FOURTH QUARTER

# Q4 16


SeaBird Exploration


$3.4m

revenues for the quarter

$0.9m

multi-client revenues for the quarter

Hawk

Hawk Explorer decommissioned

# 2016 SUMMARY OBSERVATIONS FOR THE FOURTH QUARTER

SeaBird recorded a 28.8% active vessel utilization during the fourth quarter of 2016, with two stacked vessels. The utilization was impacted by a weak winter season and market softness. SeaBird continues its active marketing of the fleet to secure new projects. Seismic tender activity has picked up recently, but contracting lead-time remains long with substantial competition and high market uncertainty. The company continues to proactively optimize its cost base to improve its relative cost position in the 2D and source markets.

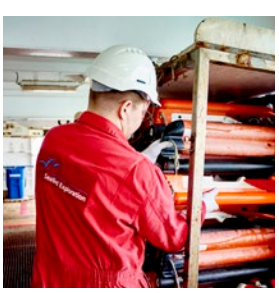
As a result of the significant market uncertainty as well as upcoming debt maturities, the company has engaged financial advisors to evaluate financial alternatives. Such alternatives may involve the raising of additional capital as well as refinancing or restructuring existing obligations. Any such transactions may result in a significant dilution to current shareholders.

$-2.9m

adjusted EBITDA for the quarter

28.8%

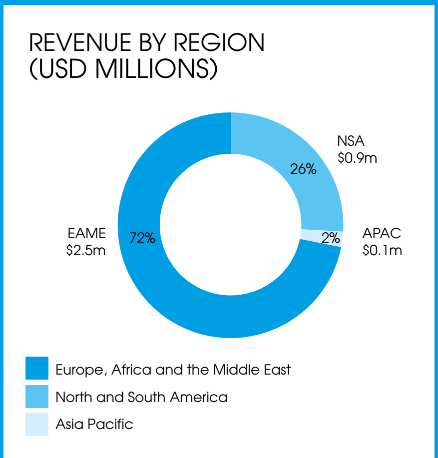
vessel utilization

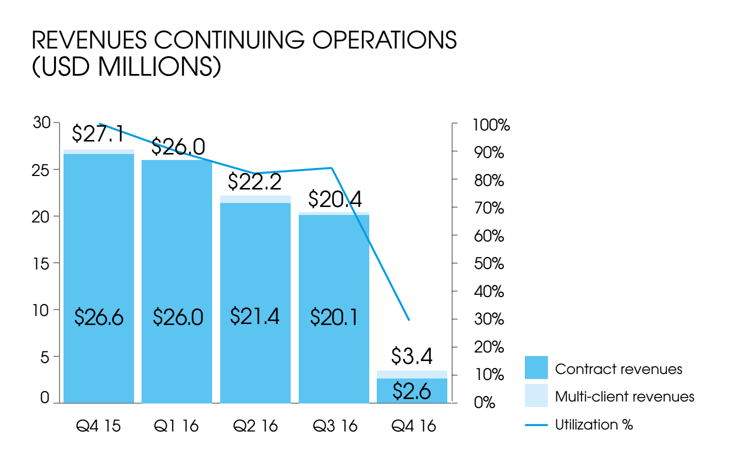


$1.0m

net non-recurring gain

- Revenues for the quarter were $3.4 million, a decrease of 87% compared to Q4 2015 and down 83% relative to Q3 2016.
- Contract revenues for the period were $2.6 million, down 90% from Q4 2015 and a decrease of 87% from Q3 2016.
- Multi-client revenues were $0.9 million, up from $0.5 million reported in Q4 2015 and an increase from $0.3 million reported in Q3 2016.
- Adjusted EBITDA of negative $2.9 million. Reported EBITDA was negative $1.9 million compared to positive $4.6 million for Q4 2015 and positive $10.7 million for Q3 2016.
- Adjusted EBIT of negative $6.5 million. Reported EBIT for the quarter was negative $5.5 million compared to negative $5.6 million for Q4 2015 and negative $3.0 million for Q3 2016.
- Net non-recurring gain of $1.0 million mainly relating to reversal of bad debt charges.
- Active vessel utilization for the period was 28.8%. Contract surveys during the fourth quarter represented 21.5% of vessel capacity compared to 100% during the fourth quarter 2015. Multi-client surveys accounted for 7.3% of vessel capacity compared to 0% in the fourth quarter 2015. For 2016, the utilization was recorded at 73.2%.




## Operational review

The fourth quarter of 2016 was challenging with weak seismic market demand. Although there are signs of market improvement, total vessel utilization for the quarter was low and the timing of a sustained market recovery is still highly uncertain.

Active vessel utilization for the fourth quarter of 2016 was 28.8%, down from 84.0% in the third quarter. Contract surveys represented 21.5% of vessel capacity compared to 78.6% for the third quarter of 2016. Technical downtime for the fleet was 0.4% in Q4 2016, down from 7% in Q3.

Northern Explorer completed the remaining part of the Mexico Gigante project and transited to South America where it started on a 2D contract survey towards the end of the period. Osprey Explorer mobilized and commenced a source project in West Africa in the period. Harrier Explorer completed its multi-client survey in the Barents Sea early in the quarter.

The Munin Explorer remained stacked. Aquila Explorer was impacted by hurricane Matthew in the Bahamas and was transited to Las Palmas for repairs during the quarter. The Hawk Explorer was sold and delivered for decommissioning. The company retained the vessel's seismic equipment.

Yard stay represented 0.0% of active vessel capacity during the quarter.

Multi-client surveys represented 7.3% of vessel utilization in the quarter, compared to 5.4% in the previous quarter and nil the same quarter last year. Multi-client revenues were $0.9 million in the period, compared to $0.3 million in the previous quarter.

The Mexico Gigante project and the company's prefunded 4,000 km multi-client survey in the Barents Sea were completed during the quarter. The company announced a new source contract in West Africa and a 2D contract survey in South America during the quarter. Both these surveys commenced towards the end of the quarter and are expected to be completed in quarter one 2017. The company has a contract backlog of $6.3 million as of 31 December 2016.

Operational expenses were reduced further during the fourth quarter relative to previous quarters as a result of ongoing cost cutting initiatives and reduced fleet size.

Total net non-recurring gains were $1.0 million in the quarter, mainly relating to a reversal of bad debt costs.

Capital expenditures were $0.5 million during the quarter compared to $0.5 million Q4 2015.

Lost time injury frequency (LTIF) rate for the quarter was 0.47.

## Regional review

Europe, Africa and the Middle East (EAME) was the most active region during the quarter. EAME revenues of $2.5 million represented 72% of total Q4 revenues. Harrier Explorer completed a multi-client project in the quarter, while Osprey Explorer commenced a source project towards the end of the quarter.

North and South America (NSA) revenues of $0.9 million represented 26% of total Q4 revenues. Northern Explorer completed the remaining part of the Mexico Gigante survey and commenced production on a 2D contract survey in South America towards quarter-end.

No SeaBird vessels worked in Asia Pacific (APAC) during the quarter. Revenues in the region were $0.1 million coming from multi-client late sales and represented 2% of total Q4 revenues.

## Outlook

Global seismic demand continued to be weak in the fourth quarter and the company's fleet capacity has been reduced to better reflect market demand. SeaBird continues to evaluate and execute savings initiatives to reduce the company's overall cost level and this may include temporary stacking of additional vessels.

While we are seeing a significant pick-up in requests for quotes, the first quarter 2017 revenues are expected to be negatively impacted by idle periods as well as the potential repositioning of vessels before start-up of new projects. The company is reviewing a number of survey opportunities. However, the current market uncertainty makes it difficult to predict the level of contract coverage that is possible to obtain.

## Financial comparison

All figures below relate to continuing operations unless otherwise stated. For discontinued operations, see note 1. The company reports net loss of $6.9 million

# KEY HIGHLIGHTS

for Q4 2016 (net loss of $6.5 million in the same period in 2015).

Revenues were $3.4 million in Q4 2016 ($27.1 million). The decreased revenues are primarily due to lower utilization and reduced fleet size.

Cost of sales was $3.8 million in Q4 2016 ($18.2 million). The decrease is predominantly due to fewer vessels in operation and lower operating expenses as a result of implemented cost cutting efforts.

SG&A was $3.1 million in Q4 2016, down from $4.5 million in Q4 2015. The decrease is principally due to cost saving initiatives and reduced headcount.

Reversal of bad debt charges was $1.2 million in Q4 2016.

Other income (expense) was $0.3 million in Q4 2016 ($0.2 million).

EBITDA was negative $1.9 million in Q4 2016 (positive $4.6 million).

Depreciation, amortization and impairment were $3.6 million in Q4 2016 ($10.3 million). The decrease is due to fleet reduction and impairment recognized in Q4 2015.

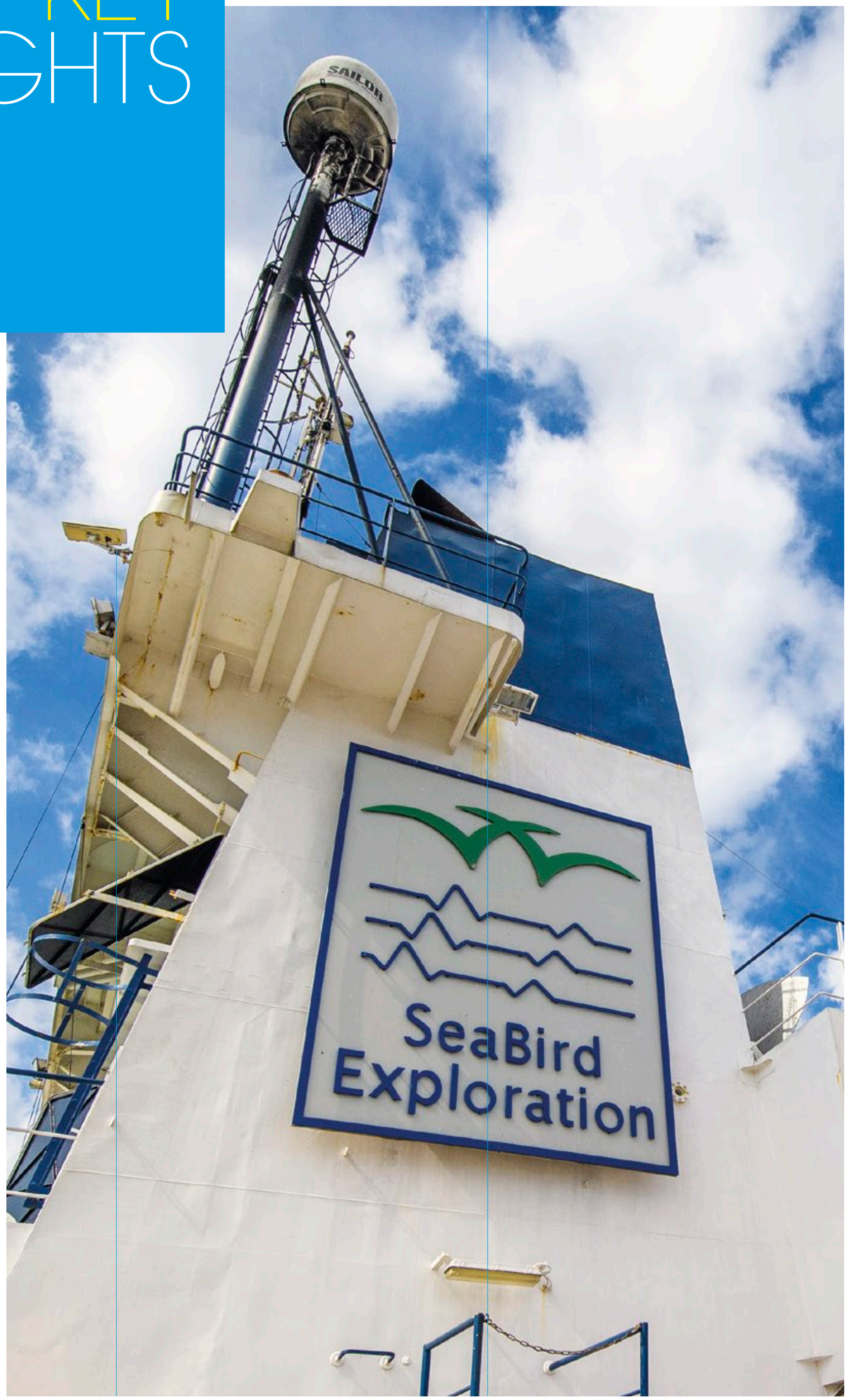
Finance expense was $1.3 million in Q4 2016 ($1.0 million).

Other financial items were $0.0 million in Q4 2016 ($0.1 million).

Income tax expense was $0.0 million in Q4 2016 (positive $0.0 million).

Capital expenditures in the quarter were $0.5 million ($0.5 million).

Multi-client investment was $1.3 million in Q4 2016 (nil).



| KEY FIGURES – CONTINUING OPERATIONS | | | | |
|---|---|---|---|---|
| | Quarter ended 31 December | | Year ended 31 December | |
| All figures in USD 000's (except for EPS and equity ratio) | 2016 | 2015 | 2016 | 2015 |
| Revenues | 3,447 | 27,110 | 72,074 | 94,127 |
| EBITDA | (1,898) | 4,629 | 22,431 | 10,917 |
| EBIT | (5,515) | (5,646) | (3,050) | (17,603) |
| Profit/(loss) | (6,891) | (6,461) | (8,001) | 38,344 |
| Earnings per share (diluted) | (2.25) | (2.11) | (2.61) | 14.84 |
| | | | | |
| Cash flow operating activities | 5,448 | 2,439 | 20,680 | (6,909) |
| Capital expenditures | (461) | (504) | (3,310) | (5,555) |
| | | | | |
| Total assets | 72,231 | 106,757 | 72,231 | 106,757 |
| Net interest bearing debt | 15,569 | 27,490 | 15,569 | 27,490 |
| Equity ratio | 30.6% | 28.1% | 30.6% | 28.1% |

Note: All figures are from continuing operations. See note 1 for discontinued operations.


## Liquidity and financing

Cash and cash equivalents at the end of the period were $15.0 million ($6.3 million in Q4 2015), of which $0.5 million was restricted in connection with deposits and taxes. Net cash from operating activities was $5.4 million in Q4 2016 ($2.4 million in Q4 2015).

The company has one bond loan, one secured credit facility and one unsecured note.

The SBX04 secured bond loan (issued as "SeaBird Exploration Finance Limited First Lien Callable Bond Issue 2015/2018") is recognized in the books at amortized cost of $27.6 million per Q4 2016 (nominal value of $29.3 million plus accrued interest of $0.2 million plus amortized interest of $2.5 million less fair value adjustment of $4.4 million). This bond has been issued in two tranches; tranche A amounting to $5.0 million and tranche B amounting to $24.3 million. The SBX04 bond tranche A is carrying an interest rate of 12.0% and Tranche B is carrying an interest rate of 6.0%. Interest is paid quarterly in arrears with the first interest instalment being paid on 3 June 2015. The bond matures on 3 March 2018, with principal amortizations due in quarterly instalments of $2.0 million starting at 3 June 2017. The outstanding loan balance is scheduled to be paid at the maturity date. Interest paid during Q4 2016 was $0.5 million. The bond is listed on Nordic ABM, and it is traded with ticker SBEF01 PRO and SBEF02 PRO for the respective two bond tranches.

The three-year secured credit facility is recognized at amortized cost of $2.2 million (nominal value of $2.3 million plus accrued interest of $0.01 million plus amortized interest $0.2 million less fair value adjustment of $0.4 million). Coupon interest rate is 6.0%. Interest is to be paid quarterly in arrears and the first interest amount was paid on 3 June 2015. The facility's final maturity is 3 March 2018 and quarterly instalments of $0.2 million are due starting on 3 June 2017. Principal repayments during Q4 2016 amounted to $0.1 million and additional amounts drawn on the credit facility during the period was $0.1 million. Interest paid during Q4 2016 was $0.03 million.

The three year unsecured loan is recognized at amortized cost of $0.9 million (initial nominal value of $2.1 million plus amortized interest $0.2 million less fair value adjustment of $0.3 million less principal repayments of $1.2 million). Coupon interest rate is 6.0%. Stated maturity is 1 January 2018. Interest is paid quarterly in arrears and the first payment was due on 1 April 2015. The principal will be repayable in nine equal instalments of $0.2 million, commencing 1 January 2016. Interest paid during Q4 2016 was $0.02 million and principal repayments during Q4 2016 was $0.2 million.

Net interest bearing debt was $15.6 million as at the end of Q4 2016 ($27.5 million in Q4 2015).


Accrued interest on the bond loan, credit facility and the unsecured note for Q4 2016 was $0.2 million ($0.2 million).

The company was in compliance with all covenants as of 31 December 2016.

The total outstanding amount of common shares in the company is 3,065,434. The company has also issued 884,686 warrants, convertible into 884,686 ordinary shares. The warrants are listed on the Oslo Stock Exchange with ticker SBX J.

The company's accounts have been prepared on the basis of a going concern assumption. In the view of the board of directors, the continued very challenging market conditions, the company's limited working capital and low level of firm contract backlog creates a material risk to this assumption. In the event that new backlog cannot be secured on satisfactory rates or at all, project performance is significantly worse than expected or contracts and other arrangements in respect of the employment of SeaBird's vessels are cancelled, or significantly delayed, the company would need to sell assets or raise additional financing, which may not be available at that time. Reference is made to the Going Concern section in selected notes and disclosures for further details on the financial position of the company.

## Subsequent events

The company does not have any significant post balance sheet date events to report.

**The Board of Directors and Chief Executive Officer**

SeaBird Exploration Plc
23 February 2017

**Annette Malm Justad**
**Chairman**

**Hans Petter Klohs**
**Director**

**Kitty Hall**
**Director**

**Christophe Debouvry**
**Chief Executive Officer**

**Olav Haugland**
**Director**

## CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

| All figures in $000's | As of 31 December 2016 (Unaudited) | As of 31 December 2015 (Audited) |
|---|---|---|
| ASSETS | | |
| **Non-current assets** | | |
| Property, plant and equipment | 47,541 | 67,433 |
| Multi-client library | 3,098 | 3,340 |
| Long term investment | 120 | 5 |
| | **50,760** | **70,778** |
| **Current assets** | | |
| Inventories | 1,274 | 3,091 |
| Trade receivables | 2,135 | 12,611 |
| Other current assets | 3,014 | 14,025 |
| Cash and cash equivalents | 15,047 | 6,252 |
| | **21,471** | **35,979** |
| **Total assets** | **72,231** | **106,757** |
| EQUITY | | |
| **Shareholders' equity** | | |
| Paid in capital | 218,690 | 218,690 |
| Equity component of warrants | 2,736 | 2,736 |
| Equity component of convertible loan | – | – |
| Currency translation reserve | (407) | (407) |
| Share options granted | – | – |
| Retained earnings | (198,950) | (191,043) |
| | **22,069** | **29,976** |
| LIABILITIES | | |
| **Non-current liabilities** | | |
| Loans and borrowings | 23,262 | 31,098 |
| Provision for end of service benefit | – | – |
| | **23,262** | **31,098** |
| **Current liabilities** | | |
| Trade and other payables | 12,330 | 25,371 |
| Provisions | 2,033 | 12,226 |
| Loans and borrowings | 7,355 | 2,644 |
| Tax liabilities | 5,182 | 5,442 |
| | **26,901** | **45,683** |
| **Total liabilities** | **50,162** | **76,781** |
| **Total equity and liabilities** | **72,231** | **106,757** |

| CONSOLIDATED INTERIM STATEMENT OF INCOME | | | | |
|---|---|---|---|---|
| | Quarter ended 31 December | | Year ended 31 December | |
| All figures in $000's | 2016 | 2015 | 2016 | 2015 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Audited) |
| Revenues | 3,447 | 27,110 | 72,074 | 94,127 |
| Cost of sales | (3,772) | (18,183) | (41,913) | (69,756) |
| Selling, general and administrative expenses | (3,078) | (4,472) | (13,308) | (18,597) |
| Reversal of bad debt charges | 1,185 | – | 4,509 | – |
| Other income (expenses), net | 320 | 174 | 1,069 | 430 |
| Restructuring gain on leases | – | – | – | 4,713 |
| **Earnings before interest, tax, depreciation and amortization (EBITDA)** | **(1,898)** | **4,629** | **22,431** | **10,917** |
| Depreciation | (2,803) | (3,795) | (12,829) | (16,046) |
| Amortization | (814) | (1,169) | (2,795) | (3,112) |
| Impairment | - | (5,311) | (9,856) | (9,362) |
| **Earnings before interest and taxes (EBIT)** | **(5,515)** | **(5,646)** | **(3,050)** | **(17,603)** |
| Finance expense | (1,337) | (968) | (5,469) | (4,860) |
| Other financial items, net | (24) | 140 | 1,129 | 73 |
| Restructuring gain | – | – | – | 61,697 |
| **Profit/(loss) before income tax** | **(6,876)** | **(6,474)** | **(7,390)** | **39,307** |
| Income tax | (16) | 13 | (611) | (963) |
| **Profit/(loss) continuing operations** | **(6,891)** | **(6,461)** | **(8,001)** | **38,344** |
| Net profit/(loss) discontinued operations (note 1) | 93 | 38 | 93 | 218 |
| **Profit/(loss) for the period** | **(6,798)** | **(6,423)** | **(7,908)** | **38,562** |
| **Profit/(loss) attributable to** | | | | |
| Shareholders of the parent | (6,798) | (6,423) | (7,908) | 38,562 |
| **Earnings per share** | | | | |
| Basic | (2.22) | (2.10) | (2.58) | 15.13 |
| Diluted | (2.22) | (2.10) | (2.58) | 14.92 |
| **Earnings per share from continued operations** | | | | |
| Basic | (2.25) | (2.11) | (2.61) | 15.05 |
| Diluted | (2.25) | (2.11) | (2.61) | 14.84 |

## CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

| All figures in $000's | Quarter ended 31 December 2016 (Unaudited) | Quarter ended 31 December 2015 (Unaudited) | Year ended 31 December 2016 (Unaudited) | Year ended 31 December 2015 (Audited) |
|---|---|---|---|---|
| **Profit/(loss)** | **(6,798)** | **(6,423)** | **(7,908)** | **38,562** |
| OTHER COMPREHENSIVE INCOME | | | | |
| Net movement in currency translation reserve and other changes | 1 | – | 11 | 34 |
| **Total other comprehensive income, net of tax** | **1** | **-** | **11** | **34** |
| **Total comprehensive income** | **(6,797)** | **(6,423)** | **(7,897)** | **38,596** |
| Total comprehensive income attributable to | | | | |
| Shareholders of the parent | (6,797) | (6,423) | (7,897) | 38,596 |
| **Total** | **(6,797)** | **(6,423)** | **(7,897)** | **38,596** |

## CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

| All figures in $000's | Year ended 31 December 2016 (Unaudited) | Year ended 31 December 2015 (Audited) |
|---|---|---|
| **Opening balance** | **29,976** | **(40,921)** |
| Profit/(loss) for the period | (7,908) | 38,562 |
| Increase/(decrease) in share capital | – | 29,565 |
| Increase/(decrease) equity component of warrants | – | 2,736 |
| Increase/(decrease) equity component of convertible loan | – | – |
| Share options granted | – | – |
| Net movements in currency translation reserve and other changes | 1 | 34 |
| **Ending balance** | **22,069** | **29,976** |

## CONSOLIDATED INTERIM STATEMENT OF CASH FLOW

| All figures in $000's | Quarter ended 31 December 2016 (Unaudited) | Quarter ended 31 December 2015 (Unaudited) | Year ended 31 December 2016 (Unaudited) | Year ended 31 December 2015 (Audited) |
|---|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Profit/(loss) before income tax | (6,876) | (6,474) | (7,390) | 39,307 |
| Adjustments for | | | | |
| Depreciation, amortization and impairment | 3,617 | 10,276 | 25,480 | 28,594 |
| Other items | – | – | (1,450) | (66,411) |
| Movement in provision | (2,311) | (788) | (10,098) | 2,560 |
| Unrealized exchange (gain)/loss | (7) | (115) | 124 | (68) |
| Interest expense on financial liabilities | 988 | 979 | 3,918 | 4,054 |
| Paid income tax | (173) | (249) | (925) | (2,634) |
| (Increase)/decrease in inventories | 256 | 2 | 1,816 | 1,373 |
| (Increase)/decrease in trade and other receivables | 11,204 | 1,198 | 21,582 | 9,339 |
| Increase/(decrease) in trade and other payables | (1,250) | (2,390) | (12,377) | (23,023) |
| **Net cash from operating activities** | **5,448** | **2,439** | **20,680** | **(6,909)** |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Capital expenditures | (461) | (504) | (3,310) | (5,555) |
| Multi-client investment | (969) | (4) | (2,257) | (244) |
| Long-term investment | 5 | – | (115) | – |
| **Net cash used in investing activities** | **(1,425)** | **(508)** | **(5,682)** | **(5,799)** |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Proceeds from issuance of preference shares and warrants | – | (6) | – | 10,980 |
| Receipts from borrowings | – | – | – | 5,000 |
| Repayment of borrowings | (214) | (380) | (3,274) | (1,510) |
| Interest paid | (578) | (718) | (2,930) | (2,482) |
| Net movement in currency fluctuations | – | – | – | – |
| **Net cash from financing activities** | **(792)** | **(1,104)** | **(6,203)** | **11,988** |
| **Net (decrease)/increase in cash and cash equivalents** | **3,230** | **827** | **8,795** | **(720)** |
| **Cash and cash equivalents at beginning of the period** | **11,817** | **5,425** | **6,252** | **6,972** |
| **Cash and cash equivalents at end of the period** | **15,047** | **6,252** | **15,047** | **6,252** |

## NOTE 1: INTERIM STATEMENT OF INCOME FOR DISCONTINUED OPERATIONS

| All figures in USD 000's | Quarter ended 31 December 2016 (Unaudited) | Quarter ended 31 December 2015 (Unaudited) | Year ended 31 December 2016 (Unaudited) | Year ended 31 December 2015 (Audited) |
|---|---|---|---|---|
| Revenues | – | – | – | – |
| Cost of sales | 93 | – | 93 | 180 |
| Selling, general and administrative expenses | – | – | – | – |
| Other income (expenses), net | – | – | – | – |
| **Earnings before interest, tax, depreciation and amortization (EBITDA)** | **93** | **-** | **93** | **180** |
| Depreciation and amortization | – | – | – | – |
| Impairment | – | – | – | – |
| **Earnings before interest and taxes (EBIT)** | **93** | **-** | **93** | **180** |
| Interest expense | – | – | – | – |
| Other financial items, net | – | – | – | – |
| **Profit/(loss) before income tax** | **93** | **-** | **93** | **180** |
| Income tax | – | 38 | – | 38 |
| **Profit/(loss) discontinuing operations** | **93** | **38** | **93** | **218** |
| Gain/(loss) on sale of OBN business | – | – | – | – |
| **Net profit/(loss) from discontinued operations** | **93** | **38** | **93** | **218** |
| **Profit/(loss) attributable to** | | | | |
| Shareholders of the parent | 93 | 38 | 93 | 218 |

# SELECTED NOTES AND DISCLOSURES

SeaBird Exploration Plc is a limited liability company. The company's address is 25, Kolonakiou Street Block B, Office 101, 4103 Linopetra, Limassol, Cyprus. The company also has offices in Oslo (Norway), Houston (USA) and Singapore. The company is listed on the Oslo Stock Exchange under the ticker symbol "SBX".

## Basis of presentation

The condensed interim consolidated financial statements have been prepared in accordance with the International Accounting Standard 34 "Interim Financial Reporting" (IAS 34) and the act and regulations for the Oslo Stock Exchange. The condensed interim consolidated financial statements do not include all information required for full annual financial statements and should be read in conjunction with the consolidated financial statements for the year ended 31 December 2015.

The consolidated financial statements for the year ended 31 December 2015 and quarterly reports are available at www.sbexp.com. The financial statements as of Q4 2016, as approved by the board of directors 23 February 2017, are unaudited.

## Significant accounting principles

The accounting policies used for preparation of the condensed interim consolidated financial statements are consistent with those used in the consolidated financial statements for 2015 unless otherwise stated.

## Risk factors

The information in this report may constitute forward-looking statements. These statements are based on various assumptions made by the company, many of which are beyond its control and all of which are subject to risks and uncertainties. Risk factors include but are not limited to the demand for our seismic services, the high level of competition in the 2D/3D market, changes in governmental regulations, adverse weather conditions, and currency and commodity price fluctuations. For further description of relevant risk factors, we refer to the annual report 2015. As a result of these and other risk factors, actual events and actual results may differ materially from those indicated in or implied by such forward-looking statements.

## Segment information

All seismic vessels and operations are conducted and monitored within the company as one business segment.

## Revenue recognition

Revenues and costs are recognized in line with project duration starting from first shot point in the seismic survey and ending at demobilization.

## Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes costs directly attributable to the acquisition of the item. Costs are included in the asset's carrying amount or recognized as a separate asset, if appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. Costs of all repairs and maintenance are expensed as incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Seismic vessels | 10 to 15 years |
| Seismic equipment | 4 to 8 years |
| Office equipment | 4 years |

Depreciation for Q4 2016 was $2.8 million.

## Critical accounting estimates and judgments related to property plant & equipment and leases

We refer to the critical accounting estimates and judgments section of the 2015 annual report. The preparation of financial statements in conformity with IFRS 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. In particular, estimates and judgments including expectations of future events are important in the impairment assessment of property, plant and equipment and the evaluation of potentially onerous leases.

The company's value in use model includes estimates of the expected future cash flows from each cash generating unit (each vessel) based on day-rate, utilization, direct and indirect costs and required capital investments over the remaining life of the vessel.

These cash flows are discounted at the company's weighted average cost of capital (17%) to estimate the present value, which is compared to book value at the relevant balance sheet date. Impairment of property, plant and equipment is evaluated annually based on value in use calculations. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Currently, there is an overcapacity of vessels in the seismic market and there is a high uncertainty with regards to the future outlook in terms of utilization and day rates. There is a risk that an impairment of property, plant and equipment could be triggered by the lay-up of additional vessels, an extended lay-up period, a reduction in economic life or reduced utilization or contract day rates.

The value in use model is based on revenue day rates in line with current market rates, increasing moderately in 2018 and beyond. Utilization is assumed to be in line with historical averages. To the extent that increases in day rates do not materialize, this could have a substantial effect on the value in use calculation. For example, an impairment of $8 million would be required if day rates remain at current rates through the life of the vessels. Similarly, a ten percentage point reduction in utilization throughout the life of the vessels, would require an estimated impairment of $2 million.

Provisions for restructuring costs, onerous contracts and legal claims are measured at the management's best estimate of the expenditure required to settle the present obligation at the reporting date, and are discounted to present value. Due to the uncertain market outlook, there is a risk that additional provisions may need to be established for the leased vessel Munin Explorer due to an extended lay-up period, a reduction in economic life, reduced utilization, reduced contract day rates or additional costs to redeliver the vessel to its owner.

## Leased vessels and restructuring provisions

The 3D vessel Voyager Explorer has been chartered on a bareboat charter. The vessel has been cold-stacked and was redelivered to its owners during quarter three. The company booked operational restructuring charges of $1.6 million in Q4 2014, $2.9 million in Q2 2015, $0.6 million in Q2 2016 and $0.4 million in Q3 2016 to cover estimated operating expenses during the lay-up period.

The Munin Explorer is chartered on a bareboat contract that runs through October 2019, with a current day rate of $12,735 and an annual rate increase of 2% taking effect in August of each year. During Q2 2015, the company decided to stack the Munin Explorer. The company booked an operational restructuring charge of $4.8 million for Munin Explorer in Q2 2015, a charge of $3.7 million in Q4 2015 and an additional charge of $0.1 million in Q4 2016, which covers the net present value of lay-up costs and capital expenditures less estimated profits for the remainder of the lease period. In the event that Munin Explorer is not reactivated at all, the company would incur the cost of remaining outstanding monthly charter hire amounting to $13.5 million and additional vessel stacking and redelivery costs until the end of the charter party, of which $1.67 million already has been provided for as a part of provisions as of 31 December 2016. In the event that the Munin Explorer reactivation is delayed with three months from 1 August 2017, an estimated additional charge of $1.7 million would be required.

The company has been leasing Hawk Explorer from its owner Hawk Explorer AS. On 1 September, the company purchased the vessel from its owners and it was decided to retire the vessel from the SeaBird fleet. The company booked an operational restructuring charge of $0.5 million for Hawk during Q3 2016 relating to remaining estimated operating costs until delivery to its new owners. The Hawk Explorer was sold and delivered to its buyers in Q4 2016.

The company incurred $2.5 million in operating costs and $0.1 million in interest expense that was charged against provisions on onerous leases (Voyager Explorer, Munin Explorer and Hawk Explorer) in Q4 2016. Please see table below for additional details.

| Provisions | USD millions |
|---|---|
| Starting balance 1 Oct 2016 | 4.4 |
| Incurred costs | (2.5) |
| Changes in provision estimate (booked to cost of sales) | 0.0 |
| Interest expense | 0.1 |
| **Ending balance 31 Dec 2016** | **2.0** |

## Multi-client library

Costs directly incurred in acquiring, processing and otherwise completing multi-client seismic surveys are capitalized to the multi-client library in the period when they occur.

Due to an amendment to IAS 38 Intangible assets, the amortization method for the seismic multi-client libraries was changed with effect from 1 January 2016. The company has adopted the following changes to its amortization policy:

- During the work in progress phase, amortization will continue to be based on total cost versus forecasted total revenues of the project.
- After a project is completed, a straight-line amortization is applied. The straight-line amortization will be assigned over the project's remaining useful life, which for most projects is expected to be four years. The straight-line amortization will be distributed evenly through the financial year, independently of sales during the quarters.

Multi-client sales in Q4 2016 were $0.9 million ($0.5 million).

Multi-client amortization in Q4 2016 was $0.8 million ($1.2 million), of which $0.4 million was related to minimum amortization.

Multi-client impairment was nil in Q4 2016 ($5.0 million).

| Multi-client library | USD millions |
|---|---|
| Beginning balance 1 Oct 2016 | 2.7 |
| Capitalized cost | 1.0 |
| Capitalized depreciation | 0.2 |
| Impairment | – |
| Amortization | (0.8) |
| **Net book value 31 Dec 2016** | **3.1** |

## Debt securities and maturities

The company has one bond loan (SBX04; SeaBird Exploration Finance Limited First Lien Callable Bond Issue 2015/2018), one secured credit facility and one unsecured note. The Hawk Explorer finance lease was settled on 1 September 2016. The total book value of outstanding debt as per 31 December 2016 is $30.6 million. Please see table below for additional details.

| Debt securities | USD millions |
|---|---|
| LONG TERM DEBT | |
| **Secured debt** | |
| SBX04 bond loan, face value | 29.3 |
| Secured credit facility, face value | 2.3 |
| Less current portion of secured debt | (6.5) |
| **Unsecured debt** | |
| Unsecured note, face value | 0.9 |
| Less current portion of unsecured note | (0.7) |
| Fair value adjustment* | (2.2) |
| **Non-current loans and borrowings 31 Dec 2016** | **23.3** |
| SHORT TERM DEBT | |
| Accrued interest | 0.2 |
| Current portion of long-term debt | 7.2 |
| **Current loans and borrowings 31 Dec 2016** | **7.4** |

* of which SBX04: $1.9 million, secured credit facility: $0.2 million, unsecured note: $0.1 million

The SBX04 bond loan and the credit facility matures 3 March 2018. The bond loan has principal amortization due in quarterly instalments of $2.0 million starting at 3 June 2017 with a balloon repayment to be made at maturity. Furthermore, the credit facility has quarterly principal amortization of $160 thousand starting on 3 June 2017 with a balloon repayment to be made at maturity. The unsecured note is payable in nine equal quarterly instalments of $236 thousand, with the first instalment falling due 1 January 2016.

| Aggregate maturities of loans and borrowings | USD millions |
|---|---|
| Quarter of repayment | |
| Q1 2017 | – |
| Q2 2017 | 2.4 |
| Q3 2017 | 2.4 |
| Q4 2017 | 2.4 |
| Q1 2018 | 25.4 |
| **Total debt principal 31 Dec 2016** | **32.6** |

## Discontinued operations

On 8 December 2011, the company sold the ocean bottom node business (accounted for as discontinued operations) to Fugro Norway AS. The company has no remaining assets or potential revenues, but has recorded selected tax liabilities in relation to the discontinued operations. The company had net income of $0.1 million related to discontinued operations in the quarter. See note 1 to the consolidated income statement for the income statement for discontinued operations.

## Share capital and share options

The total number of ordinary shares at 31 December 2016 is 3,065,434 with a nominal value of $0.1 per share. In addition, the company has outstanding 884,686 warrants, each with an exercise price of NOK 100 per share and an expiration date of 15 January 2018.

The company has no share options outstanding as at 31 December 2016.

## SeaBird Exploration Finance

SeaBird Exploration Finance Limited, as the issuer of 'SeaBird Exploration Finance Limited First Lien Callable Bond Issue 2015/2018' ('SBX04'), has the following intra-group loans with other SeaBird entities as of 31 December 2016:

| | USD $000's |
|---|---|
| RECEIVABLES | |
| SeaBird Exploration Cyprus Ltd | 23,795 |
| Osprey Navigation Company Inc | 15,970 |
| Aquila Explorer Inc | 14,885 |
| SeaBird Exploration Crewing Ltd | 4,246 |
| Hawk Navigation Company Ltd | 3,208 |
| SeaBird Exploration Vessels Ltd | 2,681 |
| SeaBird Exploration Multi-Client Ltd | 2,635 |
| SeaBird Exploration Management AS | 1,764 |
| Munin Navigation Company Ltd | 1,300 |
| SeaBird Exploration Shipping AS | 631 |
| SeaBird Exploration Nigeria Ltd | 212 |
| SeaBird Exploration Americas Inc | 100 |
| GeoBird Management Middle East FZ LLC | 25 |
| Velodyne Shipping Ltd | 8 |
| Byrd Investment Ltd | 7 |
| **Total receivables from intra-group companies** | 71,467 |
| PAYABLES | |
| Sana Navigation Company Inc | (26,865) |
| SeaBird Exploration Plc | (11,881) |
| Seabed Navigation Company Ltd | (3,560) |
| SeaBird Exploration FZ LLC | (2,609) |
| GeoBird Management AS | (2,379) |
| SeaBird Seismic Mexico | (1,709) |
| Harrier Navigation Company Inc | (1,566) |
| SeaBird Exploration Asia Pacific PTE Ltd | (1,264) |
| Raven Navigation Company Ltd | (921) |
| SeaBird Exploration Norway AS | (345) |
| Oreo Navigation Company Ltd | (251) |
| Silver Queen Maritime Ltd | (51) |
| SeaBird Crewing Mexico | (38) |
| **Total payables to intra-group companies** | **(53,440)** |
| **Total net receivables from intra-group companies** | **18,028** |

## Taxes

The parent company, SeaBird Exploration Plc, is subject to taxation in Norway while the majority of its subsidiaries are subject to taxation in Cyprus. The company is also subject to taxation in various other jurisdictions because of its global operations. The company is continuing to evaluate its historical tax exposures, which might change the reported tax expense.

## Related party transactions

All related party transactions have been entered into on an arm's length basis. The company had no related party transactions during the quarter.

## Going concern

The company's accounts have been prepared on the basis of a going concern assumption. In the view of the board of directors, the continued very challenging market conditions, the company's limited working capital and low level of firm contract backlog creates a material risk to this assumption. In the event that new backlog cannot be secured on satisfactory rates or at all, project performance is significantly worse than expected or contracts and other arrangements in respect of the employment of SeaBird's vessels are cancelled, or significantly delayed, the company would need to sell assets or raise additional financing, which may not be available at that time. As a result of the significant market uncertainty as well as upcoming debt maturities, the company has engaged financial advisors to evaluate financial alternatives. Such alternatives may involve the raising of additional capital as well as refinancing or restructuring existing obligations. Any such transactions may result in a significant dilution to current shareholders.

SeaBird has not as of today made specific alternative plans to cover such a potential working capital shortfall, although under those circumstances, alternatives may exist to sell or otherwise monetize certain assets or to make other financing arrangements. The ability to sell or otherwise monetize assets, being primarily made up of owned vessels and the multi-client library, would require consent from lenders as all such assets are held as security for loan arrangements, and may therefore not be available within a short time frame or at all. Should none of these financing arrangements be available at that time, such circumstance would have a significant negative effect on SeaBird's financing situation and its ability to continue operations.

In such a scenario, the company would be unable to meet its liabilities as they fall due and to continue as a going concern. In such event, SeaBird would be unable to realize the carrying value of its property, plant and equipment, whose values on a forced sale basis would be lower than their fair values. Furthermore, goodwill and intangibles would be written off as their carrying values largely represent their values in use.

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