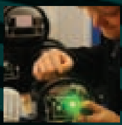
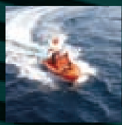
SEABIRD ANNUAL REPORT 2007



SeaBird Exploration

HIGHLIGHTS

FOR 2007



Revenues were USD 95.8 million, an increase of 107 per cent from 2006

EBITDA increased by 60 per cent to USD 23.3 million

Pre-qualification was achieved with a number of oil majors

SeaBed CASE node technology successfully developed to commercial standard in preparation for 2008 launch

Significant new seismic contracts were signed with ONGC India and Cairn Energy India in 2007 and the beginning of 2008

Renewal of several contracts with existing customers on improved terms

Three new vessels - Aquila Explorer, Munin Explorer and Harrier Explorer – joined the fleet

Substantial funding was raised from banks and the bond market to finance the investment programme

The opening of a representative office in Singapore

Increased emphasis on our company-wide HSSEQ management system

Implementation of our SEANET information management software to all SeaBird offices and vessels

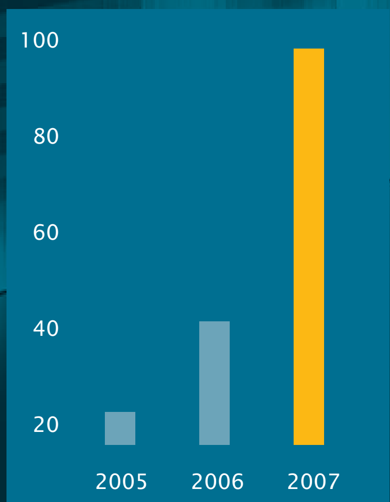
A major review and improvement of employee remuneration packages

KEY FIGURES 2007

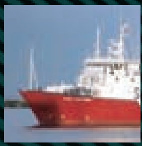
All figures in USD 1,000

	Twelve months ended 31 December		
	2007	**2006**	**2005**
Revenues	95,771	46,288	21,965
EBITDA	23,326	14,584	8,581
EBIT	4,539	10,675	6,899
Net income (loss)	(8,929)	11,030	6,537
Earnings per share (diluted)	(0.11)	0.15	0.21
Cash flow from operations	(10,858)	14,550	11,957
CAPEX	132,929	152,483	12,901
Total assets	424,804	292,887	58,491
Net interest-bearing debt, including capital leases	213,031	68,205	(12,387)
Equity ratio	42%	64%	74%

Revenues (in USD millions)

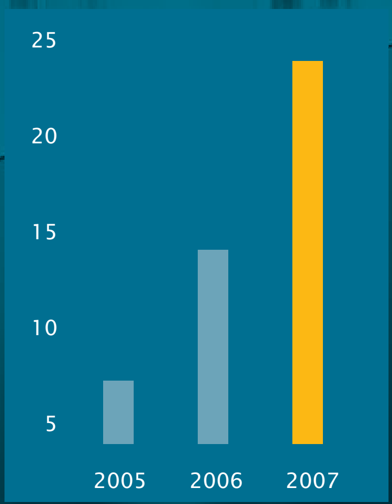




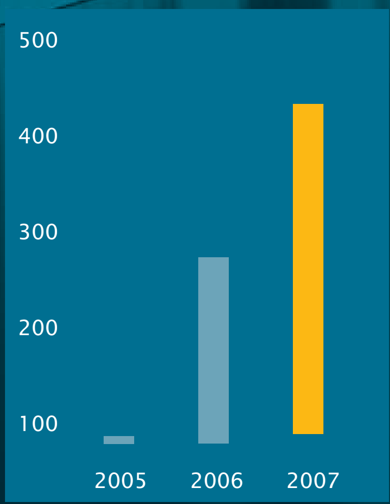


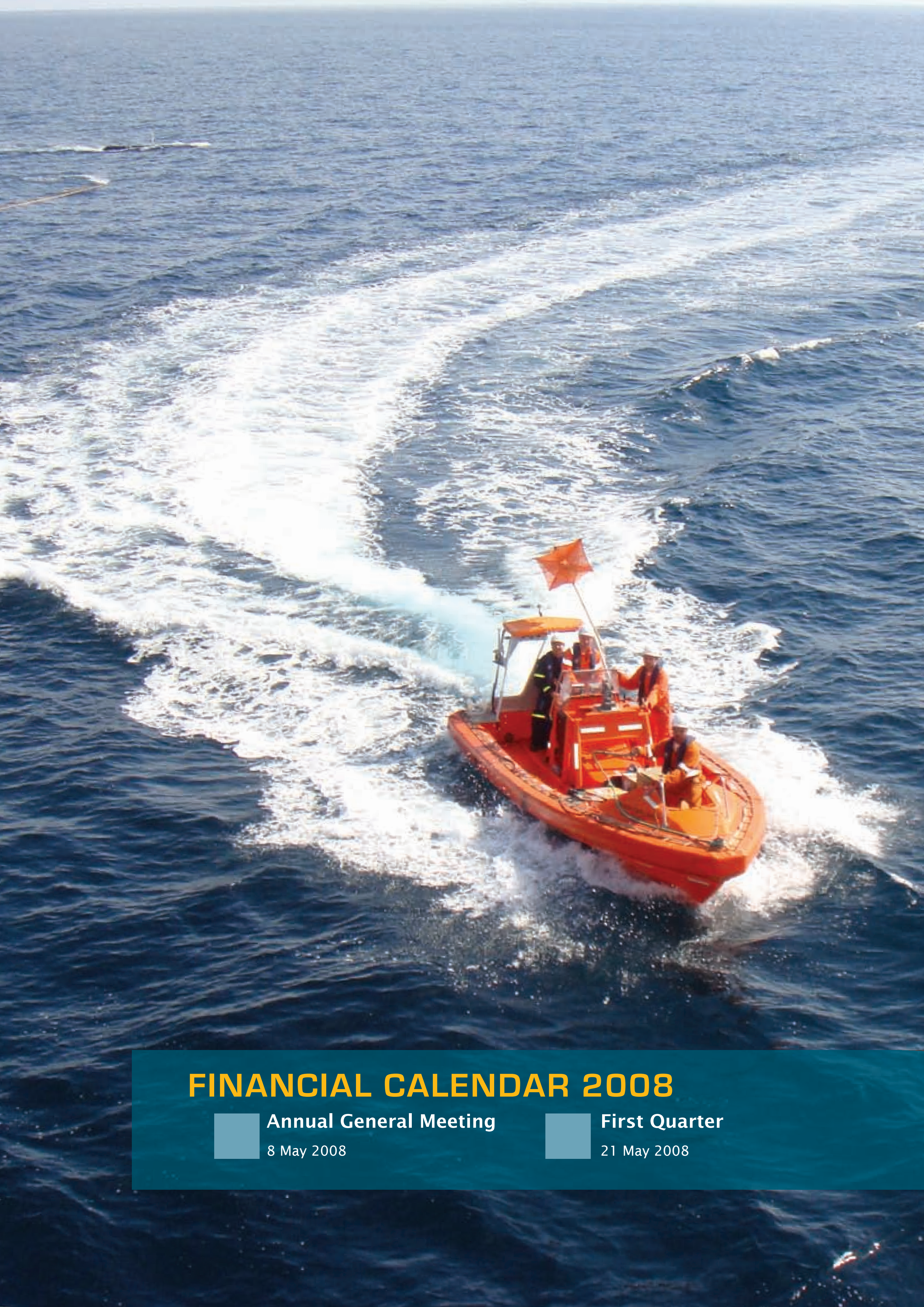
CONTENTS

EBITDA (in USD millions)



Total assets (in USD millions)





FINANCIAL CALENDAR 2008

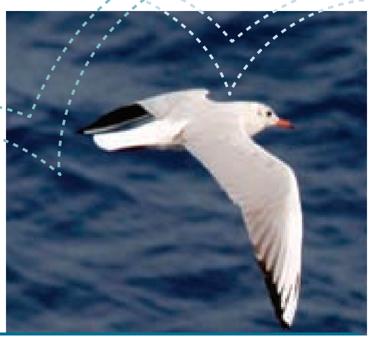
Annual General Meeting

8 May 2008

First Quarter

21 May 2008

BUILDING SOLUTIONS BLOCK BY BLOCK



SeaBird Exploration – listed on the Oslo Stock Exchange under the ticker, SBX - is a leading global provider of a range of offshore multidisciplinary geophysical services. Founded in 1996, our customers are both oil and gas exploration national and multi-national organisations, along with other seismic service companies. They make use of the seismic data we acquire on their behalf to find and analyse the size and structure of subsea oil and gas reserves, as well as to establish the correct location for drilling and to undertake long-term management of known reservoirs.

Our intimate market and technical knowledge allows us to offer high quality 2D, source, shallow water 2D/3D and ocean bottom 4C/4D seismic services and consultancy. To capture the seismic data we have an extensive fleet, comprising nine modern, purpose-designed vessels, in use around the world. We employ over 700 staff, based in locations in Dubai (UAE), Houston (USA), Oslo and Trondheim (Norway), Singapore and St Petersburg (Russia).

From the very start SeaBird has been committed to building unique expertise to become a leading global provider of high quality seismic data. SeaBird's roots in global operations, combined with SeaBed's roots in the dynamic North Sea energy sector and the early development of CASE technology created a strong foundation for the company's future growth. But to succeed in a highly competitive industry, SeaBird must continue to embrace a culture which rewards competence, a strong work ethic, and the ability to think "outside the box."

Whether we are developing new technologies, or managing challenges on behalf of our customers, SeaBird applies the same meticulous structured approach. This approach allows the company to build solutions, block by block, and anticipate the needs of our customers. At the same time, SeaBird understands that creating value for our customers is not simply a matter of improving performance, but thinking about old challenges in new ways.

Today, SeaBird vessels can be found throughout the world, performing seismic surveys to provide our customers with the data they need. This work is our core business and our primary concern remains developing shareholder value, but our future success will depend on our ability to integrate all the individual components of our company, and build on our success – one block at a time.

Second Quarter

19 August 2008

Third Quarter

18 November 2008

CHIEF EXECUTIVE'S REPORT

Welcome to this year's annual report for SeaBird Exploration. As you would expect from a company operating in the energy sector, 2007 was a year full of activity and opportunity.

Overall, though, challenging is the word that best describes our effort to bring several new vessels into operation to meet the demand of the seismic market. Significant expansion of the fleet, considerable growth in our employee base and substantial development of our office network around the world was the focus of our developments across 2007. However, the year was a difficult one for us with internal strains on our human resources as we expanded our activities, as well as external pressures as we placed considerable reliance on third-parties to assist with our fleet expansion programme.

Following our IPO in mid-2006 - along with a subsequent private placement - we had at our disposal around USD 75 million of equity as we sought to transform ourselves into a well recognised player in the seismic market. Our primary focus was the development of the fleet; and we had three vessels - Aquila Explorer, Munin Explorer and Harrier Explorer - which came into service in 2007.

We are eagerly looking forward to seeing the last vessel in our current fleet expansion programme – the Hugin Explorer - join the fleet in the second quarter of 2008.

Overall, we experienced considerable delays and over-runs across our entire vessel renewal programme, during the effort to create a fast fleet expansion which was necessary if we were to take advantage of a strong seismic market. We always knew that working with third-parties would increase our risks, but once the vessels enter our fleet our project risk is reduced considerably as we are better able to control our operational activities.

Delays, increasing cost of equipment, material and labour meant cost overruns that had a negative impact on our business. As in previous years, however, we showed in 2007 that we have a strong competence in running our fleet safely and to our customers' exacting requirements. It is this competence that our customers have learnt to demand from us and our operational track record has shown that we consistently meet their expectations.

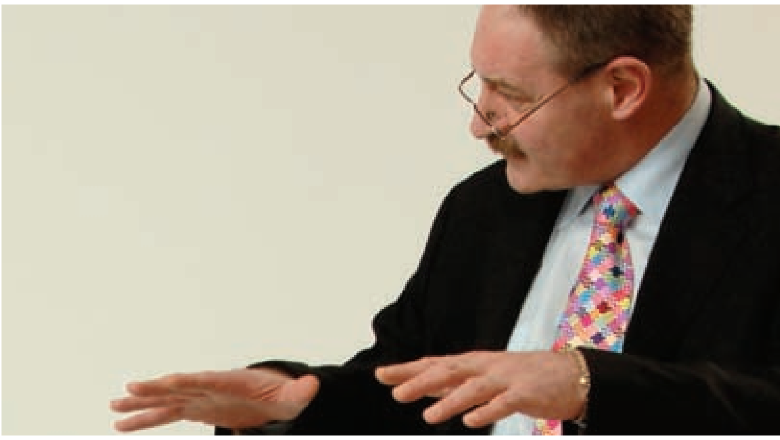
As part of our transition from mainly being a service provider for other seismic service companies to providing services directly to oil companies, an important factor in our gaining new business in the future is to be pre-qualified. To this end we used considerable resources in 2007 developing our procedures so they are aligned with the needs of these potential future customers. As its name suggest, pre-qualification means that we have been approved to work with specific organisations and, therefore, allows us to tender for business with these companies.

As part of the pre-qualification process, we also used 2007 to further strengthen our HSSEQ procedures - though this has always been an area of our business in which we have excelled. From crew training and relations with clients, through to healthcare programmes and environmental management we now have a highly efficient and well-managed team that has put HSSEQ at the heart of operational activities for every one of our employees.

In 2007 we began a process to improve our information technology and management systems. The core of this is our SEANET data system which houses the full spectrum of company information – from employee data and HSSEQ procedures, through to company certificates and minutes from customer meetings. It was a huge effort to transfer all our data over to this new web-based system - which is now accessible from all our locations, including our ships - but the results of this move will bring us major operational benefits in the years to come.

Despite a continuing tightness in the oil and gas employment market, we were able to successfully attract skilled personnel to positions across the

"...we showed in 2007 that we have strong competence in running our fleet safely"



Company. Seismic-specific employees were a little more difficult to come by, but an improvement in our employee packages means that we are able to compete effectively against our peers. When we also explain the plans and the direction for the Company to prospective employees, we believe that SeaBird presents a particularly strong differentiator as a new and exciting player in the market.

During 2007 we expanded our footprint around the globe with the opening of a further office, this time in Singapore. Along with our main operating office in Dubai, our representative office in Oslo, as well as those in Trondheim, Houston and St. Petersburg, this latest office adds to our strategy of having a presence in locations that are close to our customers.

Despite the challenges of 2007, we were able to work hard to secure a significant portion of our fleet's ongoing utilization. Standing at around 80 per cent early in 2008, we are confident to achieve a higher utilization for the full year.

When seen in combination with the improvements we carried out in 2007 across the Group, I believe we are in a strong position to make good on our operational and financial targets for 2008.

Our revenues for the year were based on our historic business strengths – namely, in 2D seismic, source and 2D/3D shallow water seismic acquisition. But our latest - and I believe most significant - revenue growth area over the next few years will be our bottom node seabed seismic data acquisition products.

Strenuous efforts were made during 2007 by our specialist SeaBed operations team which performed ably in preparing for the launch of this service in conjunction with the impending availability of our latest vessel, Hugin Explorer. 2008 will finally see the fruits of this labour expressed in revenue terms, as SeaBird gains its first contracts in this niche and the CASE node technology is used for the first time in a commercial environment.

I would like to take this opportunity to send my thanks to Dag Reynolds, our former CEO, who left the Company to pursue other interests in the oil sector. The work he undertook as part of the SeaBird management team to take us through the IPO was invaluable. He was also instrumental in laying the groundwork for the strategic direction that SeaBird is pursuing today. He will still retain links with the Company, by working with us in an advisory role, but we also wish him well in his new endeavours.

All areas of the hydrocarbons sector – including the seismic industry - look set for continued growth in the coming year. Despite the growing pains in 2007 associated with our building of a world-class seismic operation – in terms of both extending our fleet and our employee growth – I believe we now have in place a strong team to take advantage of opportunities in 2008 and beyond.

There's a quotation that states: "There are no shortcuts to any place worth going." Well, at SeaBird we certainly didn't take shortcuts in 2007 in our efforts to create long-term benefits and for that I thank all of our stakeholders – from customers and partners to employees and shareholders. Thank you for your continued support and I look forward to us all enjoying success in the coming years. ■

Tim Isden,
CEO and Chairman, SeaBird Exploration


OSPREY EXPLORER

GOALS FOR 2008

For 2008, the SeaBird Exploration Board and management have set out a number of strategic and operational objectives to build on the momentum of 2007 and help bring success to the Company in the coming 12 months

STRATEGIC GOALS

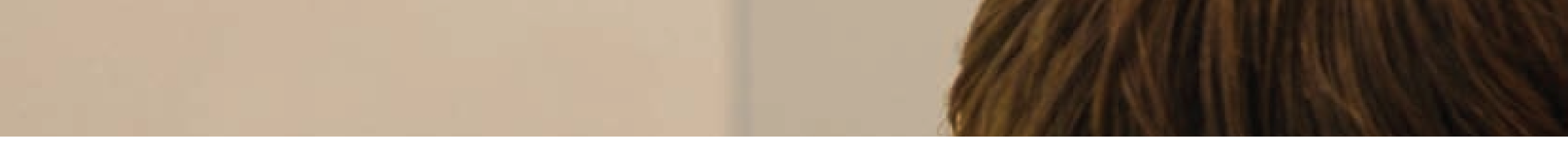
Our primary concern is to create shareholder value. We shall achieve this through:

- Ensuring that we develop and enhance our two major assets – our fleet and our staff – to enable us to become a pre-eminent provider of seismic solutions in our chosen markets
- Focusing on costs in order to improve our profitability
- Continuing to strive to meet and improve upon our efforts to realise the expectations of our customers in the fields of HSSEQ, operational performance and cost efficiency
- Capitalising on our industry know-how in 4C seabed node seismic data acquisition market as our SeaBed operations launches its CASE (CAble-less SEismic) autonomous 4C seismic data acquisition system
- Driving the Group's development as a multi-cultural business that has a global presence and an international profile
- Using our industry knowledge to maintain an awareness of, and act upon, any major changes in both the seismic and hydrocarbons market that may affect our own strategic goals
- Positioning ourselves as a dynamic and assured company that is able to attract and retain the highest calibre people in the seismic industry
- Upholding high social, ethical, health and safety standards to ensure the welfare of our employees and the environment in which we operate

OPERATIONAL GOALS

At every level our operational goals are directed at achieving the best possible performance on behalf of our customers. Specifically, this means we shall:

- Drive our pre-qualification programme so that we meet all necessary criteria for major oil company contracts
- Continue to keep our on-board accident and incident rate at an acceptably low level
- Build an integrated and positive culture among our staff and a common brand identity for all parts of our business
- Complete the successful implementation of our new information management systems - a significant enabler to improving our operational performance - throughout the organisation

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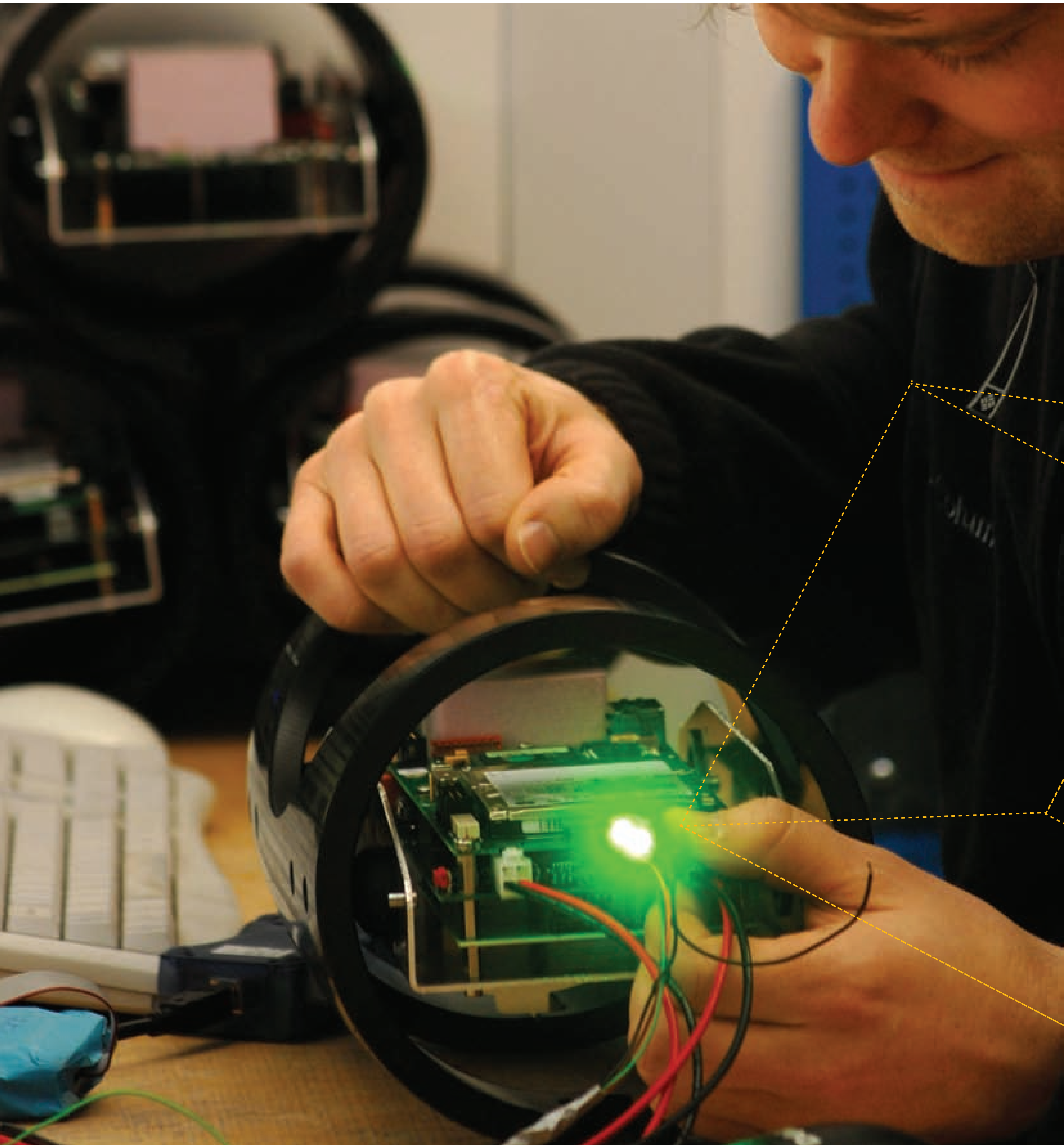


" 2008 looks set to be a defining year for SeaBird and our node technology "

MAKING WAVES

Surface-towed or seabed-placed – our technologies have offshore data capture covered

2008 looks set to be a defining year for SeaBird Exploration. In mid-year we will launch our groundbreaking CASE seabed seismic node technology. Here we take a closer look at the CASE product suite and where it fits into SeaBird's wider seismic product portfolio.

In April 2006, when we completed our successful IPO and subsequent private placement, raising around USD 75 million, the SeaBird offshore seismic products were based exclusively on towed streamer technology. Prior to this, the management at SeaBird had recognised the opportunities available through a well-recognised seismic technology company, SeaBed Geophysical, to offer node technology as an alternative data capture solution to towed streamers for oil exploration companies. The IPO provided the funding to make SeaBed a part of the SeaBird Exploration group and SeaBed operations gained access to the significant funding needed to commercialise the award-winning technology.

Developed and improved over a near 20-year period, SeaBed's technology is called CASE – standing for CAble-less SEismic – and is a self-contained, autonomous data acquisition and recording system using nodes placed directly on the seabed. However, rather than compete with towed streamer technology, CASE sits alongside it in the seismic market, fulfilling a different function.

Towed streamer business

2D seismic capture using surface streamers is the bread-and-butter business of SeaBird and is used by oil companies to obtain good seismic data over large areas. Streamer data capture is both a time- and cost-efficient method of seismic survey. Streamers can be towed in as little as five metres of water and measure as much as 12km in deep water, affording SeaBird's customers great flexibility in meeting their seismic data capture needs. In addition to streamer ships, SeaBird operates source vessels, which are used by third-parties for a range of seismic data projects - from traditional undershoot operations to the latest wide-azimuth acquisition requirements.

During 2007, the split between our seismic acquisition and source vessel utilisation was roughly 70/30. SeaBird sees continued strong demand in the towed streamer market – including 2D – and we aim to utilise a significant portion of our vessels in this market providing profitability remains higher than in the alternative source vessel market.

The use of towed streamer technology is vital for exploration companies, but where does bottom node technology fit in? The difference between the two systems is the accuracy of data which comes back from the survey. A major advantage of the seabed node is the increased sensitivity and decreased noise due to its direct coupling to the

" For optimum effectiveness and safety, we are fitting out the Hugin Explorer specifically for seabed node seismic projects."

seabed itself. This provides not only compression wave data but converted or shear wave data. This enhanced data is extremely valuable to the reservoir engineer or geologist to determine rock properties, oil/water contact locations, and the like to a higher resolution than ever before. Where high detail and definition is required, bottom node data capture is, in our opinion, often the best alternative. The advantage of individual accurate placement of the CASE units and nodes is that they can be used in environments where towed streamers are not possible - for example where obstacles such as rigs, pipelines and support vessels are in place. The nodes can also be used as an effective bridge between gaps in 3D towed streamer data around production installations where they have been unable to operate. This means that rather than competing with other systems in SeaBird's product armoury, CASE is challenging other seabed data acquisition technologies.

The CASE technology

There are actually two products in the CASE product range - the CASE System for use in shallow water (up to 600 meters) and CASE Abyss, to meet deep water (up to 3,000 metres) demands. Both units operate in a similar way, with just an outward difference in the casings. For shallow water purposes the units are positioned into the water one by one. For deep water, CASE Abyss units are placed in a basket, six at a time and lowered to the seabed.

For optimum ease of use and safety, we are fitting out a dedicated vessel, the Hugin Explorer, specifically for CASE projects. Hugin Explorer - a newly built DP-2 Class vessel - is currently being upgraded for single-vessel 4C/4D seismic seabed node operations, and sea trials are expected to commence in the second quarter of 2008. In total, the vessel will be out-fitted with 750 CASE Abyss and CASE System nodes; a full-time deep-water remote operated vehicle (ROV) with crew; and two 4,000 cubic inch energy sources. Hugin has actually been designed to handle in excess of 1,000 nodes, if required. The single vessel operation effectively decreases crew count and corresponding HSE risk.

The CASE units are completely autonomous as they incorporate a battery unit to power the recording of two millisecond samples of four-component seismic data. This is undertaken 24 hours a day, seven days a week for as long as 80 days of continuous recording. Though operating as a stand-alone system, each unit has a unique surface-to-node acoustic communications link which allows the on-board data quality control geophysicist data teams to carry out quality control checks throughout the data acquisition period. This link also allows the system to be remotely queried, started and stopped, which can also effectively extend the battery lifetime of the units.

Deep water node placement takes between 20 and 30 minutes per node, which is placed at intervals of 300-400 metres, tailored to the survey objectives. This equates to a typical average coverage of a little over two square kilometres a day, while a complete footprint covers 80 square kilometres. SeaBed's node set up becomes increasingly more cost-effective as the field size gets larger - particularly above 50-60 square kilometres. Once on the sea bottom the ROV uncouples the node sensors from each CASE unit and positions them directly into the seabed itself. By having an external sensor - attached only to the main unit by a specially engineered ultra-flexible 1.5-metre cable - the influence of noise and vibration is minimised during the data capture process. The node contains three fixed geophones, a hydrophone, tilt meter and a replaceable skirt. This patented system is unique to SeaBed and provides us with a clear differentiator over other sea bottom systems.

The use of the ROV during node planting affords direct visual management of the process via an onboard camera. This ensures optimum placement of the nodes into the seabed, resulting in the highest possible data capture quality. Another advantage of using the ROV to place the nodes is that there is a high degree of accuracy in their placement. When undertaking repeat operations, this allows for close replication of previous surveys, meaning the subsequent data can be more easily compared and analysed like-for-like.

At completion of the data capture project, the units are brought to the surface where the continuously recorded node data is downloaded from the internal memory cards, drift corrected if necessary, then merged with the navigation and header data from the source vessel navigation system. It is then passed on to the client for further data processing in order to create seismic images of the subsurface geology.

Survey types

The CASE units have a range of seismic data capture capabilities – 2D, 3D and 4D – all of them designed to provide oil companies with the most cost-effective solution for exploration, reservoir analysis and long-term reservoir management.

During exploration, oil companies want to receive the highest possible quality of seismic data to reduce the possibility of 'dry hole' wells. The 4-component (4C) seismic data gathered from the seabed by CASE is of high enough quality to differentiate between the physical characteristics of a rock or fluid, resulting in reduced risk when determining where to drill and optimising enhanced recovery – saving both time and money.

By acquiring 3D data directly on the seabed, high quality data is received that can increase dramatically the amount of data that can be analysed. For this reason the CASE units are ideal for 3D seismic capture to study – among other things - reservoir volume, rock characteristics and fluid content. With this increased reservoir information, better decisions can be taken on reservoir management, resulting in better economic payback from the field.

4D - or time lapse - seismic operations are the forte of the CASE operation. SeaBird is working to position itself as the company with the technology that can most efficiently analyse fields once they are in production. Time lapse surveys of reservoirs – for example two or three times a year - would clearly show the changes in movements of fluids over a period of time. This information enables analysts to predict over time with improved accuracy how, when and where production wells should be drilled to increase the hydrocarbon recovery rates, giving the greatest economic benefit. It is only through the high quality data afforded by the CASE technology that such accurate reservoir analysis can be achieved over an extended period. It is our hope and belief that oil companies will utilise the SeaBed CASE technology for node surveys on a regular basis throughout a reservoir's life in order to optimise its long-term value.

There are many advantages of using CASE node technologies over traditional methods for seismic data capture. Our node technology is a one-vessel solution. From initial deployment of the units, through quality control and project management, to return of the units to the surface, every facet of the project is undertaken using our custom-designed and -rigged Hugin Explorer.

Exploration projects are no longer constrained in their layout - placement is when and where the operator wants it. Whether man-made or natural obstructions, a survey no longer has to be obstructed or inhibited by surface or seafloor obstacles.

"These benefits add up to a cost-effective solution and, in certain situations, the only viable solution for data capture."

In terms of survey area covered, the cost of using SeaBird's CASE seabed seismic node technology is greater than it would be employing towed streamer solution. However, the clarity of resolution achieved using the nodes is something that would be impossible to replicate with traditional methods. This technology can also perform the task of exactly duplicating surveys over time, meaning that tracking reservoir changes is easier to assess. It is these sorts of benefits that mean though costly, utilising our nodes does add up to a cost-effective solution and, in certain situations, the only viable solution for data capture.

But, as well as acting as a viable economic solution for seismic data, exploration companies have to consider their activities in relation to their environmental obligations. At a time when the environmental pressures on seismic operations are increasing, our node approach offers an excellent low-impact solution for the industry. This is a great benefit when operating in environmentally sensitive areas such as coral reefs, deepwater biological communities, and archaeological sites.

Outlook

SeaBird Exploration is the only company that has set out a strategy that incorporates both traditional towed streamer and state-of-the art bottom node technologies. Our ability to provide solutions to a range of seismic needs means we have not limited our options when it comes to future business.

For the foreseeable future there will be a need by

SeaBed – A SHORT HISTORY

From an initial idea borne out of the Norwegian state oil company, Statoil, it has taken almost 15-20 years for the fruits of SeaBed's labours to develop into a commercial product. Here we take a look at that history and the major milestones that have brought us to where we are today.

1988
A project is set up at the Statoil Research Centre in Trondheim to study the possibility of developing sea-bottom seismic units for the hydrocarbons industry

1990
First unsuccessful attempts made to build a working model. Initial examples were too large and data retrieval was of poor quality

1992
First use of Trondheim fjord for underwater testing purposes. Statoil team makes progress with data quality capture

1993 - 1994
Breakthrough results in sub-sea seismic (SUMIC) tests on Tommeliten Field, Norway. Results published at international conferences in Vienna (EAGE) and Los Angeles (SEG).

Schlumberger makes use of patented technology – but decides to go ahead with a cable design for commercial applications.

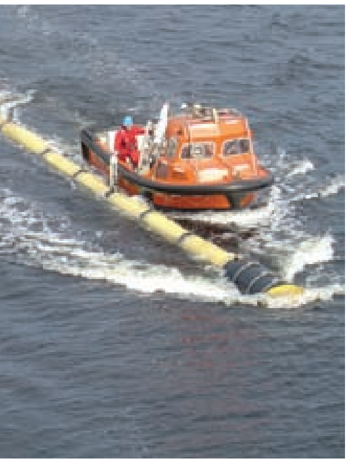
1996
CGG incorporates a node-with-cable-between technology into a pilot seismic product

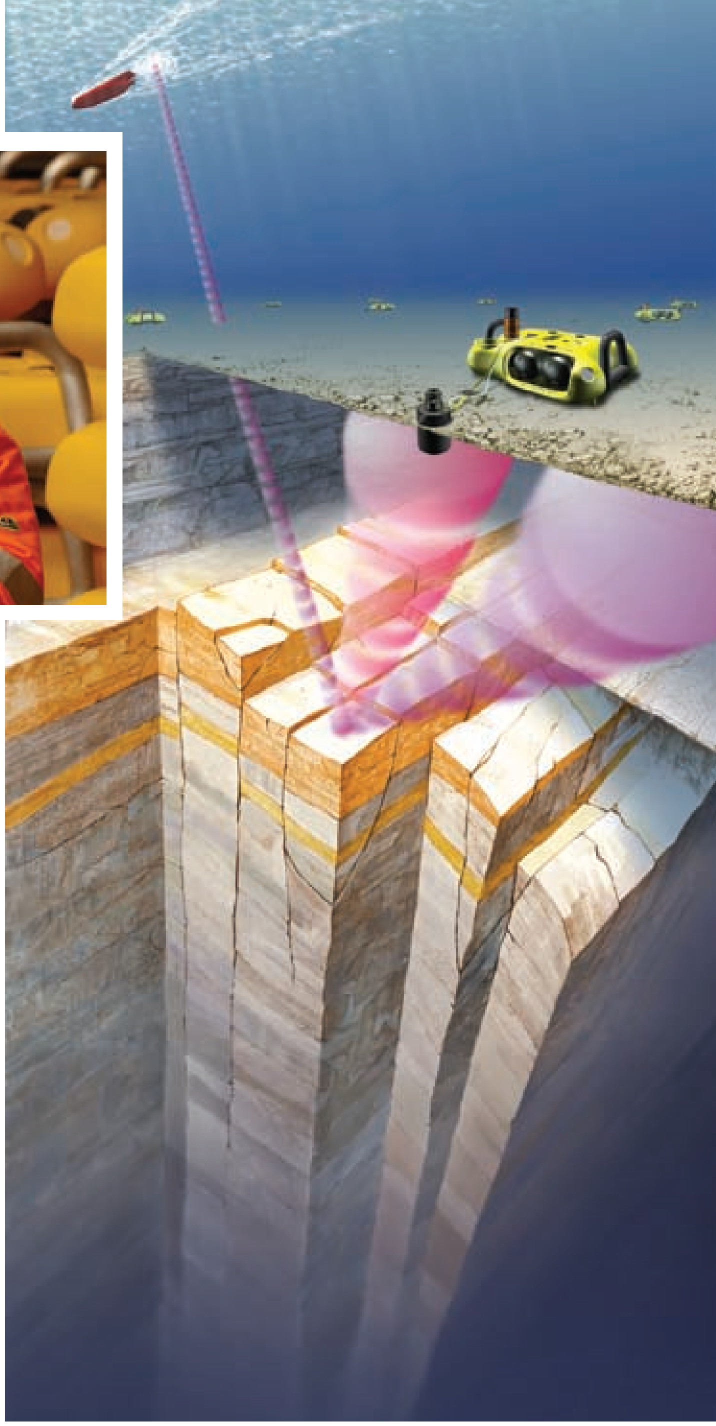
1997
SeaBed Geophysical AS was founded by key seismic people from Statoil

1997-2001
SeaBed further develops the product with consortium funding assistance from the Norwegian Research Council and international oil companies, Norsk Hydro, BP, and ENI

1999
Inventors received a well recognised international award, the "Virgil Kauffman Gold Medal" at the SEG conference in Houston

1988	1989	1990	1991	1992	1993	1994	1995	1996	1997





oil exploration companies for towed streamer surveys. They provide fast, cost-effective solutions to analysis of extremely large areas of the ocean bottom. However, the coming years will also see a growth in demand for much higher quality data as provided by SeaBird's bottom node CASE technology.

In CASE System and CASE Abyss, we believe we have the optimum solution for hydrocarbon reservoir analysis, either at a specific point in time or for comparison over an extended period. When decisions need to be taken on the optimum management of a reservoir, our industry-leading patented data capture technology can make the difference between a good and a bad long-term oil field management programme. ■

1999-2001
Norsk Hydro provides funding for first autonomous CASE shallow water prototype unit and SeaBed team expands to ten people

2001
CASE technology is proven as an autonomous node system. Investor funding sought to industrialise operation to build initial 250 CASE units

In parallel, funding received from BP, Houston to undertake deep water project in Gulf of Mexico

2002
First Norwegian waters pilot survey completed on the Volve Field, at a depth of 100 metres – in conjunction with Statoil, Norsk Hydro, Total and the Norwegian Research Council (DEMO 2000 project)

2003 - 2004
Commercial contract with PEMEX in shallow water on the Cantarell Field in Mexico. The survey covered 230km2 and in total 1500 node positions. The largest 4C-3D survey successfully executed to date.

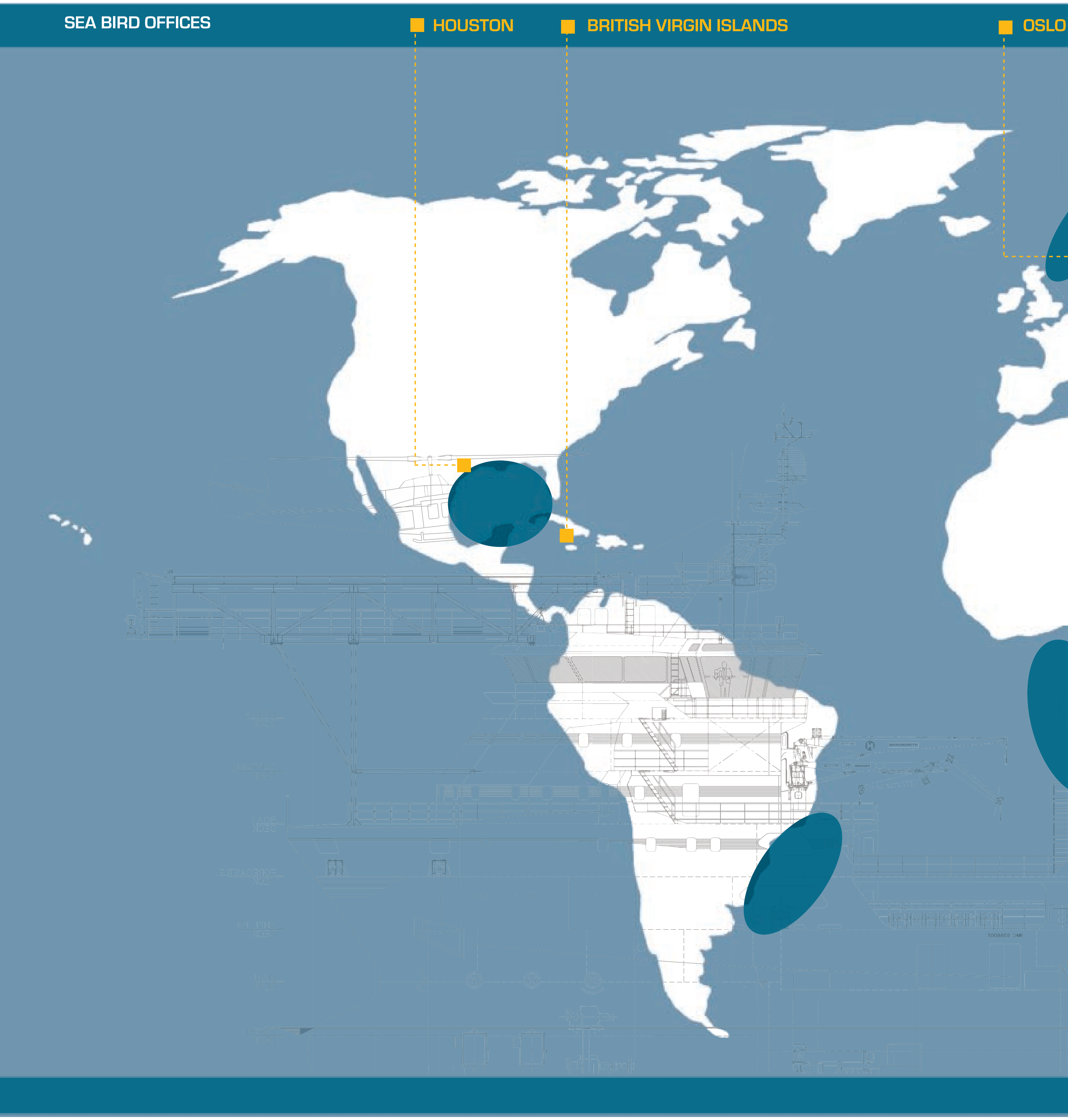
2004
Successful deep water trials (1,400-2,300 metres) completed in Gulf of Mexico. Results confirmed that CASE technology is ideally suited for operations in ultra deep waters and applying the technology for reservoir monitoring (4D).

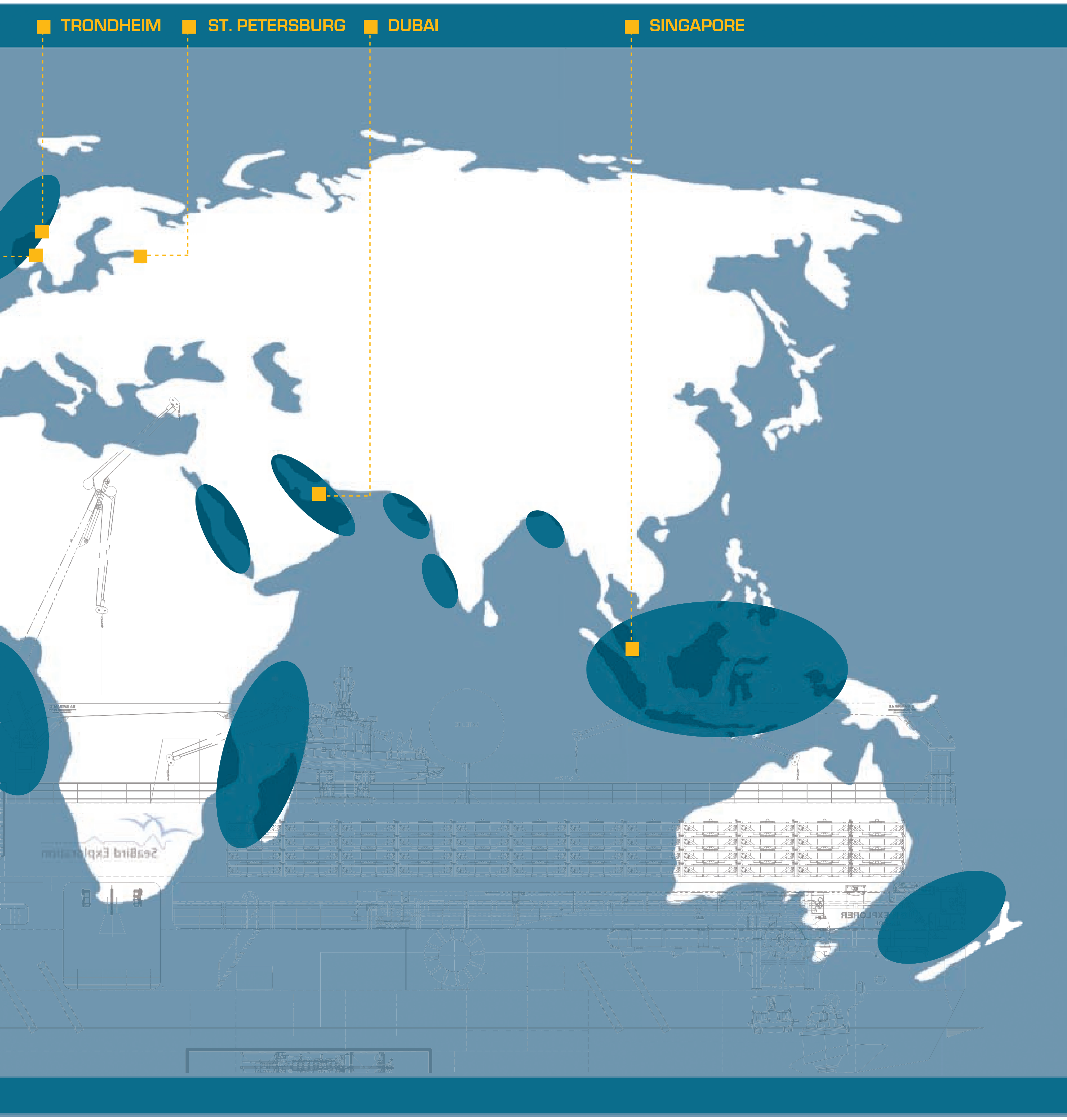
2005
Extensive data published proving CASE technology. Sensor unit improved to obtain clearer data. Unit weight reduced from 400kg to 160kg at surface.

2006
SeaBed Geophysical is acquired by SeaBird Exploration. Long-term plan and funding put in place to develop Hugin Explorer vessel and large-scale production 500 ultra deep water CASE Abyss units (depth rated to 3000 metres)

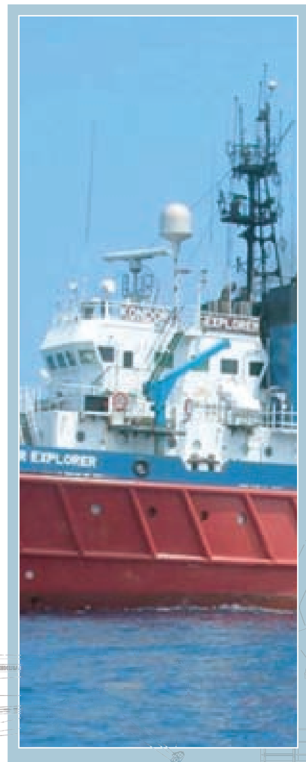
1998	1999	2000	2001	2002	2003	2004	2005	2006	2007

THE SCOPE OF SEABIRD ACTIVITIES IN 2007

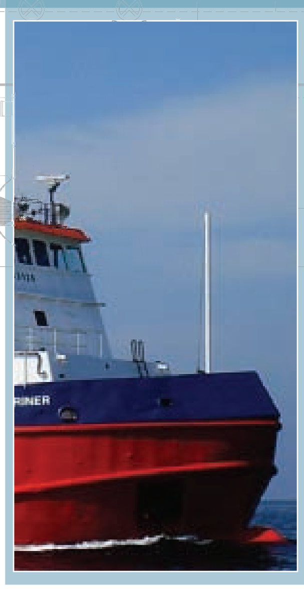


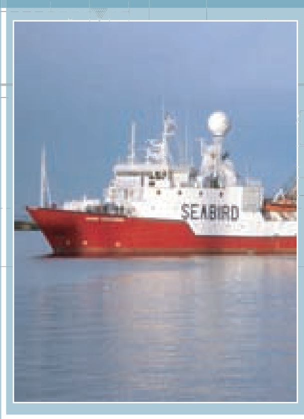

TRONDHEIM
ST. PETERSBURG
DUBAI
SINGAPORE

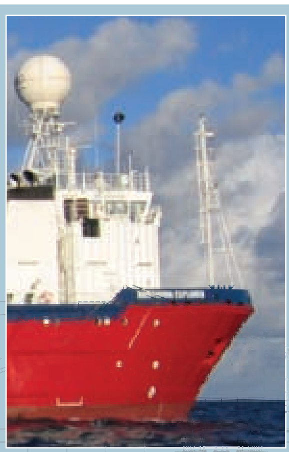
THE FLEET

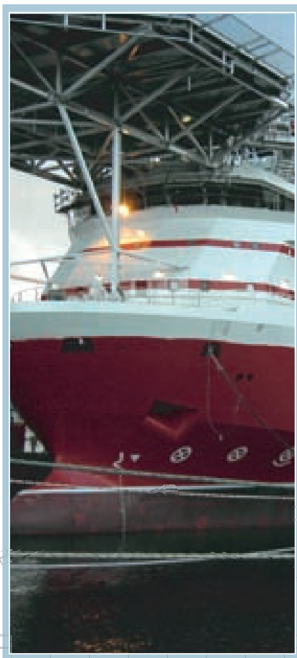


Name of vessel	AQUILA EXPLORER	GEO MARINER	HAWK EXPLORER	KONDOR EXPLORER
Year built	1982	1978	1984	1983
Length over all	71 metres	38,53 metres	66 metres	63,5 metres
Dead weight	996	593	1749	1169,9
Gross tonnage	3057	784	2632	2048
Service speed	11 knots	8 knots	12 knots	12 knots
Max no of crew	43	30	45	36
Converted	2007	2001	2006	1997

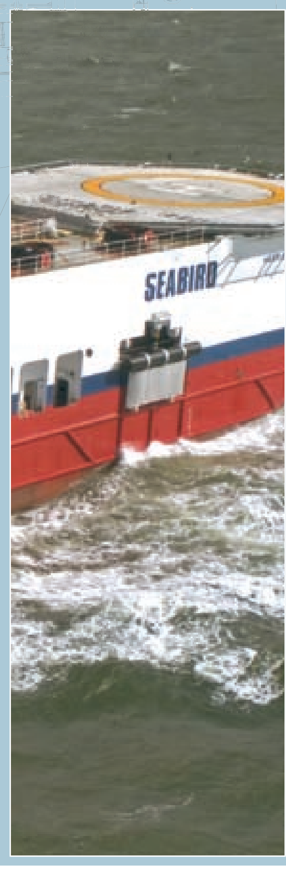




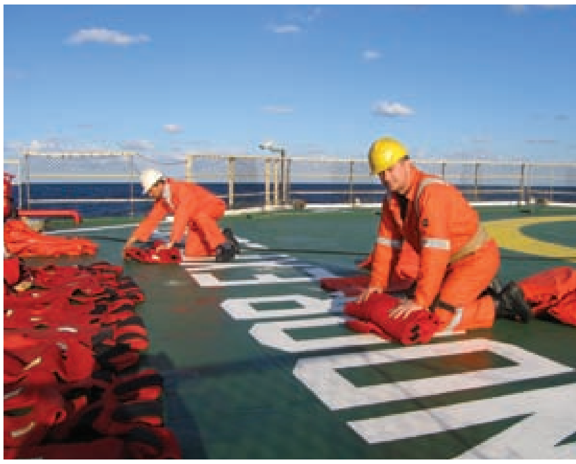




MUNIN EXPLORER	NORTHERN EXPLORER	OSPREY EXPLORER	HUGIN EXPLORER	HARRIER EXPLORER
1990	1987	1985	2006	1978
60 metres	76 metres	81,86 metres	86,2	76,5
930	2230	2056,1	4100	2900
2387	3072	3517	3680	4009
15 knots	12 knots	12 Knots	12 knots	12 knots
48	36	36	56	48
2007	1998	2006	2008	2007



BOARD OF DIRECTORS' REPORT



In our first full year as a listed Company, following our IPO in May 2006, SeaBird Exploration Group took a number of important steps - particularly in relation to the development of our fleet - in our efforts to realise our goal of becoming a well-recognised player in the offshore seismic market.

SeaBird Exploration Limited (the Company or SBX) and its subsidiaries (together the Group or SeaBird) is a global provider of high-quality marine 2D and shallow water 2D/3D seismic data, source vessels and associated products and services to the oil and gas industry. Through the purchase of SeaBed Geophysical AS in 2006, we have developed into a technical leader in the provision of 4C/4D seabed node seismic data acquisition. Our main focus is proprietary seismic surveys which we undertake on behalf of both seismic service companies and directly with leading oil and gas companies.

Our offices are located close to some of the world's major oil and maritime centres in Dubai, Trondheim, Oslo, Houston, St Petersburg and - since September 2007 - Singapore. SeaBird Exploration Limited is a limited liability Company incorporated in the British Virgin Islands (BVI).

At the end of 2007 we had a fleet comprising five 2D long-offset seismic vessels; one 3D shallow water 2D/3D towed streamer vessel; and two seismic source vessels. In addition, we took delivery of the Hugin Explorer in January 2008. Once we have completed her out-fitting to a state-of-the-art 4C/4D seismic seabed Node/ROV/Source/Streamer vessel she is expected to commence operations in the second quarter of 2008.

Following commencement of operations of the Hugin Explorer, we will have completed our major conversion programme and our efforts will then be directed towards securing full coverage for the fleet in 2008 and beyond.

Though SeaBird had eight vessels in operation by the end of 2007, the conversion programme endured a number of setbacks during the year which, by delaying the converted vessels' entry into the fleet, had a knock-on effect of reducing our anticipated revenues and profitability for the year. Much of the cost and time over-runs were due to significant pressures on all aspects of the projects - in particular yard capacity, naval architects and equipment deliveries - along with a global rise in equipment, personnel and material costs.

New contracts

In September SeaBird was awarded a contract by Oil and Natural Gas Corporation Limited of India (ONGC) for a long-offset 2D survey of approximately 13,500 line kilometres, off the west coast of India. The total gross contract value is estimated at around USD 20 million.

In January 2008 SeaBird was awarded two additional contracts by ONGC. These contracts – valued at around USD 100 million – are for two 2D surveys at a total of approximately 82,000 line kilometres and will be carried out off the east coast of India.

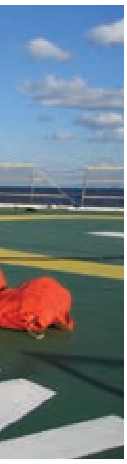
In February 2008 SeaBird entered into a contract with Cairn Energy India (Cairn) for a 2D survey, off the east coast of India, of between 3,100 and 3,600 line kilometres. The total gross contract value is estimated at between USD seven and eight million.

OPERATIONS

Fleet operations

Northern Explorer undertook a number of small projects for oil companies in Africa in the early part of the year, interrupted by a dry-dock in March/April. Since June she was mainly on a time-charter contract with GX Technologies (GXT) in Africa and in the Far East. This contract was completed by the end of February 2008, and she has now commenced the previously mentioned 2D survey for ONGC off the east coast of India.

Osprey Explorer completed a source vessel contract with CGG Veritas in the Gulf of Mexico at the end of July. We currently experience a high demand for 2D capacity, hence we decided to take the vessel to a yard in August to outfit her to full long-offset 2D operating mode, including streamer and other equipment. She completed the 2D upgrade mid-



"...our efforts are being directed towards securing full coverage for the fleet in 2008 and beyond."

October and then mobilised to Bangladesh for a short survey. She has currently completed a short survey in the Far East and is now part of the ONGC east coast India 2D survey.

Kondor Explorer has been on a time-charter contract with CGG Veritas for the whole year - interrupted by a dry-dock in October/November - mainly operating on a wide-azimuth survey in the Gulf of Mexico. This contract has recently been renewed and expires in November 2008.

Hawk Explorer is on a two-year contract for Fugro ending in December 2008, with a one-year renewal option.

Geo Mariner is a highly specialised vessel for seismic operation in shallow waters worldwide and undertook a number of surveys for various oil companies during 2007 in locations including East Africa, the Mediterranean and the Arabian Gulf. She carried out a short project in the Mediterranean in May/June and anticipated further projects in the area at this time during the monsoon period in East Africa. However, these potential projects in the Mediterranean did not materialise and the vessel was out of production for a number of weeks in the second quarter and for the whole of the third quarter. Vessel utilization has been satisfactory from November 2007 and the Geo Mariner commenced operations on the Indian east coast on behalf of Cairn towards the end of March 2008.

Vessel conversions

Aquila Explorer was the first new vessel to join the fleet for operation in 2007, after being converted to a seismic vessel in Singapore. She was immediately contracted on a long-term charter to Petroleum Geo Services (PGS) as a source/2D vessel and commenced operations in the Gulf of Mexico in August 2007. This charter has recently been renewed and expires in February 2009.

In January 2007, SeaBird entered into a five-year firm bareboat charter (with three one-year option extensions) for the vessel Munin Explorer. SeaBird has an option to purchase the vessel during the firm five-year period. Though the vessel owner carried out the conversion to a Source/2D vessel at its own expense, some investments - mainly of seismic equipment – were met by SeaBird. This included further upgrades later in the year for operation as a long-offset 2D vessel with streamer and other necessary equipment. Munin Explorer began operations in the North Sea in August and in late October she mobilised to India for the contract with ONGC, commencing operations at the beginning of December.

The Harrier Explorer conversion was delayed by a number of months following the discovery in March of asbestos in the vessel - this despite it having an 'asbestos-free' certificate. The removal of the asbestos and the extended time in dock increased costs significantly. The vessel began operations in September on a four-year firm time-charter to PGS as a source vessel, with a two-year option. Despite some initial downtime related start-up problems in her first month of operations, since that time she has had close to 'zero' technical downtime.

We took delivery of the Hugin Explorer in January 2008 at which time we began her conversion to a state-of-the-art node vessel for use by our SeaBed operation. We anticipate that she will commence operations in the second quarter of 2008 and are expecting to announce contracts before this time.

In addition, we are nearing completion of the fabrication of 500 new deep-water nodes for the SeaBed operations and projected completion and delivery of these will coincide with the conclusion of Hugin Explorer's conversion.

In October 2006 SeaBird acquired the Raven Explorer with the intention of converting her into a shallow water 2D/3D vessel. Following third party feasibility studies, we recognised that the converted vessel did not meet our required specifications. Therefore, the vessel was sold in September, incurring a marginal loss.

In total for the year we had capital expenditures around USD 133 million, mainly related to the investments described above.

Operational highlights
In January, SeaBird acquired GeoBird Management Middle East FZ LLC (GeoBird) for USD two million. GeoBird is a maritime management company that had been responsible for the maritime operations of the SeaBird fleet of vessels since 2003. As well as SeaBird maritime operations, GeoBird is also providing maritime management services to other leading offshore seismic companies.

2007 saw us employ significant resources on developing the Company's pre-qualification process. This is an important factor in our ability to generate leads and, from there, develop revenue-generating business. The results of this effort in 2007 were the securing of pre-qualifications by both StatoilHydro and Total - pre-qualifications that are recognised as being among the most challenging in the industry. This means we are now in a position to tender for business with these leading oil majors. Following news of these pre-qualifications, other oil majors are now in discussions with SeaBird regarding pre-qualifications for further tenders.

As part of our efforts to utilise information technology (IT) systems to improve our communication and operational performance across the Group, in 2007 we rolled out our SEANET information management system. This web-based software is accessible at all of our locations, including our vessels and makes all company data - such as HSSEQ systems, customer contracts, employee records and project data – far more accessible and manageable than previously. It was a vital undertaking to carry out this task, and it will ensure improved operational performance as the Company grows.

In order to develop a presence in East Asia, SeaBird opened a representative office in Singapore in September. The move was in direct response to the increase in the Company's fleet size, which resulted in a desire to focus additional resources on this important region.

At year-end 2007, SeaBird had 598 employees, of which 512 were crew members and 86 were onshore. In comparison, we had around 454 employees at the end of 2006, of which 396 were crew members and 58 were based onshore. We undertook a major review of our employee remuneration packages that ensures that we are able to compete effectively against our peers to attract and retain a high standard of employees.

Information concerning remuneration of the key management and the Chief Executive Officer may be found in Note 27 to the consolidated financial statements.

HSSEQ
Health, safety, security, the environment and quality (HSSEQ) are the fundamental activities at SeaBird that define our operational capabilities. In line with the expansion of our fleet during 2007, we undertook a wholesale review of our HSSEQ performance which resulted in the implementation of an updated HSSEQ policy. The additional vessels delivered during the year also necessitated an increase in departmental staff numbers in order to maintain our strong focus on HSSEQ activities.

Most vessel training was undertaken on the job by field advisers who visited ships or other SeaBird locations. However, all HSSEQ management training was carried out on-shore. In 2007 we continued to make use of a training centre in Grimstad, Norway, where tailor-made training programmes for small boat operations have been developed to meet our specialised requirements.

Health
On the health front, in 2007 SeaBird employed doctors or medics who are operating full-time in order to swiftly respond to any incidents onboard, had they occurred. Seabird has carried paramedics or doctors on all our vessels for many years. However, we took the step in 2007 to engage International SOS to provide medical staff to our vessels that will ensure consistency of qualifications among our medical team.

There were no occupational diseases reported during 2007 among any of our ship-based crew.

Safety
Our increased focus on HSSEQ issues in order to minimise incidents was borne out by the figures for the year. During 2007, there were a total of 14 recordable injuries on our vessels – six medical treatment cases, five loss time incidents and three restricted workday cases – across a total of a little over 2.8 million hours worked. In comparison, in 2006 there were a total of nine incidents during just over 1.5 million man-hours worked on our vessels.

As would be expected with an increase in employee

"We recognise the responsibility we have towards the environment and, therefore, do all we can to create the minimum impact wherever we operate."

numbers to support our vessel expansion programme, our most important task during the year was to successfully introduce our new HSSEQ procedures both to new and existing staff.

Security
When it comes to security of our ships we are just as diligent. We operate our fleet in conjunction with our security partner, International SOS. However, we recognise that with the increase in our fleet size and the areas of the world in which it operates, we need to remain ever vigilant. In order to make our projects as risk-free as possible, we always undertake pre-commencement risk assessments. Also, we do as much as we can to make the local population aware of times when surveys are carried out. In 2007, for example, this included carrying out leaflet drops with detailed information, as well as national radio broadcasts.

Regular training drills were carried out on all our vessels to prepare against any potential security breaches.

Environment
At SeaBird we recognise the responsibility we have towards the environment and, therefore, do all we can to create the minimum impact wherever we operate. As a strategic part of any of our customer projects, we began to implement a new environmental management system (EMS) to analyse our activities at every site at which we operated.

We are compliant with the ISO 14001 environmental management standard through which we have sought to implement, maintain and improve our EMS, whilst at the same time complying with all international laws and regulations relevant to us in the field of environmentalism. As an example, on all of our ships nowadays we recycle our own water, incinerate those waste materials we are allowed to by law, and collect and segregate all other materials for disposal once the ship returns to port.

When undertaking seismic surveys our greatest impact on the environment comes from noise pollution as a result of our use of air guns. In a number of locations in which we operate around the world - including the Gulf of Mexico and Mozambique - we use up to three mammal observers on our vessels to watch out for marine life in the area such as whales and dolphins. If they are in the vicinity of our surveys we halt operations until these creatures are at a safe distance from our activities.

Quality
SeaBird understands the need to continually improve our quality standards across all areas of our business, but this is particularly true for our vessel employees. During 2007 we rolled-out our Quality Management System (QMS) across the Group. Our QMS manual, also signed-off in 2007, is our own in-house standard which we use in order to incrementally improve quality across the Company. Equivalent to the internationally recognised ISO 9001 standard, our quality programme is aimed at meeting and surpassing our customers' and partners' expectations with regards to our performance, costs and delivery of services. Our desire to improve our quality standards directly impacts all operational activities within the Company and we believe that, in time, their results will be seen in an enhanced performance for the Company, leading to improved financial results.

HSSEQ and the fleet
Fleet developments have been a major source of activity for our HSSEQ team. For example, we have dedicated personnel at all of our vessel refits to ensure that all work is undertaken to meet both our own and legislative HSSEQ requirements. We felt this is the best course of action because, as a vessel operator we are best placed to understand the requirements of our own staff when it comes to out-fitting the vessels on which they operate.

As well as recognising the legislative requirements we have to meet through HSSEQ, we expend considerable resources on this part of our business as we realise that, in the long-run, it will increase the uptime of our vessels which, in turn, improves our operational performance and increases profitability.

Key financial data
SeaBird reported consolidated revenues of USD 95.8 million for the year ended 31 December 2007, an increase of 107 per cent compared to the year

ended 31 December 2006. The increase is mainly due to the fact that five new vessels commenced operations between October 2006 and September 2007, combined with an increase of market rates.

Charter hire and operating expenses increased 137 per cent to USD 53.9 million in 2007, mainly due to the increased size of the fleet, but also a general cost inflation in the industry and higher project variable expenditures. Selling, general and administrative expenses increased 241 per cent to USD 18.9 million, as the organisation was strengthened with significantly more resources to facilitate the growth of operations and the requirements of being a publicly traded company. Expenses were adversely affected throughout the year by the weakening of the US dollar.

Other income (expenses), net changed from an expense of USD 3.1 million in 2006 to an income of 0.4 million in 2007, an improvement of USD 3.5 million. The main reason for the expense recognised in 2006 was a loss of USD 3.9 million related to the ruling in arbitration with Global Geo-Services ASA (GGS) - which although SeaBird won the main case, the recovery of costs was less than expected - and loss on investment in GGS shares of USD 1.1 million.

Earnings before interest, taxes, depreciation and amortisation (EBITDA) were USD 23.3 million for the year, an increase of 60 per cent compared to 2007. The increase was mainly caused by growth of the fleet in operation. Depreciation increased 381 per cent to USD 18.8 million, as the net book value of property plant and equipment increased significantly over the last 15 months, primarily through bringing five new vessels into operation and the revaluation of Geo Mariner and Northern Explorer at 31 December 2006. Earnings before interest and taxes (EBIT) decreased to USD 4.5 million in 2007 down from USD 10.7 million in 2006.

Interest expenses increased from USD 0.7 million to USD 10.6 million, in line with the increase of interest-bearing debt from USD 84.6 million at 31 December 2006 to USD 223.3 million at 31 December 2007. Furthermore, the interest-bearing debt in 2006 was mainly raised in the second half of 2006 and most of the interest expenses were capitalised on the conversion projects.

Other financial items, net, were negative, with USD 3.8 million for the year ended 31 December 2007 compared to an income of USD 0.8 million for the year ended 31 December 2006. The 2007 expense included realised and unrealised foreign exchange losses of USD 13.4 million and fair value gain on a financial instrument of USD 4.1 million. Tax income increased from 0.3 million in 2006 to USD 0.9 million in 2007, driven by deferred tax income from the losses of the SeaBed operations that were consolidated from June 2006.

The net loss for the year ended 31 December 2007 was USD 8.9 million compared to net profit of USD 11 million for the year ended 31 December 2006.

Liquidity and financing

At 31 December 2007, cash and cash equivalents amounted to USD 11.6 million, compared to USD 16.4 million at 31 December 2006. Net interest-bearing debt was USD 213.0 million compared to USD 68.2 million at the end of 2006. This increase was primarily caused by capital expenditures for the year of USD 132.9 million, mainly related to our conversion programme. Furthermore, net cash flow used in operating activities was USD 10.9 million in 2007 compared to a positive contribution of USD 14.6 million in 2006. The negative cash flow from operations was mainly caused by the net loss for the year, combined with a negative development of working capital caused by the growth of the business.

To fund the capital expenditures and negative cash flow from operations, SeaBird increased borrowings with a total of USD 138.9 million in 2007. SeaBird issued a bond loan of NOK 400 million in February 2007 with five-year maturity, with floating interest

"We believe...our focus on operational excellence following the completion of our fleet expansion programme will be reflected in an improved performance for the company during 2008."

(three-month NIBOR + 4.5 per cent). Through the first half of 2007, SeaBird drew the final USD 10 million of a credit facility agreement related to the Aquila Explorer. In June 2007 SeaBird entered into a five-year secured term bank loan with a borrowing limit of USD 25 million (at an interest rate of LIBOR + 1.25 per cent) and an additional unsecured revolving bank credit facility of USD 25 million (at an interest rate of LIBOR + 1.75 per cent). The Company had drawn the full amount under these facilities as of 31 December 2007. Further unsecured credit facilities of USD 20 million were secured towards the end of the year (at an interest rate of LIBOR + 1.50 per cent). USD 10 million of these facilities had been drawn as of 31 December 2007.

Based on the current business plan, the peak liquidity need is projected to be during the second quarter of 2008. At this time SeaBird will complete the conversion of the Hugin Explorer, complete the manufacture of the SeaBed nodes, some other capital expenditures and, simultaneously, build up of our working capital needs - both for projected contracts on the SeaBed operations and for the major contracts for ONGC in India. In order to meet this requirement, in February 2008 we entered into a placement of 8,100,000 new shares at a price of NOK 15.00 per share. The share issue represented approximately 10 per cent of the shares outstanding prior to the placement and total gross proceeds from the share issue were NOK 121million.

As described above, at year-end SeaBird had a cash balance of USD 11.6 million and an unused unsecured revolving short-term loan facility with a total limit of USD 10 million as of 31 December 2007. Furthermore, we released USD 4.2 million from a financial instrument in January 2008 and around USD 22 million (around NOK 116 million) net, from the issuance of new equity in February 2008. Furthermore, we have a total of USD 51.8 million of interest-bearing loans and borrowings falling due in 2008. USD 35 million of this relates to unsecured revolving/renewable credit facilities for which we are in a dialogue with the banks for renewal. SeaBird is dependent on renewing part or all of these credit facilities or finding other alternative sources of financing to replace them to secure a satisfactory liquidity for 2008. We also have a dialogue with banks to change the instalment plans for loans with total repayments scheduled in 2008 of USD 14.6 million.

Based on this, we believe that we have adequate liquidity to support our operations and the investment programme. However, we do not have a significant margin on our current financing plan. Therefore, we are evaluating the situation very closely and we might have to secure other sources of financing.

The SeaBird share

From an opening price at the beginning of January of NOK 39.40, SeaBird closed at NOK 20.10 on the last trading day of the year. We are disappointed at the performance of the share during 2007 and a further decline at the beginning of 2008. However, we believe that the fundamentals for the business are good and that this, together with our focus on operational excellence following the completion of our fleet expansion programme, will be reflected in an improved performance for the Company during 2008.

The majority owner, Bartica owned 29.1 per cent of the outstanding shares as of 31 December 2007. In addition, the shareholders in Bartica owned directly 0.4 per cent of the outstanding shares - hence the shareholders of Bartica controlled 29.5 per cent of the outstanding shares as of 31 December 2007.

While we are undertaking the current fleet development programme, SeaBird will not pay ordinary dividends to shareholders. In general, any future dividend will be subject to determination based on our result of operations and financial condition, our future business prospects, any applicable legal or contractual restrictions and other factors which the Board of Directors considers relevant.

Outlook

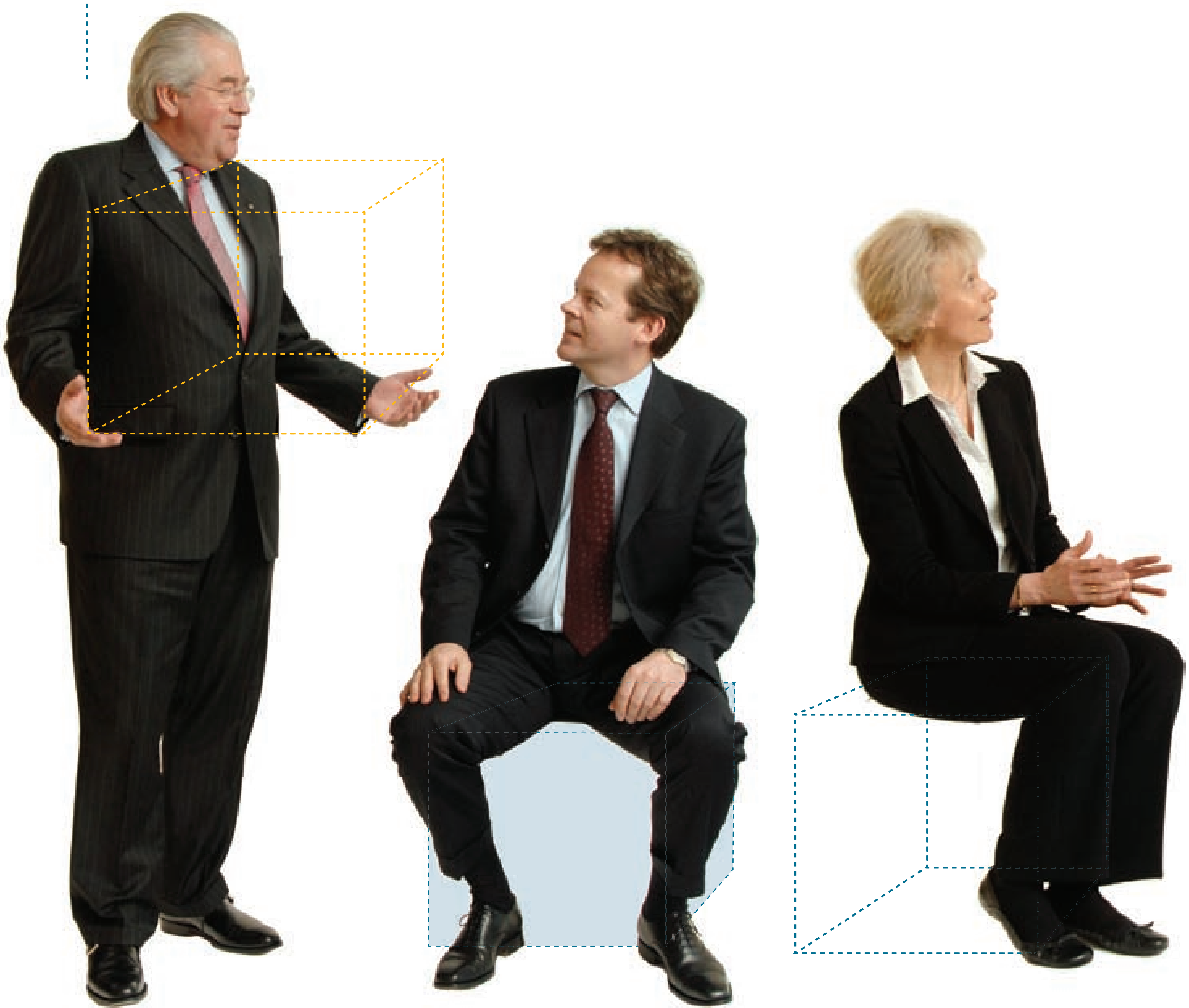
SeaBird believes that there is a positive outlook for all segments of the seismic offshore market and we expect that 2008 and beyond will be healthier than 2007. In response to a strengthening market there will be a number of additional vessels joining the fleet in 2008, but with demand so strong we believe the additional capacity will be comfortably absorbed. SeaBird is also positioned to take an active part in seismic development in the polar region with ice class vessels in the fleet.

Due to the challenges in bringing our new vessels into the fleet during 2007, we were unable to take advantage of the buoyant market at that time. However, with eight vessels in the fleet at the end of 2007 - along with delivery of the Hugin Explorer in the first half of 2008 - we strongly believe we now have both the resources and skills to significantly develop our revenues and profitability through 2008 and forward.

Despite our optimism, there is still some uncertainty for the year in relation to the revenues and profitability for the Hugin Explorer, and effective production and utilisation of the vessels on contract in India. Planned capital expenditures for the year are mainly related to the completion of the Hugin Explorer conversion, the new nodes, maintenance type investments on the existing fleet and some commitments for equipment purchases to cancelled projects. This equipment has been put on the resale market to the extent it is not necessary for the fleet inventory.

New seismic technologies are the building blocks of our future success

We are building for a stronger tomorrow, one block at a time



Frans Malmros
Board member

Anders Færden
Board member

Bergthora Ketilsdottir
Board member

Resolution

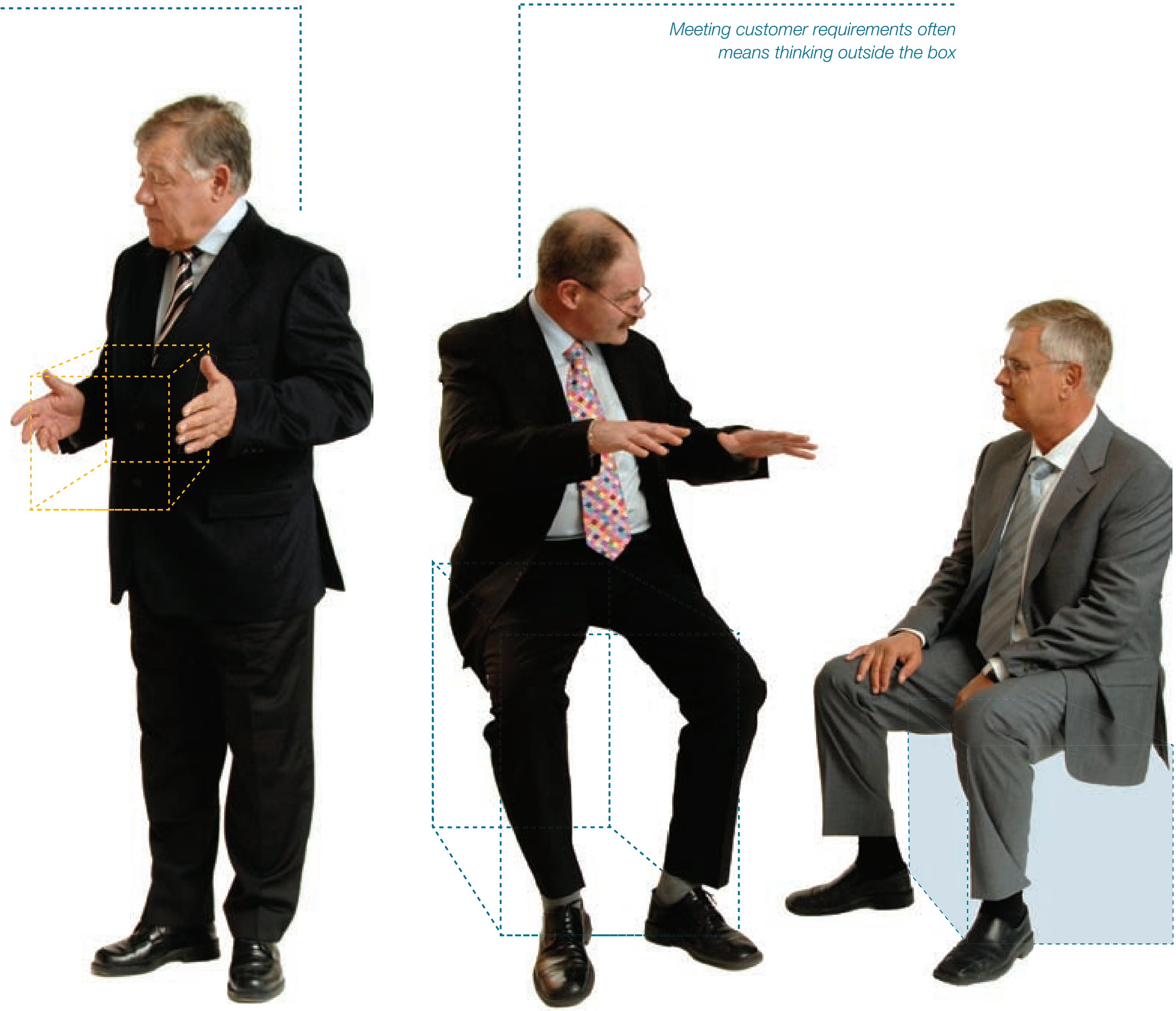
The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements were prepared under the historical cost convention, as modified by the revaluation of vessels and seismic equipments (property plant and equipment), available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss. The annual accounts are based on the going concern assumption.

To the best of the Directors' knowledge, no subsequent events have occurred since 31 December 2007 that would alter the accounts as presented for 2007.

Finally, the Board would like to extend our appreciation to all employees at SeaBird Exploration for your efforts during what was, at times, a demanding year. We recognise the commitment that you have all made to improve the Company's performance and the steps that we have taken in 2007 have ensured that we can move the Company forward and realise greater benefits for us all. ■

27 March 2008

Meeting customer requirements often means thinking outside the box



Kjell Mathiassen
Board member

Tim Isden
Chairman

Jan-Eivind Fondal
Board member

SHAREHOLDERS INFORMATION

20 largest shareholders at April 2007

Investor	**Number of shares**	**% of top 20**	**Type**	**Country**
MATHIASSEN KJELL HJALMAR	10 425 000	11.66%	Priv.	NOR
BARTICA COMPANY LTD *)	10 120 000	11.32%	Comp.	CYP
MONS HOLDING AS	7 647 814	8.56%	Comp.	NOR
BROWN BROTHERS HARRIMAN & CO	4 940 964	5.53%	Comp.	USA
RBC DEXIA INVESTOR SERVICES BANK	3 808 154	4.26%	Nom.	IRL
REYNOLDS DAG WILFRED	3 460 000	3.87%	Priv.	NOR
BANK OF NEW YORK, BRUSSELS BRANCH	2 976 392	3.33%	Comp.	GBR
ODIN OFFSHORE	2 950 000	3.30%	Comp.	NOR
MORGAN STANLEY & CO INTL PLC	2 471 675	2.76%	Nom.	GBR
BANK OF NEW YORK, BRUSSELS BRANCH	2 323 101	2.60%	Nom.	GBR
CITIBANK N.A. LONDON	1 886 600	2.11%	Nom.	NLD
STOREBRAND LIVSFORSIKRING AS	1 508 010	1.69%	Comp.	NOR
GOLDMAN SACHS INT. - EQUITY -	1 382 021	1.55%	Nom.	GBR
STATE STREET BANK AND TRUST CO.	1 184 868	1.33%	Nom.	USA
JPMORGAN CHASE BANK	1 172 178	1.31%	Nom.	GBR
BROWN BROTHERS HARRIMAN & CO	1 169 355	1.31%	Comp.	USA
HURRICANE INVEST AS	1 054 000	1.18%	Comp.	NOR
MOHN FREDERIK WILHELM	1 050 000	1.17%	Priv.	NOR
PICASSO AS	1 042 800	1.17%	Comp.	NOR
ABG SUNDAL COLLIER NORGE ASA	1 040 000	1.16%	Comp.	NOR
Total number owned by top 20	**63 612 932**	**71.17%**		
Total number of shares	**89 395 000**	**100.00%**		

*) 100% owned by Mr. Tim Isden, Chairman and CEO

FINANCIAL INFO

CONTENTS

CONSOLIDATED BALANCE SHEET

All figures in USD 1,000	Note	As at 31 December 2007	2006
ASSETS			
Non-current assets			
Property, plant and equipment	6	294,019	167,520
Multiclient data library	6	1,530	-
Capital work in progress	6	49,789	63,675
Long-term investments	9	-	3,214
Goodwill	7	8,996	7,730
Patent technology	7	4,412	4,412
Deferred tax asset	8	8,390	6,421
		367,136	**252,972**
Current assets			
Inventories	12	3,171	396
Trade receivables	11	24,472	17,726
Other current assets		18,058	3,721
Due from related parties	27	351	1,685
Cash and cash equivalents	13	11,616	16,387
		57,668	**39,915**
Total assets		**424,804**	**292,887**

CONSOLIDATED BALANCE SHEET

All figures in USD 1,000	Note	As at 31 December 2007	2006
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Paid in capital	14	97,691	98,258
Revaluation reserve		49,751	56,021
Currency translation reserve		1,549	758
Share options granted	14	4,949	4,837
Retained earnings		25,682	28,877
		179,622	**188,751**
LIABILITIES			
Non-current liabilities			
Non-current interest-bearing debt	16	146,520	46,010
Non-current portion of capital lease obligations	16	24,988	27,253
Provision for end of service gratuities		158	51
		171,666	**73,314**
Current liabilities			
Trade and other payables	15	21,703	19,493
Current portion of interest bearing debt	16	49,563	9,317
Current portion of capital lease obligations	16	2,250	2,012
		73,516	**30,822**
Total liabilities		**245,182**	**104,136**
Total equity and liabilities		**424,804**	**292,887**

CONSOLIDATED INCOME STATEMENT

All figures in USD 1,000	Note	Year ended 31 December 2007	2006	2005
Revenue		95,771	46,288	21,965
Charter hire and operating expenses	19	(53,938)	(22,769)	(12,894)
Selling, general and admin expenses	19	(18,923)	(5,836)	(4,310)
Other income (expenses), net	18	416	(3,099)	3,820
Earnings before interest, depreciation and amortization (EBITDA)		**23,326**	**14,584**	**8,581**
Depreciation		(18,787)	(3,909)	(1,682)
Earnings before interest and taxes (EBIT)		**4,539**	**10,675**	**6,899**
Interest expense	21	(10,629)	(698)	(120)
Other financial items, net	17	(3,783)	757	94
Loss from associated companies		-	-	(336)
Income (loss) before income tax		**(9,873)**	**10,734**	**6,537**
Tax income		944	296	-
Net Income (loss)		**(8,929)**	**11,030**	**6,537**
Earnings per share for profit attributable to the equity				
- basic	22	(0.11)	0.15	0.10
- diluted	22	(0.11)	0.15	0.21

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

All figures in USD 1,000	Share Capital	Paid in Capital	Share option granted	Revaluation reserve	Retained earnings	Currency translation reserve	Total
Balance at 1 January 2006	**62**	**23,743**	-	**14,629**	**4,871**	**22**	**43,327**
Revaluation surplus	-	-	-	41,392	1,463	-	42,855
Currency translation difference	-	-	-	-	-	736	736
Net income /(loss) recognized directly in equity	-	-	-	**41,392**	**1,463**	**736**	**43,591**
Net profit for the year	-	-	-	-	11,030	-	11,030
Total recognized income / (loss)	-	-	-	**41,392**	**12,493**	**736**	**54,621**
Share issues	19	74,434	-	-	-	-	74,453
Share option granted	-	-	4,837	-	-	-	4,837
Adjustment to fair value relating to previously held interest in business combination achieved	-	-	-	-	11,513	-	11,513
Reclassification of Share Capital	(81)	81	-	-	-	-	-
Balance at 31 December 2006	-	**98,258**	**4,837**	**56,021**	**28,877**	**758**	**188,751**
Balance at 1 January 2007	-	98,258	4,837	56,021	28,877	758	188,751
Revaluation surplus	-	-	-	(6,270)	5,734	-	(536)
Currency translation differences	-	-	-	-	-	791	791
Net income/(expense) recognized directly in equity	-	-	-	**(6,270)**	**5,734**	**791**	**256**
Loss for the year					(8,929)		(8,929)
Total recognized income / (loss)	-	-	-	**(6,270)**	**(3,195)**	**791**	**(8,674)**
Adjustment to previous year share issues	-	(670)	-	-	-	-	(670)
Share option granted/cancelled	-	103	112	-	-	-	215
Balance at 31 December 2007	**0**	**97,691**	**4,949**	**49,751**	**25,682**	**1,549**	**179,622**

CONSOLIDATED CASH FLOW STATEMENT

All figures in USD 1,000	Note	Year ended 31 December 2007	2006
Cash flows from operating activities			
Income before income tax		(9,873)	10,734
Adjustments for:			
Depreciation and amortization	6	18,787	3,909
Impairment of/loss on investment in shares		614	1,086
Provision for employees' end of service gratuities		108	37
Earned on employee Stock Option Plan		1,457	768
(Increase)/decrease in inventories		(2,775)	(234)
(Increase)/decrease in trade and other receivables		(21,083)	(14,536)
(Increase)/ decrease in due from related parties		(302)	(1,126)
Increase/(decrease) in trade and other payables		2,209	14,237
(Decrease)/increase in due to related parties		-	(325)
Net cash from operating activities		**(10,858)**	**14,550**
Cash flows from investing activities			
Capital expenditures	6	(132,929)	(152,483)
Acquisition of intangible assets and deferred taxes	7, 8	(1,267)	(18,266)
Increase in investments in shares		2,600	(3,651)
Net cash used in investing activities		**(131,596)**	**(174,400)**
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		(447)	74,453
Movements in borrowings		138,921	75,022
Share option granted on acquisition		-	4,069
Net movement in currency fluctuations		(791)	736
Net cash from financing activities		**137,683**	**154,280**
Net (decrease)/increase in cash and cash equivalents		**(4,771)**	**(5,570)**
Cash and cash equivalents at beginning of the period		**16,387**	**21,957**
Cash and cash equivalents at end of the year		**11,616**	**16,387**

1. GENERAL INFORMATION

SeaBird Exploration Limited ("the Company") and its subsidiaries (together "the Group" or "SeaBird") is a global provider of 2D, source, ocean bottom seismic and shallow water 3D marine seismic data to the oil and gas industry. SeaBird specializes in high quality operations at the high end of the source vessel and 2D market, the shallow water 2D/3D market, as well as in the ocean bottom 4C/4D market. The main focus for the Company is proprietary seismic surveys (contract seismic). A main success criterion for the Company is an unrelenting focus on Health, Safety, Security, Environment and Quality (HSSEQ), combined with efficient collection of high quality seismic data.

SeaBird Exploration Limited ("the Company" or "SBX") is a limited liability company incorporated in the British Virgin Islands ("BVI"). The address of its registered office is Road Town, Tortola, British Virgin Islands. The Group has its operating office in Dubai, United Arab Emirates, representative offices both in Oslo and Trondheim, Norway, Houston, USA, Singapore and St Petersburg, Russia. SeaBird Exploration Limited is, since April, 2006, listed on the Oslo Stock Exchange.

At 31 December 2007, the fleet list of the Group is as follows:

1. Geo Mariner
2. Harrier Explorer
3. Aquila Explorer
4. Osprey Explorer
5. Munin Explorer (bareboat charter with purchase option)
6. Kondor Explorer (bareboat charter with right of first refusal)
7. Northern Explorer
8. Hawk Explorer (finance lease)
9. Hugin Explorer (bareboat charter entered into in December 2006, delivery January 2008)

Managed by the Group

1. Discoverer II
2. Falcon Explorer

Seismic operations are generally weather-sensitive and, as a result of this, there are typically seasonal differences in the day rates and vessel utilization. The Group strives to maximize day rates and earnings by positioning vessels in less weather-sensitive areas during the less favourable seasons, such as monsoon or winter seasons in harsh areas. Furthermore, seismic operations are dependent on the political situation, market conditions of oil and gas and the number of vessels available at any time in the market. The current market situation and outlook remain strong. However, oil prices, increasing capacity entering the industry and instability in the Middle East region remain inherent risk factors.

The accompanying financial statements represent the activities of SeaBird Exploration Limited and its subsidiaries for the year ended 31 December 2007. These financial statements were authorised for issue by the Board of Directors on 27 March 2008.

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 vessels and seismic equipment (property plant and equipment), 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. 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.

Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group. They did, however, give rise to additional disclosures, including in some cases, revisions to accounting policies.

- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Amendment - Presentation of Financial Statements

The principal effects of these changes are as follows:

IFRS 7 Financial Instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements and in particular Note 29. While there has been no effect on the financial position or results, comparative information has been revised where needed and/or where available with the systems in place at that point of time.

IAS 1 Presentation of Financial Statements

This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 3.2 and Note 29.

The following new interpretations to existing standards are not relevant to the Group's operations:

- IFRIC 8 Scope of IFRS 2
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 10 Interim Financial Reporting and Impairment

New standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group.

- IFRS 8 Operating Segments
- IFRIC 11 IFRS 2 - Group and Treasury Share Transactions

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which SeaBird 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 SeaBird controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to SeaBird. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by SeaBird. 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 SeaBird'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 SeaBird 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 SeaBird.

(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. SeaBird's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

SeaBird'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 SeaBird's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, SeaBird does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between SeaBird and its associates are eliminated to the extent of SeaBird'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 SeaBird.

(d) Joint ventures

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

SeaBird 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 SeaBird's financial statements.

SeaBird recognises the portion of gains or losses on the sale of assets by SeaBird to the joint venture that is attributable to the other participants in the joint venture. SeaBird does not recognise its share of profits or losses from the joint venture that result from SeaBird'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 SeaBird.

2.3 Segment reporting

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 is 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 SeaBird'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.

(c) Group companies

The results and financial position of all the Group entities (none of which have 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 from time to time revalued and shown at fair value, based on valuations by external independent valuers. 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.

Increases in the carrying amount arising on revaluation of vessels and seismic equipment are credited to revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against revaluation reserve 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 'revaluation 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 vessels 10 to 15 years
- Seismic equipment 8 to 15 years
- Office equipment 4 years

The vessels are depreciated from the date they are available for use, i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management.

5 years dry docking costs are capitalized and depreciated over 5 years.

Receivable amounts of a sale of similar assets that today are at the end of their useful lives have been estimated to equal the net present value of dismantling and removal costs at the end of the depreciation period. Consequently neither a residual value nor dismantling and removing costs have been considered. In any case the amounts are not considered to be material.

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 Capital work in progress

Property, plant and equipment under construction or under conversion are capitalized at the lower of cost or market value. Elements of costs include costs that are directly attributable to the conversion project, but not administration and other general overhead costs.

Borrowing costs are capitalised. This applies to both borrowing costs directly attributable to the acquisition and to costs related to funds that are borrowed for general purposes to the extent that funds are used for obtaining qualifying assets.

2.7 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(b) Patent Technology (Intellectual Property Rights)

Acquired Patent Technology (Intellectual Property Rights) are shown at historical cost. Patent Technology has a finite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives (20 years). Property Rights are depreciated from the date they are available for use, i.e. when connected tangible assets are in the location and condition necessary for them to be capable of operating in the manner intended by management.

2.8 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.

2.9 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 SeaBird 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 SeaBird 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, including interest and dividend income, are presented in the income statement within 'other 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. Dividends on available-for-sale equity instruments are recognised in the income statement when SeaBird'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), SeaBird 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.

SeaBird 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 Note 2.12.

2.10 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

(a) hedges of the fair value of recognised liabilities (fair value hedge);

(b) hedges of a particular risk associated with a recognised liability or a highly probable forecast transaction (cash flow hedge); or

(c) hedges of a net investment in a foreign operation (net investment hedge).

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 10. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedge item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(a) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Group had no fair value hedges recognized in the balance sheet at 31 December 2007 or 2006.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within other gains/(losses) – net.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within finance costs. The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in the income statement within sales. The gain or loss relating to the ineffective portion is recognised in the income statement within other gains/(losses) – net'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in case of inventory, or in depreciation in case of fixed assets.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within other gains/(losses) – net. The Group had no cash flow hedges recognized at 31 December 2007 or 2006.

(c) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within other gains/(losses) – net.

Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold. The Group had no cash flow hedges recognized at 31 December 2007 or 2006.

(d) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement within other financial items, net.

2.11 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.

2.12 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 SeaBird 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.

2.13 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.

2.14 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.

Where and if any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax effects) is included in equity attributable to the Company's equity holders.

2.15 Interest-bearing debts and 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 SeaBird has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.16 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 SeaBird and it is probable that the temporary difference will not reverse in the foreseeable future.

2.17 Employee benefits

(a) Pension obligations

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies, determined by periodic actuarial calculations. The pension schemes are in general defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Share-based compensation

The Group operates equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(c) Termination benefits

As regards employees in United Arabic Emirates (“UAE”), accumulated period of employees’ end of service gratuities are recorded as a provision. The provision recorded (as required by UAE Labour Law 1980) and based on the provision 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:

- First 5 years - 21 days basic salary/year; and
- 6th year and onwards - 30 days basic salary/year

2.18 Provisions

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

2.19 Revenue recognition

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

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.

2.20 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.

SeaBird leases certain property, plant and equipment. Leases of property, plant and equipment where SeaBird 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 are depreciated over the useful life of the asset.

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.

Sale and Leaseback Transactions

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved. If the leaseback is a finance lease, the transaction is a means whereby the lessor provides finance to the lessee, with the asset as security. For operating leases, if the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, a loss equal to the amount of the difference between the carrying amount and fair value shall be recognised immediately. For finance leases, no such adjustment is necessary unless there has been an impairment in value, in which case the carrying amount is reduced to recoverable amount in accordance with IAS 36. If no impairment is required, the carrying amount is depreciated over the useful life of the asset.

2.21 Dividend distribution

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

3. FINANCIAL RISK

3.1 Financial risk factors

SeaBird'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. The Group's overall risk management focuses on monitor and control risks with a potential significant negative effect for the Group and evaluate to minimize the risk if the cost of doing so is acceptable. The Group uses derivative financial instruments to hedge certain risk exposures from time to time.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and procedures for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Audit Committee oversees how management monitors and manage risk and review the adequacy of the risk management framework in relation to the risks faced by the Group.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Norwegian kroner, Euro and United Arab dirhams. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. To manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, entities in the Group use from time to time various foreign exchange contracts managed through Group Finance. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

Through 2007 a significant part of loans in NOK were in effect managed by foreign exchange contracts, however these contracts were realized during the year (see Note10 for further information). Because of the historic weak USD at 31 December 2007, it has been decided to only undertake very limited foreign exchange contracts securing USD at the current low level.

(ii) Price risk

SeaBird was until July 2007 exposed to equity securities price risk because investments held by SeaBird were classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss. No such investments were held at 31 December 2007.

SeaBird is also exposed to commodity (bunker fuel) price risk. As SeaBird in general has a fairly short order backlog for contracts where we are carrying the risk of bunker fuel prices, this risk has not historically been mitigated by forward commodity contracts. SeaBird might from time to time evaluate commodity contracts to mitigate such risk in the future.

(b) Credit risk

SeaBird 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.

SeaBird seeks to limit the amount of credit exposure to any financial institution and is only investing in liquid securities with counterparties with strong credit ratings.

The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries or performance guarantees and similar in the normal course of business.

(c) 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, SeaBird has been aiming to maintain flexibility in funding by a mixture of debt and equity financing. At 31 December 2007, the Group had an unused credit line of USD 10 million available. To provide for further capital need to complete the investment program and other funding need, the Group raised an additional net of approximately USD 22 million in new equity at 27 February 2008 (see Note 3.2 and Board of Directors Report for further details).

d) Cash flow and fair value interest rate risk

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

SeaBird's interest rate risk arises from long-term interest-bearing debt. Interest-bearing debt issued at variable rates expose the Group to cash flow interest rate risk. Interest-bearing debt issued at fixed rates expose the

Group to fair value interest rate risk. As of 31 December 2007, the capital lease obligations constituting around 12% of the gross interest-bearing debt in the Group were issued at fixed interest rates, while the remaining 88% were issued at variable interest rates. 57% of the variable interest rate loans were exposed to NOK based interest, while the rest is exposed to USD based interest.

3.2 Capital Management

The Board aims to have a flexible capital base to maintain investor, creditor and market confidence and to sustain future development of the business. Currently, the focus is on securing sufficient funding to complete the current investment programme and then make sure that cash flow from operations supports future operations and service our obligations to service outstanding debt. While SeaBird is undertaking the current fleet development programme, SeaBird will not pay ordinary dividends to shareholders. In general, any future dividend will be subject to determination based on our result of operations and financial condition, our future business prospects, any applicable legal or contractual restrictions and other factors which the Board of Directors considers relevant.

Based on the current business plan, the peak liquidity need is projected to be during the second quarter of 2008. At this time SeaBird will complete the conversion of the Hugin Explorer, complete the manufacture of the SeaBed nodes, some other capital expenditures and, simultaneously, build up of our working capital needs - both for projected contracts on the SeaBed operations and for the major contracts for ONGC in India.

The liquidity reserve consisted of USD 11.6 million and an unused, unsecured revolving short-term loan facility with a total limit of USD 10 million as of 31 December 2007. Furthermore, SeaBird released USD 4.2 million from a financial instrument in January 2008 and around USD 22 million (around NOK 116 million) net, from the issuance of new equity in February 2008. SeaBird has a total of USD 51.8 million of interest-bearing loans and borrowings falling due in 2008. USD 35 million of this relates to unsecured revolving/renewable credit facilities where we are in a dialogue with the banks for renewal. SeaBird is dependent on renewing part or all of these credit facilities or finding other alternative sources of financing to replace them to secure a satisfactory liquidity for 2008. We also have a dialogue with banks to change the instalment plans for loans with total repayments scheduled in 2008 of USD 14.6 million.

Based on this, believe the liquidity is adequate to support operations and the investment programme. However, it is not a significant margin in the current financing plan, and consequently, the situation is monitored very closely and we might have to secure other sources of financing.

3.3 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 SeaBird 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. SeaBird 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 SeaBird for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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.

SeaBird 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.

(a) Estimating useful lives, residual value and cost of removal of vessels and equipment

The Group's estimates of useful lives and plans for depreciation are based on investment considerations and on experience of technical and economical life of similar assets. Useful lives are dependent on normal day-to-day and periodical maintenance. A further allocation of vessels and equipment into significant parts may lead to different depreciations. However, management does not consider the effects to be material.

(b) Revaluation of vessels

Present market conditions imply increased fair market value of vessels. The values are set by two independent professional appraisers. Two of the vessels were revalued as of 31 December 2006 and the other vessels have been converted over the last 15 months and have a current historic cost. The appraisals performed at year-end 31 December 2007 did in general show higher fair market values than net book values. However, as the appraisals have a fairly wide range and because values of seismic vessels and equipment have increased quite rapidly over the last two years, it has been decided to evaluate the vessels for revaluation again at the end of 2008. Possible misjudgments in revaluations at the end of 2007 have no material effect on the income statement for the reported income statement as revaluations would have been recognized as an adjustment to equity as of 31 December 2007. However, depreciations will be affected going forward.

(c) Estimated impairment of goodwill and patent technology

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.8. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 7).

If the estimated operating profit at 31 December 2008 had been 10% lower than management's estimates at 31 December 2007, the Group would not have recognised a further impairment of goodwill. If the estimated pre-tax discount rate applied to the discounted cash flows had been 2% higher than management's estimates, the Group would still not have recognised a further impairment against goodwill. These calculations also substantiate no indications of impairment on patent technology.

(d) Income taxes

The Group operates globally and significant judgment 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.

(e) Trade receivables

In 2006 SeaBird suffered a loss of around USD 3.1 million in an arbitration with a previous customer (see Notes 11 for further details). This loss was mainly caused by disagreements of contractual terms and not a lack of ability to pay. In 2007 we have a similar provision for bad debt of around USD 1.1 million.

Even though credit controls are in place prior to signing service contracts, trade receivables are subject to a risk of bad debt. As of 31 December 2007 receivables are higher than previously, partly as a result of a higher portion of the fleet working on proprietary work for oil companies with less favourable payment terms. Historically, SeaBird has had a larger portion of the fleet on time charters to other seismic companies, which in general are prepaid. This change carries an increased uncertainty in estimates for the provision for bad debts.

(f) Share-based payments

The Group 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.

5. SEGMENT INFORMATION

Primary reporting format – business segments

Activities in 2D and 3D seismic operations are conducted and monitored within the Group as one business segment. Activities in the 4 component seabed seismic acquisition might be managed separately when the investment phase is finalized and operations commence in 2008.
At 31 December 2007, the Group operates only in one business segment – seismic operations.

Secondary reporting format – geographical segments

The Group operates in several maritime and international zones with different conditions and risks. Geographical segment revenues are presented, but it is not believed to be relevant to refer assets (mainly vessels and seismic equipment on vessels) and liabilities to geographical segments due to the international operations.

Revenue	2007	2006	2005
Europe, Africa & Middle East (EAME)	41,005	32,106	14,384
North & South America (NSA)	34,364	14,182	7,581
Far East (FE)	20,402	-	-
	95,771	**46,288**	**21,965**

Operating Profit /EBIT	2007	2006	2005
Europe, Africa & Middle East (EAME)	(16,467)	5,389	3,779
North & South America (NSA)	14,373	5,286	3,120
Far East (FE)	6,633	-	-
	4,539	**10,675**	**6,899**

6. PROPERTY, PLANT AND EQUIPMENT

The Group applies the revaluation model (IAS 16.31) on property, plant and equipment relating to vessels and seismic and seismic related equipment. The assets have been valued by external independent appraisals at 31 December 2007, but no revaluation has been recognized at 31 December 2007 (see Note 4 (b) for further information). The Group's seismic vessel and seismic equipment were last revalued on 31 December 2006. Revaluation is based on external independent appraisals. The revaluation amount is included in retained earnings. Valuations were made on the basis of market value. As a consequence of the acquisition of 50% of Sana in May 2006, the Group has obtained full control over the Northern Explorer and consequently revaluated the previously held 50% (IFRS 3, Business combination achieved in stages). The revaluation surplus net of applicable deferred Income taxes was credited to revaluation reserve in shareholders' equity. Costs relating to the 5 year special dry docking are capitalized and depreciated separately.

	Multi-client library	Capital work in progress	Seismic vessel and equipment (owned)	Seismic vessel and equipment (leased)	Seismic equip-ment on chartered vessel	Office equip-ment	Total
At 1 January 2006							
Cost or valuation	-	7,637	21,097	-	2,479	188	31,401
Accumulated depreciation	-	-	(1,355)	-	(1,730)	(63)	(3,148)
Net book amount	**-**	**7,637**	**19,742**	**-**	**749**	**125**	**28,253**
Year ended 31 December 2006							
Opening net book amount	-	7,637	19,742	-	749	125	28,253
Revaluation surplus	-	-	42,855	-	-	-	42,855
Adjustment to fair value relating to previously held interest in business combination achieved in stages	-	-	11,513	-	-	-	11,513
Additions	-	132,578	17,948	-	561	1,397	152,484
Transferred to property, plant & equipment	-	(76,540)	37,611	38,929	-	-	-
Disposals (net)	-	-	-	-	-	-	-
Depreciation charge	-	-	(3,285)	(212)	(134)	(278)	(3,909)
Closing net book amount	**-**	**63,675**	**126,384**	**38,717**	**1,176**	**1,244**	**231,196**
At 31 December 2006							
Cost or valuation	-	63,675	131,024	38,929	3,040	1,585	238,253
Accumulated depreciation	-	-	(4,640)	(212)	(1,864)	(341)	(7,057)
Net book amount	**-**	**63,675**	**126,384**	**38,717**	**1,176**	**1,244**	**231,196**
Year ended 31 December 2007							
Opening net book amount	-	63,675	126,384	38,717	1,176	1,244	231,196
Transferred to Property, Plant & Equipment	-	(40,465)	40,465	-	-	-	-
Revaluation surplus	-	-	-	-	-	-	-
Additions	1,106	32,938	76,814	4,579	21,589	2,278	139,304
Equipment in transit	-	6,755	-	-			6,755
Disposals (Net)	-	(13,114)	-	-	-	(17)	(13,131)
Depreciation and amortization	424	-	(14,654)	(2,810)	(1,286)	(460)	(18,786)
Closing net book amount	**1,530**	**49,789**	**229,009**	**40,486**	**21,479**	**3,045**	**345,338**
At 31 December 2007							
Cost or valuation	1,106	49,789	248,303	43,508	24,629	3,846	371,181
Accumulated depreciation and amortization	424	-	(19,294)	(3,022)	(3,150)	(801)	(25,844)
Net book amount	**1,530**	**49,789**	**229,009**	**40,486**	**21,479**	**3,045**	**345,338**

The Group's seismic vessel and seismic equipment were last revalued on 31 December 2006 by independent valuers. Valuations were made on the basis of market value. The revaluation surplus net of applicable deferred Income taxes was credited to revaluation reserve in shareholders' equity. If the seismic vessels and seismic equipment were stated on the historical cost basis, the amounts would be as follows:

	2007	2006
Cost	240,678	107,750
Accumulated depreciation	13,051	9,981
Net book amount	**227,627**	**97,769**

7. INTANGIBLE ASSETS

SeaBird has acquired intangible assets in 2007 from the acquisition of GeoBird Management Middle East FZ LLC in January 2007.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. A purchase price allocation has been carried out for this acquisition and the acquisitions undertaken in 2006 as described below. The excess value of the business was calculated at USD 1.3 million. The excess value represents valuation of assembled work force and organisation which in accordance with IFRS, are classified as goodwill.

SeaBird acquired intangible assets in 2006 from the acquisition of Sana Navigation Co Ltd and the acquisition of SeaBed Geophysical AS.

The remaining 50% of the associate Sana Navigation Co Ltd, the operating company of the Northern Explorer, was acquired in May 2006. The accounts are consolidated from that date. The excess value (goodwill) of the business was calculated at USD 5.1 million, representing the value of the organisation in the management company and the management agreement. The value of the vessel was set in accordance with external valuation.

As for SeaBed Geophysical, the total purchase price was USD 16 million and allocated to property, plant and equipment, patent technology, capital work in progress, deferred tax asset and goodwill. The excess value (goodwill) of the business was calculated at USD 2.7 million, representing the value of the organisation and not indentifiable intangible assets. Property, plant and equipment are presented at historical cost. Patent technology (intellectual property rights) is valued based on the cost method and is expected to have a remaining life time of 20 years from 2004. Closing date for the acquisition was 13 June 2006 and the accounts are consolidated from June 2006.

Part of the purchase price is financed through warrants (share options granted) to sellers and key personnel. The value of the options is calculated and presented as equity under share options granted.

SeaBed moves towards the end of a development phase with successful trial test deliveries. The node operations are expected to commence in the second quarter of 2008. From the purchase of SeaBed in June 2006, costs directly attributable to capital work in progress and preparation of operations are capitalized. Administrative and selling costs are expensed. Depreciation related to nodes and patents will be charged from the time when the equipment is ready for operations.

Impairment tests of goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified as the operations of Sana and SeaBed. GeoBird operations are already integrated into the overall management of the fleet, hence the cash generated from these services cannot be identified separately. The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using a negative growth rate after the five year period, as for valuation purposes the current strength in the markets is not expected to be maintained beyond the five year period.

Projected margin is based on past performance and its expectations of market development. The weighted average margins and growth rates used are consistent with or lower than the forecasts included in industry reports. The discount rates used of 10%-12% are pre-tax and reflect specific risks relating to the relevant segments.

8. DEFERRED TAX ASSETS / TAXES

SeaBird is a British Virgin Islands-based group operating in international waters. The operating office is based in Dubai, United Arab Emirates. The international operations are considered generally not liable to income tax expenses in these countries for the current operations. However, SeaBird is subject to various local taxes in countries where SeaBird operates. Historically, taxes have generally been withheld taxes which are presented as a reduction of revenues. We expect to a larger degree to be subject to income taxes in countries of operation which will increase our income tax cost. We are also evaluating historic tax exposures related to certain projects already completed which might increase the reported tax expense.

SeaBird has several subsidiaries in Norway which are subject to Norwegian taxes. Deferred tax assets constitutes in all material respects the tax losses for SeaBed AS, acquired in June 2006 and deferred tax assets for this company is presented at nominal value as required by IAS 12 representing 28% of historic tax losses.

Deferred tax assets

Deferred tax assets on acquisition of SeaBed AS June 2006	6,125
Tax on operating tax loss from SeaBed AS	296
Deferred tax asset 31 December 2006	**6,421**
Tax on operation tax loss from SeaBed AS	944
Exchange rate effect on opening balance	1,025
Deferred tax asset 31 December 2007	**8,390**

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2007	2006
Beginning of the year	3,214	649
Additions	-	4,399
Disposals	(3,214)	(749)
Impairment	-	(1,085)
End of the year	-	**3,214**
Less: non-current portion	-	(3,214)
Current portion	-	-

Available-for-sale financial assets include the following:

	2007	2006
Listed securities:	-	**3,214**

The investment equalling USD 3,214 at the beginning of 2007 represents a long term investment in the equity of Global Geo Services ASA. The investment was sold in 2007, at a loss of USD 93.

10. DERIVATIVE FINANCIAL ASSETS

SeaBird issued a bond loan of NOK 400 million in February 2007 with a 5 years maturity, with floating interest (3 month NIBOR + 4.5%). Simultaneously SeaBird entered into a financial instrument which in effect converted the loan to a USD based loan with a principal repayment obligation of USD 65 million and a floating interest rate of LIBOR + 4.75%. In October 2007, as a consequence of the inherent value of the financial instrument and the long maturity, the Company has realized the value of the swap of the principal repayment generating a cash contribution of USD 4.8 million in Q4 2007. The principal might be hedged against USD again if and when the USD strengthens. As a consequence of this transaction the USD 4.8 million was recognized as a realized gain in Q4 2007, while the loan in NOK and the remaining interest swap was recognized to fair value at 31 December 2007. The value of the interest rate swap recognized at 31 December 2007 was USD 4.1 million recognised as "other current assets" as it has been realized in January 2008 for a cash contribution of USD 4.25 million.

As per 31 December 2006, SeaBird has entered into a EURO/USD derivate. The derivate is valued at fair value implying a net loss expensed of USD 46. This instrument was terminated in 2007.

11. TRADE AND OTHER RECEIVABLES

	2007	2006
Trade receivables	25,564	21,599
Less: provision for impairment of receivables	(1,092)	(3,873)
Trade receivables – net	**24,472**	**17,726**

The fair values of net trade and other receivables are regarded as approximate at cost adjusted for provision for impairments.

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 29

The Group has recognised a final loss of USD 593 for the year ended 31 December 2007 (2006: USD 3,960). The loss recognized for 2007, has been provided for in previous year, and is primarily related to a negative ruling in a court case during the year. In addition we have provided for USD 1,093 in 2007 as a reduction of revenues, related to a dispute with a customer on services provided.

The substantial loss in 2006 was mainly related to the impairment of trade receivables during the year ended 31 December 2006 related to the result of arbitration with Global Geo Services ASA in February 2007.

In general, vessels on time charter are prepaid, while vessels contracted to oil companies usually have payment terms of an average of 30 days.

12. INVENTORIES

	2007	2006
Bunker fuel	1,844	396
Nodes Batteries	1,327	-
Total inventories	**3,171**	**396**

The whole opening balance at the beginning of 2007 of bunker fuel of USD 396 has been recognized as expense in 2007 (2006: 163).

13. CASH AND CASH EQUIVALENTS

	2007	2006
Cash at bank and in hand	**11,616**	**16,387**

The effective interest rate on short-term bank deposits was 3.19% (2006: 3.95%); these deposits have an average maturity of 15 days. On 31 December 2007, out of cash at bank and in hand, no amount was placed as fixed deposit (2006: USD 1,322).

Cash and cash equivalents include USD 431 of restricted cash at 31 December 2007 (2006; USD 1,300)

14. SHARE CAPITAL AND SHARE OPTIONS

	Number of Shares
At 1 January 2006	62,381,000
IPO	10,000,000
Private Placements	8,914,000
At 31 December 2006	**81,295,000**
New shares issued in 2007	0
At 31 December 2007 Basic	81,295,000
Outstanding options	1,270,000
Share options /Warrants SeaBed selling shareholders	811,147
Share options /Warrants SeaBed employees at acquisition	832,381
At 31 December 2007 Diluted	**84,208,528**

The total share capital of 81,295,000 shares is issued as of 31 December 2007. No new shares have been issued in 2007. As a result of changes in regulations of British Virgin Islands Companies from 2006 the shares do not formally have a par value. The total share capital of 81,295,000 shares is issued and paid up as of 31 December 2007.

According to the Articles of Association, the Company's authorized capital is 150,000,000 shares of no par value. The Board of Directors have no restrictions on the authorized capital, except the shares dedicated for incentive plans as described below.

SeaBird uses stock options as an incentive for key employees. This is administered by the Board of Directors under an Employee Stock Option Incentive Plan. As per 31 December 2007, there are outstanding options for 1,270,000 shares, all with exercise prices at NOK 20 per share and higher. Calculated value of the options is presented as equity and expensed over the option period. The Annual General Meeting resolved in May 2007 to authorize to reserve for issuance of up to another 5,000,000 shares for the purpose of a new incentive scheme for key employees. No options were issued under the new authorization as of 31 December 2007.

In addition, warrants or share options were used as part of the payment for SeaBed Geophysical AS:

Selling shareholders	811,147 shares*)
Key employees	832,381 shares

*) An additional 666,016 warrants were issued at the point of sale, but exercised in September 2006. These warrants were settled with proceeds from the share increase in September 2006. However, the settlement was erroneously recorded as a loan to the related party Bartica in 2006. This is rectified in 2007 and causes a charge to Paid in Capital of around USD 1.7 million in 2007, while another USD 0.6 million is charged to Paid in Capital related to final settlement of transaction costs from the share increases in 2006.

Calculated value of the options is presented as equity and capitalized as part of the purchase price of the assets of SeaBed.

Estimated value of the share options granted, representing in total 2,913,528 shares, reduced for services not rendered as per 31 December 2007, is presented in equity as Share options granted.

15. TRADE AND OTHER PAYABLES

	2007	2006
Trade payables	13,332	14,413
Accrued expenses and other current liabilities	8,371	5,080
	21,703	**19,493**

16. INTEREST-BEARING LOANS AND BORROWINGS

	Effective interest rate% 31.12.07	Maturity	2007	2006
Non-current				
Capital lease obligations (Note 26)	11.3%	2014	24,988	27,253
Bond loan 1	Nibor + 4.25%	2009	37,075	32,118
Bond loan 2	Nibor + 4.50%	2012	74,151	-
Bank loans and other interest-bearing debt, secured	Libor + 1.25%-1.50%	2008-2012	35,294	13,892
			171,508	**73,263**
Current				
Capital lease obligations (Note 26)	11.3%	2014	2,250	2,012
Bank loans and other interest-bearing debt, secured	Libor + 1.25%-1.50%	2008-2012	14,563	9,317
Bank loans and other interest-bearing debt, unsecured	Libor + 1.5%-1.75%	2008	35,000	-
			51,813	11,329
Total interest-bearing loans and borrowings			**223,321**	**84,592**

Bond loan 1
The bond loan 1 was raised in two tranches in July and October 2006 for a total of NOK 200 million (USD 37.1 million with currency rates as of 31 December 2007). The loan is unsecured and repayable in full on 14 July 2009. Interest rate is 3 months Nibor + 4.25%. The bond loan is traded on the Oslo Exchange Alternative Bond Market and last trade prior to 31 December 2007 was at 101%.

Bond loan 2
The bond loan 2 was raised in one tranche in February 2007 for a total of NOK 400 million (USD 74.1 million with currency rates as of 31 December 2007). The loan is unsecured and repayable in full on 14 February 2012. Interest rate is 3 months Nibor + 4.50%. The bond loan is traded on the Oslo Exchange Alternative Bond Market and last trade prior to 31 December 2007 was at 98.50%. The total borrowing limit in this loan is NOK 500 million.

Bank loans and other interest-bearing debt
Bank loans secured by first priority mortgages of Osprey Explorer, Aquila Explorer, Harrier Explorer and certain other security constitute a total of USD 34.7 million of the total non-current balance of secured loans and a the whole balance of current secured loans of USD 14.6 million. These loans have interest rates of 1,3 or 6 months Libor + 1.25-1.50%.

Unsecured current bank loans of USD 35 million consists of a unsecured revolving bank credit facility of USD 25 million with interest rate of LIBOR + 1.75%, all drawn as of 31 December 2007. This revolving facility is up for renewal in June 2008. Furthermore, it consists of an unsecured revolving short term loan facility with a different bank with a total limit of USD 20 million with interest rate of LIBOR + 1.50%. USD 10 million was drawn under this facility as of 31 December 2007. This loan facility will be rolled over every six months at the sole discretion of the bank. This loan facility has a covenant which requires debt to EBITDA ratio of maximum five times for the year ended 31 December 2007. SeaBird did not meet this requirement and the bank will evaluate this when the loan is up for renewal.

17. OTHER FINANCIAL ITEMS, NET

	2007	2006	2005
– Interest income	1,139	513	-
– Foreign currency gain (loss)	(13,387)	244	94
– Other fair value gains *)	8,465	-	-
	(3,783)	**757**	**94**

*) See note10 for main components for 2007

18. OTHER INCOME (EXPENSES), NET

	2007	2006	2005
Profit (loss) on sale of vessels	(415)	-	-
Service charges received	45	748	1,024
Equipment rental charges	699	1,004	1,080
Impairment on long term investment in shares (Note 9)	(93)	(1,086)	-
Net loss on arbitration with GGS	-	(3,960)	-
Other income	180	195	1,716
	416	**(3,099)**	**3,820**

19. EXPENSES BY NATURE

	2007	2006	2005
Charter hire	3,399	1,593	680
Crew	26,032	8,326	4,668
Seismic and marine expenses	20,520	9,737	4,058
Other operating expenses	3,987	3,113	3,489
Total charter hire and operating expenses	**53,938**	**22,769**	**12,895**
Staff cost & directors' remuneration	12,025	2,441	1,126
Service charges	737	1,297	1,286
Legal and professional	1,079	524	673
Provision for bad debts	-	-	380
Communications	534	67	212
Travelling	1,210	327	228
Office	1,955	9	6
Other expenses	1,383	1,171	399
Total selling, general and administrative expenses	**18,923**	**5,836**	**4,310**

20. EMPLOYEE BENEFIT EXPENSE

	2007	2006	2005
Crew salaries and benefits	21,204	5,980	4,172
Staff cost	11,845	1,398	425
Directors' remuneration	1,276	1,043	701
	34,325	**8,421**	**5,298**
Including accrued costs relating to Employees Stock Options Plan	1,457	768	-
Average number of employees	533	450	360

21. INTEREST EXPENSE

	2007	2006	2005
Interest expense and other loan cost:			
– Finance lease borrowings	3,663	137	120
– Bond Loan	5,497	406	-
– Bank Loans	1,469	155	-
	10,629	**698**	**120**

A total of USD 4,979 of interest expenses and other loan costs are capitalised on capital work in progress in 2007 (2006: USD 1,891). No interest expenses were capitalized in 2005. Capitalized borrowing costs relates to funds borrowed both directly for the purpose of obtaining the qualifying asset and borrowing costs related to funds borrowed for general purposes for the Group. The capitalization rate in 2007 for funds borrowed for general purposes is a weighted average of borrowing costs for general funds of 3 months NOK Nibor + 4.25-4.50 % and USD Libor + 4.75% (for the period Bond loan 2 was in effect swapped to USD based interest), while the capitalization rate for vessel specific financing is LIBOR + 1.50%. The capitalization rate in 2006 for funds borrowed for general purposes is a weighted average of borrowing costs for general funds of 3 months NOK Nibor + 4.25% (bond loan), while the capitalization rate for vessel specific financing is 11.3% (finance lease).

22. EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year (Note 14).

	2007	2006	2005
Profit attributable to equity holders of the Company	(8,929,482)	11,029,718	6,536,624
Weighted average number of ordinary shares in issue	81,295,000	73,347,381	31,215,500
Basic earnings per share ($ per share)	(0.11)	0.15	0.21
Weighted average number of diluted shares	84,208,528	75,445,748	31,215,500
Basic earnings per share ($ per share)	(0.11)	0.15	0.21

23. DIVIDENDS PER SHARE

A non-cash dividend was distributed in 2005, amounting to $8,504,101 ($0.27 per share). No dividend was distributed for 2006 and no dividend will be distributed for the year ended 31 December 2007.

24. BUSINESS COMBINATIONS

In January 2007, SeaBird acquired all shares in GeoBird Management Middle East FZ LLC, a company situated in Dubai and being the company managing the maritime operations of SeaBird's vessels, for a total purchase price of USD 2 million. A purchase price allocation was carried out for this acquisition and the excess value of the business was calculated at USD 1.3 million. The excess value represents valuation of assembled work force and organisation which are classified as goodwill

SeaBird has acquired intangible assets in 2006 from the acquisition of Sana Navigation Co Ltd and the acquisition of SeaBed Geophysical AS. Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. A purchase price allocation was carried out for each acquisition.

The remaining 50% of the associate Sana Navigation Co Ltd, the operating company of the Northern Explorer, was acquired in May 2006. The accounts are consolidated from that date. The excess value of the business was calculated at USD 5 million while USD 17 million was allocated to acquisition of the vessel and equipment. The value of the vessel was set in accordance with external valuation.

As for SeaBed Geophysical the total purchase price was USD 16 million and allocated to; patent technology

(USD 4.4 million), capital work in progress and property, plant and equipment (USD 4 million), deferred tax asset (USD 6.1 million) and various other assets and liabilities (net liabilities of around USD 2 million). The excess value of the business was calculated at USD 2.7 million and recognized as goodwill. Property, plant and equipment are presented at historical cost. Patent technology (intellectual property rights) is valued based on the cost method and is expected to have a remaining life of 20 years from 2004. Closing date for the acquisition was 13 June 2006 and the accounts are consolidated from June 2006.

Part of the purchase price is financed through warrants (share options granted) to sellers and key personnel. The value of the options is calculated and presented as equity under Share options granted. SeaBed moves towards the end of a development phase with successful trial test deliveries. The node operations are expected to commence in 2008. From the purchase of SeaBed in June 2006 costs directly attributable to capital work in progress and preparation of operations are capitalized. Administrative and selling costs are expensed. Depreciation related to nodes and patents will be charged from the time when the equipment is ready for operations.

25. COMMITMENTS AND CONTINGENCIES

SeaBird had aggregate performance bonds, not reflected in the accompanying consolidated financial statements, of USD 1,521 as of 31 December 2007.

26. LEASES

Financial lease commitments

The future aggregate minimum lease payments under non-cancellable financial leases are as follows:

	2007	2006
No later than 1 year	2,250	2,012
Later than 1 year and no later than 5 years	15,712	10,632
Later than 5 years	9,276	16,621
	27,238	**29,265**

Operating lease commitments

The Group leases various vessels, seismic equipment and office facilities under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2007	2006
No later than 1 year	18,345	2,243
Later than 1 year and no later than 5 years	70,368	3,408
Later than 5 years	-	-
	88,713	**5,651**

Lease rentals amounting to USD 3,387 (2006: USD 987 and 2005: USD 782) relating to operating leases are included in the income statement for the year ended 31 December 2007.

27. RELATED-PARTY TRANSACTIONS

Current account with Bartica, being the largest shareholder of SeaBird, is presented as receivable from related parties. Bartica is controlled by two members of the Board of Directors (including the Chairman and Chief Executive Officer) and the former Chief Executive Officer of SeaBird.

Otherwise, transactions in the period and balances with related parties in 2005 and 2006 only relate to marine management agreement with GeoBird Management as described in notes to the Consolidated Financial Statements for 2005. From 1 January 2007 GeoBird Management Middle East FZ-LLC (GBMME), became a wholly owned part of the Group.

The following transactions were carried out with related parties:

i) Sales of services	2007	2006	2005
– GeoBird Management Middle East FZ-LLC (administration services)	**n/a**	**188**	**380**

Services are usually negotiated with related parties on a cost-plus basis, allowing a margin ranging from 4% to 10%. Services are sold on the basis of the price lists in force with non-related parties.

ii) Purchases of services	2007	2006	2005
– GeoBird Management Middle East FZ-LLC (administration services)	**n/a**	**1,177**	**1,195**

Services are usually negotiated with related parties on a cost-plus basis, allowing a margin ranging from 4% to 10%. Services are bought on the basis of the price lists in force with non-related parties.

iii) Key management compensation

	2007	2006	2005
Salaries and other short-term employee benefits	1,343	926	458
Bonus payments	299	92	53
Post employment benefits	55		
	1,697	**1,018**	**511**

Key management is defined as Tim Isden (Chairman and CEO from December 2007), Dag Reynolds (CEO until November 2007), Alexander Holst (Legal Counsel from March 2006), Geir Olsen (CFO from 1 January 2007), Manoj Agarwala (CFO until 31 December 2006) Dag Grepperud (HSSEQ manager until August 2006 and from December 2007), Iain Forrester (HSSEQ manager from September 2006 to November 2007) and Jan-Eivind Fondal (President Dubai operations from March 2007)

Mr. Isden has received total salary, bonuses and other benefits of USD 326 for 2007. He has no options as of 31 December 2007 and own directly and indirectly 12.7% of the outstanding shares (see further specification below). Mr. Reynolds received total salary, bonuses and other benefits of USD 219 for 2007 and USD 191 for 2006. He had no options as of 31 December 2007 and owned directly and indirectly 4.26% of the outstanding shares (see further specification below). Mr. Reynolds will continue to work as a consultant to the company with full salary for twelve months after his resignation as a CEO, he is not entitled to any additional termination payment.

iv) Year-end balances	**2007**	**2006**
Due from related parties:	351	1,685
Due to related parties:	-	-

v) Loans to related parties

The Group has no loans to related parties.

vi) Commitments and contingencies

The Group has neither commitments nor contingencies to related parties.

vii) Shareholding

Management (as defined at 31 December 2007 under iii) above) and the Board, as of 31 December 2007, held the following shares on own account:

Name	Title	Shares *)	Options	Total
Tim Isden	Chairman/CEO	200,000	-	200,000
Dag Reynolds	Former CEO	20,000	-	20,000
Kjell Mathiassen	Board member	75,000	-	75,000
Geir Olsen	CFO	-	200,000	200,000
Alexander Holst	Counsel	1,000	100,000	101,000
Dag Grepperud	VP HSSEQ	1,000	40,000	41,000
Jan-Eivind Fondal	President Dubai operations	45,000	-	45,000
Anders W. Færden	Board Member	-	-	-
Frans Malmros	Board Member	5,000	-	5,000
Bergthora Kjetilsdottir	Board Member	-	-	-

**) 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.*
Bartica Company Limited held, as of 31 December 2007, 23,680,000 shares in SeaBird (29.12%). Bartica was at 31 December 2007, wholly owned by Tim Isden, Dag Reynolds and Kjell Mathiassen.

28. EVENTS AFTER THE BALANCE SHEET DATE

In February 2008, SeaBird did a successful equity issue towards institutional and private investors of 8,100,000 new shares at a price of NOK 15.00 per share settled in cash. The share issue represented close to 10% of the shares outstanding prior to the placement. Total gross proceeds from the share issue are NOK 121.5 million and around NOK 115 million net of expenses (approximately USD 22.3 million).

29. FINANCIAL INSTRUMENTS

Credit risk

Exposure to credit risk

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

	Note	2007	2006
Loans and receiveables;			
Trade receivables	11	24,472	17.726
Due from related parties		351	1.685
Prepayments		6.018	978
Other receiveables		2,708	-
Total Loans and receivables		**33.549**	**20.389**
Available for sale financial assets	9	-	3.213
Financial assets held for trading	10	4.078	46
Cash and cash equivalents	13	11.616	16.387
		49.243	**40.035**

Impairment losses

The aging of trade receivables at the reporting date was:

	Gross 2007	Impairment 2007	Gross 2006	Impairment 2006
Not Past Due	13.428	-	6328	-
Past due 0-30 days	4.209	-	8.029	-
Past due 31-120 days	3.470	-	5.070	-
More than 120 days	4.457	1.093	2.172	3.873
	25.564	**1.093**	**21.599**	**3.873**

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2007	2006
Balance at 1 January	3.873	637
Impairment loss recognised	(2.780)	3.236
	1.093	**3.873**

The Group have generally few and large customers, hence individual evaluations for impairment are done for all overdue receivables.

Liquidity risk

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2007 on contractual undiscounted payments:

	On demand	Less than 12 months	1 to 5 years	Total
Interest Bearing loans and borrowings	-	49.563	146.520	196.083
Capital lease obligations	-	2.250	20.823	23.073
Trade and other payables	-	13.332	-	13.332
	-	**65.145**	**167.343**	**232.488**

See note 3.1 and 10 for further information

Currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	Euro	NOK	GBP	SEK	Other
Trade receiveables	2,144	-	-	-	-
Bond loans	-	600,000	-	-	-
Trade and other payables	66	(18,747)	(496)	(1,758)	1,466
Gross Balance Sheet Exposure	**2,210**	**581,253**	**(496)**	**(1,758)**	**1,466**

The following significant exchange rates applied during the year:

USD	Average rate		Reporting date spot rate	
	2007	2006	2007	2006
Euro 1	1.3707	1.2562	1.4743	1.3195
SEK 1	0.1482	0.1358	0.1567	0.1459
NOK 1	0.1712	0.1562	0.1853	0.1602
GBP 1	2.0018	1.8429	2.0101	1.9589

Interest rate risk

At the reporting date the interest rate profile of the Group's interest-bearing financial instrument was:

	2007	2006
Fixed rate financial liabilities (capital lease)	27,238	29,265
Variable rate financial liabilities (other loans):		
LIBOR based USD loans	84,806	23,209
NIBOR based NOK loans	111,226	32,118
Total interest bearing financial instruments	**223,270**	**84,592**

In addition cash and cash equivalents of USD 11,616 at 31 December 2007 and USD 16,387 at 31 December 2006 are interest bearing assets with variable rates.

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group 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 point 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.

	100 bp increase	100 bp decrease
Variable rate instruments	1,445	(1,445)

Fair value versus carrying amounts

We have reviewed the fair value of financial assets and liabilities compared to carrying amount at 31 December 2007. In general, this evaluation shows no material difference, except for the value of our bond loans of a total of NOK 600 million. These bond loans are publicly traded, but there has been very limited trading in these loans and, from November 2007 to February 2008, there have only been three small transactions in the NOK 200 million loan with maturity in 2009 registered with pricing of 99.13-100.75 % of par value. On this basis, we believe fair value for this loan is close to the carrying value.

For the NOK 400 million bond loan with maturity in 2012, there have been no transactions since September 2007. The price at that point was 98.13. Indications from brokers in the loan market are that the fair value by the end of December was in the range of 96-97% of par value. With this valuation the fair value at 31 December 2007 was NOK 384-388 million.

CORPORATE GOVERNANCE

An adherence to corporate governance measures is the cornerstone of any business that hopes to operate successfully in any industry. At SeaBird our corporate governance policy guides the way we undertake our business at every level, though we have also always placed a great emphasis on the ethical responsibilities of our employees as the basis for their day-to-day actions. The Company has an ethics policy in place.

Set out below are the major elements of our corporate governance statement which characterises the responsible interaction between SeaBird's owners, Board of Directors and management in generating value creation for all of our stakeholders.

The corporate governance principles of the Company's country of origin are integrated in the applicable local company legislation (beyond such legislation there are no separate applicable local guidelines). The Company complies fully with said local regulations. The Company also complies with the majority, but not all, of the similar Norwegian guidelines. The Company deviates from the Norwegian guidelines in that three Board members - Mr Tim Isden, Mr Kjell Mathiassen and Mr. Jan-Eivind Fondal - are also members of the Company's management, due to their unique experience, and/or their significant indirect shareholding. The Board committees are designed to address concerns from such perspective.

SeaBird informs and will inform the Oslo Stock Exchange, the Company's shareholders, securities companies, and the market in general on an ongoing basis of SeaBird's developments, 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 Stock Exchange information system, on SeaBird's website http://www.sbexp.com/ and via press releases. Financial statements are issued quarterly.

In order to achieve good liquidity and an accurate valuation of the shares, the Company has implemented a sound corporate governance regime. In this respect, and with reference to the Corporate Governance Guide referred to in OSE circular 1/2007, SeaBird would like to highlight the following:

The Articles set out the objectives of the Company, these being: "Subject to the Act and any other British Virgin Islands legislation, the Company has irrespective of corporate benefit, full capacity to carry on or undertake any commercial activity relating to providing oil and gas exploration, production and participation, seismic data services onshore, transition zones and offshore, and general offshore energy related services and whatever else may be considered incidental or conductive thereto, including but not limited to, acting as a holding company to companies engaging in such activities; investing in other companies engaged in any of aforementioned activities; buying, selling or other otherwise dealing with acquiring property in the oil and gas industry; mortgaging, borrowing or charging its assets or acting as guarantor in connection with undertaking or any of the activities whether for itself or any affiliate or third parties".

The Company has a sound level of equity, well adapted to the requirements foreseen as necessary as measured against the current plans of the Company. The Company currently has a no-dividend policy. The Company has only one class of shares, with equal rights for all shares. The Company can only increase the number of shares that it is authorized to issue by the Memorandum and Articles. The Board does not have the capacity or authority to amend either the Memorandum or Articles - this authority rests solely with the shareholders. The authority to acquire treasury shares is restricted under the Articles, 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 who has an interest in a contract will need to disclose that interest upfront so they are in a position to ensure the validity of any contract, if completed. Said regulations exceed the requirements of Norwegian law.

There are no restrictions on the transfer of shares in the Company. The Articles contain detailed regulations of shareholder meetings, and include 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 Chairman of the Board is also named chairman of the shareholders' meeting.

The Board is otherwise reviewing its various guidelines and charters to ensure compliance with recommendations and its instructions for management as per distribution of responsibility. It is also working to improve its guidelines for remuneration of management and for contact with shareholders outside the general meeting. The Board does not have a deputy chairman. Directors are elected for two-year terms. A certain level of independence between the directors and the Company's management and principal business partners is recommendable. The Company has implemented such independence criterion in the Articles and believes that it is fulfilled through the existing Board. The Company has assessed this criterion with respect to Mr. Anders Faerden in particular, and points out in said respect that Mr. Faerden is a partner in the firm Wikborg Rein & Co. which, from time to time, acts as legal advisor to SeaBird. However, it is the Company's opinion that Mr. Faerden may not in any reasonable sense be considered a principal business partner of the Company. Mr. Fondal, Mr Mathiassen and Mr. Isden (as of November 2007) are appointed as directors, along with their assignment to a managerial role in the Company. Mr. Isden is at present both Chairman and CEO, due to the resignation of the CEO at the end of 2007. This is an interim solution and will be proposed changed in connection with the coming shareholders meeting.

The Company has an audit committee, a remuneration committee and a nomination committee. The activities of these committees are governed by separate charters. Pursuant to the Articles, the audit committee and remuneration committee are appointed by the Board. Both committees shall consist of a minimum of three members of the Board, of whom two members shall be independent, pursuant to the standards set forth in section 14.2 of the Articles.

The audit committee consists of Mr. Frans Malmros, Ms. Bergthora Ketilsdottir and Mr. Fondal. The charter of the audit committee sets out the prime responsibilities of this committee, which includes overseeing the external audit function, the financial statements and financial reporting, internal control and compliance matters. Relating to internal control, the audit committee has the mandate to oversee the procedures, scope, efficiency and results of the management's own evaluation of internal control of financial reporting and relevant certifications. The committee's responsibilities include the overseeing of related party transactions. The committee is due to meet at least quarterly and its general responsibilities will normally be distributed over the four quarters of the year, as set out in detail in the charter. The committee has had the opportunity to meet with the auditor without members of management present. The committee has the authority to engage such outside advisors and to perform such investigations it deems necessary to carry out its duties without obtaining the Board's approval. For such functions it shall receive appropriate funding from the Company. The rapid expansion of the Company requires changes to the internal control systems over financial reporting and risk management systems and we have during 2007 experienced some weaknesses in our internal control systems. SeaBird is consistently working with improving the internal control and risk management systems to align it with the current size of the business. During 2007, we have strengthened our finance organization with several new key resources within the areas of financial control, financial reporting in addition to the recruitment of a new Chief Financial Officer. Furthermore, we have introduced a new delegation of authority policy and we are working with improving our internal policies and procedures.

The remuneration committee consists of Mr. Malmros, Mr. Faerden and Mr. Isden. Pursuant to the charter of the remuneration committee, its duties include reviewing and approving corporate goals, performance and compensation of the CEO and the key employees. It shall also make recommendations to the Board with respect to incentive-compensation plans and equity-based plans. The remuneration committee shall also assist the Board in developing and evaluating potential candidates for executive positions, including CEO, and oversee the development of executive succession plans. It shall further review and approve senior executive employment agreements, severance arrangements and change in control agreements as well as any special supplemental benefits. The committee has the authority to retain and terminate compensation consultants or firms to assist in its evaluations, including the authority to approve such consultants' or firms' fees and other retention terms, which shall be borne by the Company.

The nomination committee was elected at the annual shareholders meeting in May 2007 and consists of Mr. Carl Gustav Zickerman (independent), Mr Mathiassen (director) and Mr Thomas Aanmoen (independent). Pursuant to its mandate, the committee shall report to the Board of Directors and propose nominations for Board members and its chairperson, nominations to the committee and propose remuneration both for the Board and the committee. Due to local company legislation, the nomination committee is not a committee regulated by the Memorandum or the Articles. For information concerning remuneration of the Board, reference is made to the recommendation by the nomination committee to the shareholders, enclosed in the notice for the annual general meeting 2008.

The remuneration of the directors and of the auditor is subject to approval by the shareholders. The current members of the Board have not been granted stock options. ■

بي دي أو بتيل و آل صالح
محاسبون قانونيون

ص.ب ١٩٦١، دبي – ا.ع.م.
تليفون: ٢٨٦٩ ٢٢٢ ٠٤
تليفاكس: ٠١٥١ ٢٢٧ ٠٤

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Report of the independent auditors to the shareholders of SeaBird Exploration Limited

We have audited the accompanying financial statements of SeaBird Exploration Limited, which comprise the consolidated balance sheet as at December 31, 2007, the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditors' 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 assurances 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 auditors' 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 auditors consider internal controls relevant to the entity's preparation and fair presentation of the financial statements 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 internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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.

Opinion

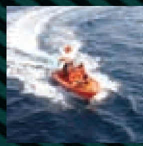
In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of SeaBird Exploration Limited as of December 31, 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

In our opinion, the Company has maintained proper books of account and the accompanying financial statements are in agreement therewith and the financial information contained in the Board of Directors' report conforms to the financial statements.

RBenge

BDO PATEL & AL SALEH
Chartered Accountants
Dubai
Brace Roger Benge
Reg. No. 390

March 27, 2008



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