



SeaBird Exploration Group

Interim Financial Report

Fourth Quarter

2005

SeaBird Exploration Group – Fourth Quarter 2005

This Report is in accordance with IAS 14

Overview

SeaBird Exploration Limited (“the Company”) and its subsidiaries (together “the Group”) provide marine seismic services for the international oil and gas industry. SeaBird Exploration Limited (formerly SeaBird Overseas Limited) is a limited liability company incorporated in British Virgin Islands.

A general description of the Company and the principal accounting policies applied in the preparation of these consolidated interim financial statements are included as an appendix to this report. These accounting policies have been consistently applied to all the years presented, unless otherwise stated.

Seismic operations are generally weather sensitive and as a result of this, there are typically seasonal differences in the dayrates and vessel utilisation. The Company strives to maximise dayrates and earnings by positioning vessels in less weather sensitive areas during the less favourable seasons, such as monsoon or winter seasons in harsh areas.

Highlights – Q4

The Group has continued its strong growth both in revenues and margins and more than doubled its revenues year-to-date compared to corresponding period 2004.

The Group turned its negative operating profit in Q4 2004 to a strong positive operating profit in Q4 2005 due to an improved gross profit margin, increasing to 56.5% from 37.7% in fourth quarter of 2004.

The current market situation and outlook remains strong, however, oil prices and instability in the Middle East (including Iran) remains inherent risk factors.

Approval

These interim financial statements were approved by the Board on 12 February 2006.

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Significant events

In autumn 2005, the Company issued a private placement of 12,381,000 shares. Paid in capital was \$23,754,842.

The Company is in the process for an initial public offering and listing on the Oslo Stock Exchange. Application for listing on the Oslo Stock Exchange was submitted on the 27th of December 2005 and the company has been allocated the ticker symbol “SBX” should a listing be successful.

The Company entered into a long term financial lease, securing the deepsea factory trawler “Høgifossur” TBN “Hawk Explorer, and ordered key long lead items such as compressors and seismic streamer necessary for the conversion to a 2D seismic vessel.

Key Financial Performance Figures

The Group’s consolidated Q4 2005 revenues were \$7,762,846, compared to \$3,468,757 in the corresponding period last year, an increase of \$4,294,089 (approximately 124%).

For the 12 month period ended 31 December 2005, the Group reported revenues of \$21,965,400 which is an increase of 36.6% compared to 2004. Approximately \$3.8 million of the 2005 revenues are related to Sana Navigation (Northern Explorer) which was not included in the 2004 accounts.

The geographical operations of the Group are split in three different areas:

| Geographical area | Q4 05 | Q4 04 | 2005 | 2004 |
|-------------------------------------|--------------------|--------------------|---------------------|---------------------|
| Europe, Africa & Middle East (EAME) | \$5,564,415 | \$1,500,757 | \$14,384,154 | \$9,772,139 |
| North and South America (NSA) | \$2,198,431 | \$1,968,000 | \$7,581,246 | \$6,308,755 |
| Far East (FE) | 0 | 0 | 0 | 0 |
| Total | \$7,762,846 | \$3,468,757 | \$21,965,400 | \$16,080,894 |

Operating profit for 4Q 2005 was \$2,880,143, whilst a negative operating profit of \$135,808 was achieved in the corresponding period last year. Primarily, the reason being improved gross profit as a consequence of more favourable rates achieved. However, the Company also reduced its crew salaries and benefits in the fourth quarter of 2005 by approximately \$300,000 compared to 2004.

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Key Balance Sheet Items

As at 31 December 2005, total assets amounted to \$58,491,960, which is an increase of \$35,936,225 compared to 31 December 2004. The increase is mainly explained by a private placement in October 2005 and a revaluation of a vessel, contributing approximately \$24 million and \$5 million respectively.

Total equity at 31 December 2005 is \$43,327,169, which implies an equity/asset ratio of 74.1%. The corresponding figures at 31 December 2004 were \$15,136,199 and 67.1%. A non-cash dividend of \$8,504,101 was distributed during 4Q 2005.

At 31 December 2005, borrowings were \$9,570,361, which mainly relate to the financial leases of Sana and Hawk.

Events after the balance sheet date

The Company has entered into a one year Bareboat agreement with a purchase option for the “MV Gepard” TBN Osprey Explorer. Furthermore, the company has entered into conversion contracts for both the Hawk Explorer and the Osprey Explorer with Nauta Shipyard in Poland. Additionally, the Company has ordered new compressors for the Osprey Explorer.

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Consolidated balance sheet

All figures in USD

| | As at 31 December | |
|---|-------------------|-------------------|
| | 2005 | 2004 |
| ASSETS | | |
| Non-current assets | | |
| Property, plant and equipment | 25,116,060 | 10,800,751 |
| Prepayments property, plant and equipment | 3,137,385 | 0 |
| | <u>28,253,444</u> | <u>10,800,751</u> |
| Current assets | | |
| Inventories | 162,606 | 0 |
| Trade and other receivables | 6,910,367 | 3,203,774 |
| Due from related parties | 559,196 | 7,836,715 |
| Available-for-sale financial assets | 200,000 | 0 |
| Other financial assets at fair value through profit or | 449,000 | 191,314 |
| Cash and cash equivalents | <u>21,957,347</u> | <u>523,181</u> |
| | <u>30,238,516</u> | <u>11,754,984</u> |
| Total assets | <u>58,491,960</u> | <u>22,555,735</u> |
| EQUITY | | |
| Capital and reserves attributable to equity holders of the Company | | |
| Share capital | 12,431,000 | 50,000 |
| Other reserves | 26,024,780 | 9,180,084 |
| Retained earnings | 4,871,389 | 5,906,115 |
| Total equity | <u>43,327,169</u> | <u>15,136,199</u> |
| LIABILITIES | | |
| Non-current liabilities | | |
| Borrowings | 7,132,127 | 291,330 |
| Employees' end of service gratuities | 13,027 | 0 |
| | <u>7,145,154</u> | <u>291,330</u> |
| Current liabilities | | |
| Trade and other payables | 5,255,620 | 5,639,369 |
| Due to related parties | 325,783 | 0 |
| Borrowings | 2,438,234 | 1,488,837 |
| | <u>8,019,637</u> | <u>7,128,206</u> |
| Total liabilities | <u>15,164,791</u> | <u>7,419,536</u> |
| Total equity and liabilities | <u>58,491,960</u> | <u>22,555,735</u> |

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Consolidated income statement

All figures in USD

| | Q4 | | Year ended 31 December | |
|--------------------------------------|------------------|------------------|------------------------|------------------|
| | 2005 | 2004 | 2005 | 2004 |
| Sales | 7,762,846 | 3,468,757 | 21,965,400 | 16,080,894 |
| Charter hire & operating expense | (2,911,478) | (1,472,054) | (9,166,084) | (5,268,899) |
| Depreciation | (463,495) | (688,378) | (1,328,496) | (2,610,697) |
| Gross profit | 4,387,873 | 1,308,325 | 11,470,820 | 8,201,298 |
| Administrative expenses | (2,652,440) | (2,964,358) | (8,392,332) | (8,583,866) |
| Other income | 1,050,865 | 1,559,210 | 3,909,714 | 5,035,080 |
| Other expenses | 0 | (38,985) | (89,387) | (172,514) |
| Other (losses)/gains – net | 93,845 | 0 | 93,845 | 0 |
| Operating profit | 2,880,143 | (135,808) | 6,992,660 | 4,479,998 |
| Finance costs | (73,780) | (25,735) | (120,167) | (314,477) |
| Share of profit/(loss) of associates | 50,681 | 0 | (335,869) | 0 |
| Profit for the year | 2,857,044 | (161,543) | 6,536,624 | 4,165,521 |

Attributable to:

| | | | | |
|-------------------------------|-----------|-----------|-----------|-----------|
| Equity holders of the Company | 2,857,044 | (161,543) | 6,536,624 | 4,165,521 |
|-------------------------------|-----------|-----------|-----------|-----------|

Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in \$ per share)

| | | | | |
|-----------|------|--------|------|-------|
| – basic | 0.09 | (3.23) | 0.21 | 83.31 |
| – diluted | 0.09 | (3.23) | 0.21 | 83.31 |

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Consolidated statement of changes in equity

All figures in USD

| | Share capital | Other reserves | Retained earnings | Total Equity |
|--|------------------|-------------------|----------------------|-----------------|
| Balance at 1 January 2004 | 50,000 | (20,232) | 1,740,594 | 1,770,362 |
| – Revaluation surplus | 0 | 9,403,970 | 0 | 9,403,970 |
| Currency translation differences | 0 | (203,654) | 0 | (203,654) |
| Net income/(expense) recognised directly in equity | 0 | 9,200,316 | 0 | 9,200,316 |
| Profit for the year | 0 | 0 | 4,165,521 | 4,165,521 |
| Total recognised income for 2004 | 0 | 9,200,316 | 4,165,521 | 13,365,837 |
| Balance at 31 December 2004 | 50,000 | 9,180,084 | 5,906,115 | 15,136,199 |
| Balance at 1 January 2005 | 50,000 | 9,180,084 | 5,906,115 | 15,136,199 |
| – Revaluation surplus | 0 | 5,245,274 | 932,751 | 6,178,025 |
| Currency translation differences | 0 | 225,580 | 0 | 225,580 |
| Net income/(expense) recognised directly in equity | 0 | 5,470,854 | 932,751 | 6,403,605 |
| Profit for the year | 0 | 0 | 6,536,624 | 6,536,624 |
| Total recognised income for 2005 | 0 | 5,470,854 | 7,469,375 | 12,940,229 |
| Private Placement | 12,381,000 | 11,373,842 | 0 | 23,754,842 |
| Dividend relating to 2004 | 0 | 0 | (8,504,101) | (8,504,101) |
| | 12,381,000 | 11,373,842 | (8,504,101) | 15,250,741 |
| Balance at 31 December 2005 | 12,431,000 | 26,024,780 | 4,871,389 | 43,327,169 |

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Consolidated cash flow statement

| All figures in USD | Year ended 31 December | |
|--|------------------------|-------------|
| | 2005 | 2004 |
| Cash flows from operating activities | | |
| Cash generated from operations | 12,076,774 | 248,603 |
| Interest paid | (120,167) | (314,477) |
| Net cash generated from operating activities | 11,956,607 | (65,874) |
| Cash flows from investing activities | | |
| Purchases of property, plant and equipment (PPE) | (12,900,819) | (1,258,809) |
| Proceeds from sale of PPE | 0 | 5,545,000 |
| Purchases of available-for-sale financial assets | (457,686) | (191,314) |
| Net cash used in investing activities | (13,358,505) | 4,094,877 |
| Cash flows from financing activities | | |
| Proceeds from issuance of ordinary shares | 23,754,842 | 0 |
| Proceeds from borrowings | 7,790,194 | 0 |
| Repayments of borrowings | 0 | (3,985,496) |
| Dividends paid to Company's shareholders | (8,504,101) | 0 |
| Net movement in shareholders account | (56,328) | 76,453 |
| Net movement in currency fluctuations | 225,580 | (203,654) |
| Net cash used in financing activities | 23,210,187 | (4,112,697) |
| Net (decrease)/increase in cash, cash equivalents and bank overdrafts | 21,808,289 | (83,694) |
| Cash, cash equivalents and bank overdrafts at | 149,057 | 232,751 |
| Cash, cash equivalents and bank overdrafts at end of the year | 21,957,346 | 149,057 |

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Appendix – Company Overview & Accounting Policies

1. General information

SeaBird Exploration Limited (“the Company”) and its subsidiaries (together “the Group”) provide marine seismic services for the international oil and gas industry.

SeaBird Exploration Limited (formerly SeaBird Overseas Limited) is a limited liability company incorporated in British Virgin Islands. The address of its registered office is Road Town, Tortola, British Virgin Islands. The Company is a subsidiary of Bartica Company Limited, which is registered in Cyprus. Bartica owns 50,000,000 of 62,381,000 shares which equates to 80.15%, whilst the remaining shares are widely held.

The Company changed its name from SeaBird Overseas Limited to SeaBird Exploration Limited through a resolution dated 3 November, 2005.

An offshore seismic survey is executed by a boat and cables of hydrophones. The different vessel types commonly used in seismic data collection are:

- Conventional 2D vessels towing one streamer and an array of air-guns
- Conventional 3D vessels towing from two to twenty streamers and an array of air-guns
- Source vessels operating air guns only.

At 31 December 2005, the Group owns one vessel and charters several vessels. Each vessel is owned/chartered by a subsidiary of the Company. Currently two vessels are flying the Bahamas flag (Falcon Explorer and Hawk Explorer), one is flying the Cyprus flag (Kondor Explorer), one is flying the Maltese flag (Geo Mariner), and two are flying the Panama flag (Odin Explorer and Northern Explorer). Two vessels are operated in Joint Ventures with a Malaysian partner and the subsidiaries that operate Northern Explorer and the Hawk Explorer were acquired during 2004 and 2005, respectively.

All marine and seismic staff is employed in the crewing subsidiary, Baruka Management Limited, and the Group totals approximately 360 employees. Management is rendered through SeaBird Exploration AS (Norwegian subsidiary) and SeaBird Exploration FZ-LCC (United Arab Emirates subsidiary). Marine management is sub-contracted through GeoBird Management Middle-East FZ-LCC, which is not part of the Group.

In autumn 2005, the Company issued a Private Placement of shares in which 12,381,000 new shares were issued.

The Company is in the process for an initial public offering and listing on the Oslo Stock Exchange. Application for listing on the Oslo Stock Exchange was submitted on the 27th of December 2005 and the Company has been allocated the ticker symbol “SBX” should a listing be successful.

These financial statements consolidate the assets, liabilities and operations of the Company and the following Group units in which the Company has a controlling interest:

| Company | Country of incorporation | Percentage of shareholding |
|----------------------------------|--------------------------|----------------------------|
| SeaBird Exploration Limited | BVI | Parent |
| Arna Shipping Limited | Cyprus | 100 % |
| Velodyne Shipping Limited | Cyprus | 100 % |
| Dimas Navigation Company Limited | Cyprus | 100 % |
| Silver Queen Maritime Limited | Malta | 100 % |
| SeaBird Exploration FZ-LLC* | UAE | 100 % |

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| | | |
|----------------------------------|--------|-------|
| SeaBird Exploration Norway AS | Norway | 100 % |
| GeoBird Management AS | Norway | 100 % |
| Hawk Navigation Company Limited | Cyprus | 100 % |
| Seaship Holding Services Limited | BVI | 100 % |
| Baruka Management Limited | BVI | 100 % |
| Byrd Investments Limited* | BVI | 100 % |

In addition, the accounts below present interest in Joint Venture and Associate:

| | | |
|---|--------|------|
| Sana Navigation Company Limited - Joint venture | Cyprus | 50 % |
| Geoseas Technologies Limited | BVI | 30 % |

*These shares are not transferred formally to the Group, but held in trust by the major shareholder.

The accompanying financial statements represent the activities of SeaBird Exploration Limited and its subsidiaries and joint venture for the year ended 31 December 2005. These financial statements were authorised for issue by the Board of Directors on 17 February 2006.

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 consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of a vessel and seismic equipment (property plant and equipment), and available-for-sale financial assets, and financial assets and financial liabilities 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.

The Group presented financial statements for previous year in accordance with accounting standards and interpretations issued by the International Accounting Standards Board.

Interpretations and amendments to published standards effective in 2005.

The following amendments and interpretations to standards are mandatory for the Group's accounting periods beginning on or after 1 September 2004:

- IFRIC 2, Members' Shares in Co-operative Entities and Similar Instruments (effective from 1 January 2005);
- SIC 12 (Amendment), Consolidation - Special Purpose Entities (effective from 1 January 2005); and
- IAS 39 (Amendment), Transition and Initial Recognition of Financial Assets and Financial Liabilities (effective from 1 January 2005).

Management assessed the relevance of these amendments and interpretations with respect to the Group's operations and concluded that they are not relevant to the Group.

Standards, interpretations and amendments to published standards that are not yet effective.

Certain new standards, amendments and interpretations to existing standards have been

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published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods but which the Group has not early adopted, as follows:

- IAS 19 (Amendment), Employee Benefits (effective from 1 January 2006);
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast IntraGroup Transactions (effective from 1 January 2006);
- IAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006);
- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January 2006);
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006);
- IFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006);
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006); and
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective from 1 December 2005).

Management assessed the relevance of the above amendments and interpretations with respect to the Group's operations and concluded that they are not relevant to the Group.

- IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. To the extent that it is relevant for the Group, the Group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007; and
- IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006). IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of IFRIC 4 on the Group's operations.

2.2 Consolidation

(a) *Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Transactions and minority interests

The Group has no minority interests.

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

d) Joint ventures

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation.

The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements.

The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it resells the assets to an independent party. A loss on the transaction is recognised immediately if it provides evidence of a reduction in the net realisable value of current assets, or an impairment loss. Joint ventures' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Segment reporting

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A business segment is a Group of assets and operations engaged in providing services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities 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 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. 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.

All major transactions and balances in the Group are in US Dollars.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

2.5 Property, plant, and equipment

Property, plant, and equipment comprise mainly vessels and seismic equipment on board owned or chartered vessels. Vessels and seismic equipment are revalued and shown at fair value, based on yearly valuations by external independent valuers, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

All other equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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Increases in the carrying amount arising on revaluation of vessels and seismic equipment are credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against other reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from 'other reserves' to 'retained earnings'.

Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

| | | |
|---|-------------------|----------|
| – | Seismic vessel | 10 years |
| – | Seismic equipment | 8 years |
| – | Office equipment | 4 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

2.6 Intangible assets

The Group has no intangible assets. Standard computer software purchased externally together with IT-equipment is regarded as part of tangible assets.

2.7 Financial assets

The Group 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 and re-evaluates this designation at every reporting date.

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

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 (held for trading)..Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(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.

(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.

Regular purchases and sales of investments are recognised on trade-date – the date on which the Group 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. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred

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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, including interest and dividend income, are presented in the income statement within 'other (losses)/gains – 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. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group'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 Group 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 Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a Group 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. Impairment testing of trade receivables is described in Note 2.10.

2.8 Derivative financial instruments and hedging activities

The Group has neither derivative financial instruments nor hedging activities.

2.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.10 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 Group 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 amount of the provision is recognised in the income statement within "administrative expenses".

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2.11 Cash and cash equivalents

Cash and cash equivalents includes 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. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.12 Share capital

Ordinary shares are classified as equity. There are no mandatory redeemable preference shares.

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.

2.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. 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.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.14 Deferred income tax

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 consolidated 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 Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.15 Employee benefits

The Group has no defined benefit pension schemes; however, the Norwegian entities are liable under Norwegian Law to implement a defined contribution plan from 1 July 2006.

Accumulated period of employees' end of service gratuities are recorded as a provision. The provision recorded (and per UAE Labour Law 1980) and based on that all foreign workers are allowed to receive their end of service benefit from the employer as per the following rates based on their length of service:

- 1st 5 years - @ 21 days basic salary/year; and
- 6th year and onwards - @ 30 days basic salary/year

The Group has neither profit-sharing nor a bonus plan.

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2.16 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group 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.

2.17 Revenue recognition

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

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.

2.18 Leases

IAS 17 defines a lease as being an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property, plant and equipment, and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.19 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the

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Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3. Financial risk management

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and all major transactions are denominated in USD.

(ii) Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss. The Group is also exposed to commodity (bunker fuel) price risk.

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of services are made to customers with an appropriate credit history. The Group has policies that limit the amount of credit exposure to any financial institution.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group aims to maintain flexibility in funding by keeping committed credit lines available.

(d) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings.

3.2 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 Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to

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be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

4.2 Corporate Governance

The Company will inform Oslo Børs, the Company's shareholders, securities companies, and the market in general on an ongoing basis of the Company's development, activities, and special events, thus ensuring that as far as possible the pricing of the Company's Shares reflects the underlying values and expectations of future profits. In addition to annual reports and interim reports, information to shareholders will be duly published, through the Oslo Børs information system, on the Group's website <http://www.sbexp.com/> and via press releases. Financial statements will be issued quarterly.

In order to achieve operational efficiency, corporate values, ethical guidelines as well as good liquidity and an accurate valuation of the Shares, the Company has implemented a sound corporate governance regime, based on COSO: "Internal Control – Integrated Framework". In said respect, also with reference to the Corporate Governance Guide referred to in OSE circular 4/2005, we would like to highlight the following:

The articles of association of the Company set out a detailed description of the objectives of the Company. The Company has a sound equity, well adapted to the requirements foreseen as necessary as measured against the current plans of the Company. The Company has only one class of shares. The authority to increase authorised capital requires a shareholders resolution. The authority to acquire treasury shares is restricted in the Company's articles of association, and there are concrete regulations of the prices that may be paid for such shares. There are also highly restrictive and very detailed regulations of transactions between the Company and Interested Shareholders, which in many ways are more restrictive than is the case under Norwegian law. For Directors, the Company has implemented regulations in its articles that effectively mean that any Director which has an interest in a contract will need to disclose that interest upfront to be in a position to ensure the validity of any contract if completed. Said regulations exceed the requirements of Norwegian law.

The Company's shares are freely transferable, the only general exception relates to extraordinary circumstances, such as failure to comply with any applicable law, a situation it is difficult to see how can arise, and is solely meant as a last resort and fall-back solution in unforeseeable circumstances.

The articles contain detailed regulations of shareholder meetings, and include

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requirements of specific notices (not only in the case of proposed changes to the articles) and of the possibility of attendance by proxy (which shall always be specified in the notice). The notice shall also be lodged with any Exchange on which the Company's shares are listed.

The Company does not have an election committee, but intends to call an extraordinary general meeting (EGM) to have one elected in an EMG scheduled for Q2/Q3 2006. While one could easily be elected by the current shareholders, the Company believes that the shareholders that will join the Company upon an IPO and listing should be able to partake in such decision, and be able to propose members to the committee. The articles allows for such committee. As mentioned, the independence requirements are laid down in the articles of the Company.

The remuneration of the Directors and of the Auditor is subject to approval by the Shareholders. The current board has not been granted options.