>Cash at bank and in hand</b>	<b>65</b>	<b>57</b>

The effective average interest rate on short-term bank deposits was nil in 2011 (2010: 0.21%).  
Cash and cash equivalents include USD 0 of restricted cash at 31 December 2011 (2010; USD 0).



## 10. Share capital and share options

	Number of shares
At 1 January 2010	174,895,831
New shares issued in 2010	-
At 31 December 2010 Basic	174,895,831
New shares issued in 2011	139,363,892
<b>At 31 December 2011 Basic</b>	<b>314,259,723</b>
<b>At 31 December 2011 Diluted</b>	<b>314,259,723</b>

On 9 December 2011 the Board of SeaBird resolved to issue 139,363,892 new shares through a private placement at a price of NOK 0.25. The total number of shares at 31 December 2011 is 314,259,723. According to the Articles of Association, the Company's authorised capital is 500,000,000 shares of par value USD 0.01 each.

The Perestroika convertible loan is not included in the dilutive outstanding options calculation as it is 'out of the money'.

SeaBird uses stock options as an incentive for key employees. Under the incentive scheme, representing up to 5,000,000 options, of which a total of 3,415,000 share options were initially granted in May 2008 to SeaBird's management and key personnel. The options have an exercise price at NOK 13.00, which represents the average closing price for the SBX share on the Oslo Stock Exchange at the date of the grant 28 May 2008. Another 150,000 options have been granted subsequently, with an exercise price of NOK 10.40. During 2011, options of 810,000 were cancelled due to employees leaving the group. Outstanding options under this scheme as at 31 December 2011 are therefore 1,845,000.

1/3 of the options granted under the May 2008 plan may be exercised one year after the grant date, 1/3 of the options granted may be exercised two years after the grant date and the remaining 1/3 of the granted options may be exercised three years after the grant. All options must be exercised within four years of grant date. Calculated value of the options is expensed over the option period.

Notes to the financial statements  
(All figures in USD 1,000)

May 2008 Plan		Outstanding options		Vested options	
Exercise price	Outstanding options per 31.12.2011	Weighted average remaining Contractual Life	Weighted Average Exercise Price	Vested options 31.12.2011	Weighted Average Exercise Price
0,00 - 12,00	-	-	-	-	-
12,00 - 15,00	1,845,000	0.41	13.00	1,845,000	13.00
15,00 -	-	-	-	-	-
<b>Total</b>	<b>1,845,000</b>	<b>0.41</b>	<b>13.00</b>	<b>1,845,000</b>	<b>13.00</b>

Estimated value of the share options granted, reduced for services not rendered as per 31 December 2011, is presented in equity as Share options granted. Outstanding options at 31 December 2011 is representing in total 1,845,000 shares.

No new options have been granted in 2011.

Share based payments effect on the Group's profit or loss amounts to USD 93 for 2011 and USD 435 for 2010.

On 20 February 2012, the Company announced that Mr. Dag Reynolds (SeaBird's new CEO, expected to join the Company on or about 1 May 2012) was granted 30,000,000 share options at a strike price of NOK 0.25 (equaling the average share price on the trading day 6 February 2012 + 10% approx.). The share options are exercisable with 1/3 from 16 February 2013 to 16 April 2013, 1/3 from 16 February 2014 to 16 April 2014 and 1/3 from 16 February 2015 to 16 April 2015.

## 11. Trade and other payables

	2011	2010
Trade payables	2,544	104
Advance from customers	-	-
Accrued interest expense	-	868
Accrued expenses and other payables	37	279
<b>Total trade and other payables</b>	<b>2,581</b>	<b>1,251</b>

## 12. Loans and borrowings

	Effective interest rate/ Maturity 31.12.11	2011	2010
<b>Non-current</b>			
Bond loan - SBX01	Nibor + 4.25%	-	-
Bond loan - SBX02	Nibor + 4.50%	-	68,301
Bond loan - SBX03	6%/2015	75,008	-
Bank loans and other interest-bearing debt, secured	Libor + 3- 4%	-	20,243
Convertible loan from Perestroika	1%/2013	11,403	17,004
<b>Total Non-current interest bearing loans and borrowings</b>		<b>86,411</b>	<b>105,548</b>
<b>Current</b>			
Bond loan 1	Nibor + 4.25%	-	13,447
Bank loans and other interest-bearing debt, secured	Libor + 4%	-	5,390
Bank loans and other interest-bearing debt, unsecured	Libor + 4.50%	-	-
<b>Total current interest bearing loans and borrowings</b>		<b>-</b>	<b>18,837</b>
<b>Total interest-bearing loans and borrowings</b>		<b>86,411</b>	<b>124,385</b>
<b>Fair value of conversion rights</b>		<b>-</b>	<b>6,506</b>

### *Bond loan 1 - SBX01*

The bond loan SBX01 was raised in two tranches in July and October 2007 for a total of NOK 200 million (value at NOK 79 million as of 31 December 2010 – USD value 13.45 million). The loan was restructured and partially paid off at discount during March and April 2009 through private placement and new bank debt. The gain on restructuring of bond loan in 2009 was 6.225 million. The bond loan is part of the financial restructuring carried out in 2011, see section Bond loan 3 - SBX03 below.



### *Bond loan 2*

The bond loan SBX02 was raised in one tranche in February 2008 for a total of NOK 400 million. The bondholders approved an amendment and restructuring at a bondholders' meeting held on 8 February 2011. The bond loan is part of the financial restructuring carried out in 2011, see section Bond loan 3 - SBX03 below.

### *Bank loans and other interest-bearing debt*

Bank loans secured by first and second priority mortgages of Osprey Explorer, Aquila Explorer, Harrier Explorer, Northern Explorer and Geo Mariner, and certain other security were repaid in full as part of the financial restructuring carried out in 2011, see section Bond loan 3 - SBX03 below.

### *Convertible loan from Perestroika*

In September 2010, Seabird Exploration PLC entered into an agreement for issuance of a NOK 120 million convertible, non-transferable loan in favour of Perestroika AS as lender with three years maturity. The Loan may be converted into a maximum of 35,820,895 shares in SeaBird, at any time up to 23rd August 2014 at a price of NOK 3.35 per share. If the parties agree, accrued interest may also be converted into shares in the company at the same conversion price. In March 2011, the convertible loan was renegotiated with change in currency from NOK to USD and change in maturity date to September 2014. Part of the convertible loan was redeemed as part of the financial restructuring carried out in 2011, see section Bond loan 3 - SBX03 below. Current principal outstanding is USD 14.9 million. After the partial redemption, the Perestroika convertible loan continues under the same terms as before the debt restructuring.

### *Bond loan 3 - SBX03*

In connection with divestment of the OBN business, a financial restructuring of Seabird's debt took place in December 2011, whereby the outstanding secured creditors, Standard Chartered Bank and Sparebanken 1 SMN/Glitnir, were repaid in full. The bond loans SBX01 and SBX02, the PGS convertible loan and Perestroika convertible loan were repaid with approximately 31.4% for each of the mentioned facilities. The remaining balance of the bonds SBX01, SBX02 and PGS convertible loan were merged into a new senior secured bond loan (with inter alia 1st priority pledge in the vessels Northern Explorer, Osprey Explorer, Harrier Explorer and Aquila Explorer), SBX03, at an interest rate of 6% p.a. and maturity in December 2015. Repayment of SBX03 will be through 6 equal instalments of USD 2 million (first time on 19 December 2012) during the term of the loan and a balloon repayment at maturity of USD 77.9 million. First interest payment falls due on 19 June 2012. After that, interest falls due at the same dates as instalments. On issuance of the bond, the fair value was determined using a market rate for an equivalent bond; and classified as a financial liability measured at amortised cost until it is extinguished on redemption.

### 13. Other financial items, net

	2011	2010
Interest income on bank deposits	-	34
Intercompany borrowings	11,319	4,806
Net foreign exchange gain/(loss)	(287)	1,070
Other financial income/(expense)	2,943	7,290
Change in fair value of conversion rights	(3,014)	(2,716)
Income (loss) from Sale of OBN	(4,898)	-
<b>Total other financial items</b>	<b>6,063</b>	<b>10,484</b>

### 14. Expenses by nature

	2011	2010
Staff cost and Directors' remuneration	839	1,338
Legal and professional	55	40
Management fee	-	66
Other expenses	22	157
<b>Total selling, general and administrative expenses</b>	<b>916</b>	<b>1,601</b>

### 15. Interest expense

	2011	2010
Interest on bank borrowings, bond loans, and leases	15,559	7,251
Amortisation of deferred costs	-	-
<b>Total interest expense</b>	<b>15,559</b>	<b>7,251</b>

### 16. Dividends

No dividend was distributed for 2009 and 2010 and no dividend will be distributed for the year ended 31 December 2011.

## 17. Shares in subsidiaries

Company	Country of incorporation	Shareholding and voting rights
Arna Shipping Ltd	Cyprus	100%
Munin Navigation Company Ltd	Cyprus	100%
Harrier Navigation Company Ltd	Cyprus	100%
Sana Navigation Company Ltd	Cyprus	100%
Hawk Navigation Company Ltd	Cyprus	100%
Osprey Navigation Co. Inc	Cyprus	100%
Aquila Explorer Inc	Cyprus	100%
Raven Navigation Company Ltd	Cyprus	100%
Silver Queen Maritime Ltd	Malta	100%
Seaship Holding Services Ltd	Cyprus	100%
SeaBird Exploration FZ-LLC	Dubai	100%
Baruka Management Ltd	Cyprus	100%
Seabird Exploration Norway AS	Norway	100%
Geobird Management AS	Norway	100%
Seabird Exploration Americas Inc	USA	100%

### Impairment of shares in subsidiaries:

	2011	2010
Arna Shipping Ltd	2	-
Munin Navigation Company Ltd	2,702	25,000
Harrier Navigation Company Ltd	-	-
Sana Navigation Company Ltd	-	-
Hawk Navigation Company Ltd	13,002	15,000
Osprey Navigation Co. Inc	10	-
Aquila Explorer Inc	10	-
Raven Navigation Company Ltd	379	-
Silver Queen Maritime Ltd	-	-
Seaship Holding Services Ltd	50	-
SeaBird Exploration FZ-LLC	-	-
Baruka Management Ltd	-	-
Seabird Exploration Norway AS	171	-
Geobird Management AS	1,073	-
Seabird Exploration Americas Inc	-	-
<b>Total Impairment</b>	<b>17,399</b>	<b>40,000</b>

## 18. Commitments and contingencies

There are no commitments or contingencies in the accompanying financial statements per 31 December 2011 (USD 0 in 2010).

## 19. Related parties

### i) Purchases of services

	2011	2010
Legal and professional	-	-
Intercompany crew management and administration services (note 14)	-	66
	-	66

Services are usually negotiated with related parties on a cost-plus basis considered to be on arms' length, allowing a margin ranging from 4% to 10%.

### ii) Key management personnel compensation

	2011	2010
Salaries and other short-term employee benefits	745	797
Share options expense for employees within Seabird Group	93	438
Post employment benefits	-	-
	838	1,235

### iii) Loans to related parties

	2011	2010
Loans to companies within SeaBird Group:		
At beginning of year	102,150	86,660
Additional loans/(loans repaid during year)	35,560	10,684
Interest charged	11,319	4,806
Impairment of group receivables	(72,560)	-
<b>At end of year</b>	<b>76,469</b>	<b>102,150</b>

The above loan is provided at 8.8% weighted average interest rate (6.18% in 2010) interest rate and is repayable on demand.

### iv) Commitments and contingencies

The Company has neither commitments nor contingencies to related parties.

## v) Shareholding

Management (as defined 31 December 2011 under iii) and the Board, as of 31 December 2011, held the following shares on own account)

Name	Title	Shares*)	Options	Total
Tim Isden	Board Member/ CEO	5,360,000	-	5,360,000
Kjell Mathiassen	Board member	14,425,000	-	14,425,000
Alexander Holst	Legal Counsel	1,000	325,000	326,000
Thor Higrav	COO	-	250,000	250,000
John Olav Økland	Board Member	69,451,200	-	69,451,200

\*) Direct includes shares held by spouses, dependent children or companies in which the person has such influence as referred to in the Norwegian Public Limited Liability Companies Act §1-3.

## 20. Subsequent events

On 6 February 2012, Mr. Tim Isden stepped down from his position as CEO with immediate effect and he left the Company end of February 2012. Mr. Dag Reynolds has been appointed as new CEO of SeaBird. Mr. Reynolds will assume the position with effect no later than 1 May 2012. Mr. Jan-Eivind Fondal, previously a member of the Board of Directors of the Company, will assume the position as interim CEO from 6 February 2012 and until Mr. Reynolds assumes the position.

On 20 February 2012, the Company announced that Mr. Dag Reynolds (SeaBird's new CEO, expected to join the Company on or about 1 May 2012) was granted 30,000,000 share options at a strike price of NOK 0.25 (equaling the average share price on the trading day 6 February 2012 + 10% approx.). The share options are exercisable with 1/3 from 16 February 2013 to 16 April 2013, 1/3 from 16 February 2014 to 16 April 2014 and 1/3 from 16 February 2015 to 16 April 2015.

With effect from 28 February 2012, as an organising measure upon completion of client service contracts committed prior to OBN divestiture commitment, the Company acquired title to 100% of the shares in Seabed Navigation Company Ltd. from Fugro Norway AS for a consideration of USD 22.7 million. Additionally, debt in Seabed Navigation Company Ltd to other SeaBird companies amounting to USD 27.9 million was acquired by the Company from Fugro Norway AS. On the same date, marine and seismic equipment in Seabed Navigation Company Ltd was acquired by Fugro Norway AS for consideration of USD 50.6 million.



## 21. Financial instruments

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Note	2011	2010
<b>Loans and receivables:</b>			
Due from related parties	19	76,469	102,150
Trade receivables	5	1,397	-
Other current assets	8	102	377
<b>Total loans and receivables</b>		<b>77,968</b>	<b>102,527</b>
Cash and cash equivalents	9	65	57
<b>Total credit risk</b>		<b>78,033</b>	<b>102,584</b>

### Liquidity Risk

Ultimate responsibility for risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long term funding and liquidity requirements. The Group manages liquidity risk by maintaining sufficient cash and marketable securities, ensuring the availability of funding through an adequate amount of available debt funding, and by continuously monitoring forecast and actual cash flows.

The table below summarised the maturity profile of the Company's financial liabilities at 31 December 2011 on contractual undiscounted payments:

	On Demand	Less Than 12 Months	1 to 5 Years	Total
Interest-bearing loans borrowings	-	-	86,411	86,411
Capital lease obligations	-	-	-	-
Interest payment	-	-	-	-
Trade and other payables	-	2,544	-	2,544
<b>Total liquidity risk</b>	-	<b>2,544</b>	<b>86,411</b>	<b>88,955</b>

The table below summarised the maturity profile of the Companies's financial liabilities at 31 December 2010 on contractual undiscounted payments:

	On Demand	12 Months	1 to 5 Years	Total
Interest-bearing loans borrowings	-	18,837	105,548	124,385
Capital lease obligations	-	-	-	-
Interest payment	-	-	-	-
Trade and other payables	-	104	-	104
<b>Total Group's financial liabilities</b>	-	<b>18,941</b>	<b>105,548</b>	<b>124,489</b>

### Currency risk

The Company's exposure to foreign currency risk was as follows based on notional amounts per 31 December 2011:

	EURO	NOK	AUD	GBP	COP	NGN	Other*)
Trade receivables	-	-	-	-	-	-	-
Trade and other payables	-	-	-	-	-	-	-
<b>Gross balance sheet exposure</b>	-	-	-	-	-	-	-

\*) USD Equivalents

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2011	2010	2011	2010
USD				
EURO 1	1.3950	1.3272	1.2950	1.3253
AUD 1	1.0375	-	1.0176	-
NOK 1	0.1789	0.1654	0.1687	0.1707
GBP 1	1.6060	1.5456	1.5456	1.5471

The Company and its subsidiaries operate internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Norwegian kroner, Euro and GBP.

### Interest rate risk

	2011	2010
Fixed rate financial liabilities- Bond loans:		
SBX03	75,008	-
Variable rate financial liabilities (other loans):		
LIBOR based USD loans	-	25,633
NIBOR based NOK loans	-	81,748
<b>Total interest rate risk</b>	<b>75,008</b>	<b>107,381</b>

In addition cash and cash equivalents of USD 65 at 31 December 2011 and USD 57 at 31 December 2010 are interest bearing assets with variable rates.

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Company does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss or equity.

A change of 100 basis points in interest rate at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Notes to the financial statements  
(All figures in USD 1,000)

	100 bp increase	100 bp decrease
Variable rate instruments	749	(749)

**Fair value versus carrying amounts**

The company has reviewed the fair value of financial assets and liabilities compared to carrying amount at 31 December 2011. In general, this evaluation shows no material difference.





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## **Independent Auditor's Report**

**To the Members of Seabird Exploration Plc**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the parent company Seabird Exploration Plc (the "Company"), which comprise the statement of financial position as at 31 December 2011, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

We have reported separately on the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2011.

### ***Board of Directors' Responsibility for the Financial Statements***

The Board of Directors is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



**Independent Auditor's Report (continued)**

**To the Members of Seabird Exploration Plc**

***Opinion***

In our opinion, the financial statements give a true and fair view of the financial position of the parent company Seabird Exploration Limited as at 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113.

***Emphasis of Matter***

Without qualifying our opinion, we draw attention to note 2.16 to the parent company financial statements which indicates the existence of a material uncertainty which may cast significant doubt about the Company's and Group's ability to continue as a going concern.

**Report on Other Legal and Regulatory Requirements**

Pursuant to the requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The Company's financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors is consistent with the financial statements.

**Other Matter**

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Terence Kiely  
Certified Public Accountant and Registered Auditor  
for and on behalf of

BDO Ltd  
Certified Public Accountants (CY) and Registered Auditors

Nicosia, Cyprus

27 March 2012