

**Remedial (Cyprus) Public Company Limited**

**Consolidated Financial Statements**

**31 December 2007**

# **Remedial (Cyprus) Public Company Limited**

## **Annual Report and Consolidated Financial Statements 31 December 2007**

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# Remedial (Cyprus) Public Company Limited

## Shareholder Information

### Board of Directors

Svein Eggen (Chairman)

Rich Altman (CEO)

Knut Borgen (appointed 19 July 2007)

Captain J Christer Ericsson (appointed 10 January 2008)

Bjorge Gretland

Ola Lorentzon (appointed 19 July 2007)

John Smith (appointed 12 April 2007)

### Resigned during the year;

Vince Fuller ( 19 July 2007)

J. Frode Vaksvik (19 July 2007)

### Company Secretary

**Cyproservus Co. Limited**

Arch Makariou III, 284,

Fortuna Court, Block B, 3<sup>rd</sup> Floor, Office 32,,

3105 Limassol,

Cyprus

### Registered Office

Arch Makariou III, 284,

Fortuna Court, Block B, 3<sup>rd</sup> Floor, Office 32,

3105 Limassol,

Cyprus

### Share Registrar (ISIN : CY0100130919)

**DnB NOR Bank ASA,**

Verdipapirservice,

Stranden 21,

0021 Oslo,

Norway

### Auditors

**PricewaterhouseCoopers Limited**

City House,

6 Karaiskakis Street,

CY-3032 Limassol,

Cyprus

# Remedial (Cyprus) Public Company Limited

## Report of the Board of Directors

The Board of Directors presents its report together with the audited consolidated financial statements of Remedial (Cyprus) Public Company Limited (the Company) and its subsidiaries (together, the Group) as of and for the year ended 31 December 2007. The Company was dormant until 15 September 2006 when it was activated to operate as a supplier of Elevating Support Vessel (ESV<sup>TM</sup>) self propelled jack up rigs, which will facilitate post drilling remedial services to offshore oil and gas wells, typically called well intervention and work-over services. The Company has a wholly owned subsidiary, Remedial Offshore Limited, incorporated in the Bahamas, which in turn has operating entities in the USA, Mexico and Malaysia.

### Principal activities

The Company's principal activities are to own and operate purpose-built Elevating Support Vessels (ESV<sup>TM</sup>) which are innovative self-propelled jack-up rig/vessel hybrids. Each proprietary ESV<sup>TM</sup> unit is designed to facilitate well intervention activities and work over services to the offshore oil and gas industry.

### Operating and financial review

The Company was incorporated on 17 March 2005. The Company changed its name from Brufani Shipmanagement Limited to Remedial (Cyprus) Limited on 5 October 2006 and to Remedial (Cyprus) Public Company Limited on 26 February 2007.

During the fourth quarter of 2006 the Company raised equity in excess of \$110 million from financial and industrial investors, with the intention to utilise the funds to allow the Company to enter into procurement and ship building contracts to build its first two ESV<sup>TM</sup> vessels. The Company's shares were entered on the OTC list of the Norwegian Securities Dealers Association in November 2006.

### Operating results

The Group's results for the year are set out on page 10.

During 2007 the Group was principally focussed on the construction of its first two ESV<sup>TM</sup> vessels and business development activities. The Group's functional currency is US dollars.

The Group earned interest and dividend income during the year from the investment of the remaining cash proceeds of the 2006 equity issue.

# Remedial (Cyprus) Public Company Limited

## Report of the Board of Directors (continued)

The main items of expenditure incurred during 2007 consisted of personnel and professional fees related to corporate activities, the creation of business opportunities and operational and Quality, Health, Safety and Environmental procedure development. The personnel cost charge includes the fair value of warrants and stock options issued to the chairman and employees. In addition to these expenses, the Group expensed the cost of a \$ 750,000 payment to a ship yard for the purchase of fabrication slot reservation option which time expired and a fair value charge of \$ 930,000 related to warrants issued to the Founders of the Company.

The Group has allowed for taxation charges on the interest and dividend income earned in Cyprus and profit earned by the US subsidiary on engineering and services provided in support of the vessel construction program.

The Group's consolidated net loss for the year is carried forward.

### Liquidity and Capital Resources

The cash proceeds from the initial equity issue are being progressively spent on the construction of the Group's ESV™ vessels. The Group has committed \$ 40 million per vessel of the initial equity proceeds towards the construction of the first two vessels. The balance of the initial equity proceeds have been retained to finance overhead costs, working capital and expenditure on long lead time Owner Furnished Equipment ("OFE") and materials associated with the construction of a potential third ESV™ vessel.

In March 2007, the Company issued a five year \$ 210 million bond at a 360 day interest rate equivalent to 3 month LIBOR plus 5.25%. The interest payments are paid quarterly based upon the 3 month LIBOR rate at the end of the previous quarter. The funds generated from the issuance of the bond can only be used for the purposes of constructing the first two ESV™ vessels and servicing the interest payments on the bond. The proceeds of the bond combined with the \$ 40 million equity allocation per vessel are sufficient to fully finance the forecast cost of the two ESV™ vessels through to the anticipated delivery dates from the respective shipyards.

The Company has been formally advised that its ESV™ vessel under construction at Yantai Raffles Shipyard Limited ("Yantai") will now be delivered late in the 1<sup>st</sup> quarter of 2009 compared to a previously forecast delivery in the 3<sup>rd</sup> quarter of 2008. The ESV™ vessel under construction at COSCO remains on schedule to be delivered during the latter part of the 3<sup>rd</sup> quarter of 2008. During the 4<sup>th</sup> quarter of 2007, the Company took delivery of a significant number of pieces of OFE including engines, pumps, motors and switchgear which will be incorporated into the construction of the two ESV™ vessels.

# Remedial (Cyprus) Public Company Limited

## Report of the Board of Directors (continued)

During the 3<sup>rd</sup> quarter of 2007, the Company entered into a Letter of Intent (“LOI”) (taking the form of a limited expenditure contract) with Beacon Maritime for a third ESV<sup>TM</sup> vessel and authorised expenditures on long lead time OFE and materials to facilitate potential client requirements. Beacon continues to perform engineering work under the LOI pending full release of the contract, which will occur on receipt of a client contract award.

The Group anticipates that during 2008 further equity and debt will be raised in order to fully finance the third ESV<sup>TM</sup> vessel (and possibly additional ESV<sup>TM</sup> vessels) as well as provide further working capital. At the Extraordinary General Meeting (“EGM”) of the Company held in April 2007, the general meeting authorised the Board to issue up to 1.5 million new shares at any time in the following two years. The Company intends to issue these shares to finance the future growth of the Group, when appropriate

### Research and Development, Patents and Trademarks

During 2006, the Company acquired the rights and ownership of certain designs, plans and know how. During 2007, the Company has applied for six patents relating to certain aspects of the ESV<sup>TM</sup> vessels and their operation. The Company also received provisional approval of the registration of the ESV<sup>TM</sup> trademark.

### Principal risks and uncertainties

The Group is in the start-up phase of the development of its business. Principal risks include those typical of a start-up entity including the ability to secure contracts for the use of the ESV<sup>TM</sup> vessels and ensuring a reliable delivery of the ESV<sup>TM</sup> vessels from the respective shipyards. As the Group’s principal business is to service the oil and gas industry, the Group’s future profitability will be linked to the world demand for oil and gas.

### Future developments

The Group continues to market its unique ESV<sup>TM</sup> vessels to major oil and gas operators with a view to securing long-term charter contracts. The Group is initially targeting opportunities for its ESV<sup>TM</sup> vessels in Latin America and the Far East.

Pemex has issued a call for tender detailing its need for two self-propelled auto-elevating work over platforms to be operated under a three-year contract. The call for tender requires responses to be submitted by the end of April 2008. The Group has also commenced initial discussions with other potential customers in Latin America.

The Group continues to develop contract opportunities in the Far East. Discussions with potential clients are ongoing and the Group expect at least one of these will develop into a formal commercial proposal.

# Remedial (Cyprus) Public Company Limited

## Report of the Board of Directors (continued)

### Future developments (continued)

In addition, as the first ESV™ vessel nears construction completion, the Company is experiencing an increased number of enquiries regarding ESV™ vessels capability and availability.

### Dividends

The Board of Directors does not recommend a dividend in respect of the year ended 31 December 2007.

### Share capital and shareholders

The changes in the share capital of the Company during the year are described in note 13 of the consolidated financial statements.

The following shareholders exceed a holding of 5% of the Company's share capital as of 31 March 2008:

<u>Shareholder</u>	<u>Percentage</u>
- JCE Group AB	25.8 %
- Convexa Capital	14.2 %
- Deutsche Bank AG London	7.0 %
- Bank of New York (Nom)	6.8 %
- ABACO Holdings AS	6.8 %
- State Street Bank and Trust Co. (Nom)	6.6 %
- Goldman Sachs International (Nom)	5.5 %

### Board of Directors

The members of the Board of Directors as of 31 December 2007 and as of the date of this report are shown on page 1. Changes in the membership of the Board of Directors are noted on page 1.

In accordance with the Company's Articles of Association, Directors shall serve for a period of two years from the date of their election. A Director is eligible for re-election after the two year period of office.

During the year ended 31 December 2007, the Chairman received a remuneration of \$ 40,000, Mr Smith received a remuneration of \$ 22,917 and Mr Borgen and Mr Lorentzon each received a remuneration of \$ 11,458 all in respect of their duties as members of the Board. No remuneration was paid to the other members of the Board of Directors in respect of their duties as members of the Board.

# **Remedial (Cyprus) Public Company Limited**

## **Report of the Board of Directors (continued)**

### **Events after the balance sheet date**

The Company was required under the terms of its \$ 210 million Bond Agreement to notify the Bond Trustee of the delay in the forecast vessel delivery date from Yantai and to demonstrate the two vessels under construction remain fully financed through delivery. The Bond Trustee has confirmed they are satisfied that the Company has properly demonstrated its compliance with the above requirement.

### **Independent Auditors**

PricewaterhouseCoopers Limited (PwC), have been engaged as Independent Auditors by the Board of Directors. PwC have expressed their willingness to continue in office. A resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

### **By Order of the Board of Directors**

**Svein Eggen, Chairman**

**24 April 2008, Limassol, Cyprus**



# Independent Auditors' Report To the Members of Remedial (Cyprus) Public Company Limited

**PricewaterhouseCoopers Limited**

Julia House  
3 Themistocles Dervis Street  
CY- 1066 Nicosia  
P O Box 21612  
CY- 1591 Nicosia, Cyprus  
Telephone: + 357 - 22555000  
Facsimile: + 357 - 22555001  
www.pwc.com/cy

## Report on the Consolidated Financial Statements

We have audited the consolidated financial statements of Remedial (Cyprus) Public Company Limited (the Company) and its subsidiaries (together, the Group) on pages 10 to 47, which comprise the consolidated balance sheet as of 31 December 2007, and 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.

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

The Company's Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap. 113. This responsibility includes: designing, implementing and maintaining internal control 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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' judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error.

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**Board Members:** Phidias K Pliides (CEO), Dinos N Papadopoulos (Deputy CEO), Tassos I Televantides (Deputy CEO), Panikos N Tsiallis, Christakis Santis, Stephanos D Stephanides, Costas L Hadjiconstantinou, George Foradaris, Costas M Nicolaidis, Angelos M Loizou, Vasilis Hadjivassiliou, Androulla S Pittas, Savvas C Michail, Costas L Mavrocordatos, Christos M Themistocleous, Panicos Kauris, Nicos A Neophytou, George M Loizou, Pantelis G Evangelou, Liakos M Theodorou, Stelios Constantinou, Tassos Procopiou, Andreas T Constantinides, Theo Parperis, Constantinos Constantinou, Petros C Petrakis, Philippos C Soseilos, Evgenios C Evgeniou, Christos Tsolakis, Nicos A Theodoulou, Nikos T Nikolaidis, Cleo A Papadopoulou, Marios S Andreou, Nicos P Chimarides, Aram Tavitian, Constantinos Taliotis, Stavros A Kattamis, Yiangos A Kaponides, Tasos N Nolas, Chrysilios K Pelekanos, Eftychios Eftychiou, George C Lambrou, Chris Odysseos

**Directors of Operations:** Adrian Ioannou, Androulla Aristidou, Achilleas Chrysanthou, George Skapoullaros, Bambos A Charalambous, Demetris V Psaltis, Constantinos L Kapsalis, Stelios A Violaris

*Auditors' Responsibility (continued)*

In making those risk assessments, the auditors consider internal control 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial statements.

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

*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113.

**Emphasis of Matter**

Without qualifying our opinion, we draw attention to Note 4.2(a) to the financial statements which indicates that the Group has not yet secured a contract for the use of the ESV<sup>TM</sup> vessels currently under construction and will need to raise additional funds during 2008 in order to meet its working capital requirements.

These conditions, along with other matters as set forth in Note 4.2(a), indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

**Report on Other Legal Requirements**

Pursuant to the requirements of the Companies Law, Cap. 113, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The Company's consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors on pages 2 to 6 is consistent with the financial statements.

**Other Matter**

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 156 of the Companies Law, Cap. 113 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

PricewaterhouseCoopers Limited  
Chartered Accountants

Limassol, 24 April 2008

**Remedial (Cyprus) Public Company Limited**  
**(Incorporated under the laws of the Republic of Cyprus)**

**Consolidated Income Statement**  
**For the Year Ended 31 December 2007**  
**(Expressed in United States dollars in thousands)**

	Notes	2007 \$000s	2006 \$000s
Revenue		-	-
Cost of sales		-	-
<b>Gross loss</b>		<u>-</u>	<u>-</u>
Administrative expenses	17	(4,487)	(1,159)
Other losses - net	16	(930)	(3,150)
Other expenses	17	(751)	-
<b>Operating loss</b>		<u>(6,168)</u>	<u>(4,309)</u>
Finance income		2,415	453
<b>Finance income - net</b>	19	<u>2,415</u>	<u>453</u>
<b>Loss Before Income Tax</b>		<u>(3,753)</u>	<u>(3,856)</u>
Income tax expense	20	(376)	(67)
<b>Loss For The Year</b>		<u>(4,129)</u>	<u>(3,923)</u>
<b>Earnings per share for loss attributable to the equity holders of the Company during the year (\$ per share) - basic and diluted</b>	21	<u>(0.69)</u>	<u>(5.51)</u>

The notes on pages 14 to 47 are an integral part of these consolidated financial statements.

## Remedial (Cyprus) Public Company Limited

### Consolidated Balance Sheet

As of 31 December 2007

(Expressed in United States dollars in thousands)

	Notes	2007 \$000s	2006 \$000s
<b>Assets</b>			
<b>Non-current assets</b>			
Plant and equipment	5	452	238
Construction in progress	6	112,346	20,548
Intangible assets	7	2,200	2,250
Derivative financial instruments	9	4,583	-
		<b>119,581</b>	<b>23,036</b>
<b>Current assets</b>			
Trade and other receivables	10	1,641	31
Investment in securities	11	-	85,681
Cash and cash equivalents	12	208,489	15
		<b>210,130</b>	<b>85,727</b>
<b>Total assets</b>		<b>329,711</b>	<b>108,763</b>
<b>Equity</b>			
<b>Capital and reserves attributable to the equity holders of the company</b>			
Ordinary shares	13	60	60
Share premium	13	108,894	108,894
Other reserves	13	1,120	-
Accumulated deficit		(8,052)	(3,923)
<b>Total equity</b>		<b>102,022</b>	<b>105,031</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	15	209,086	-
		<b>209,086</b>	-
<b>Current liabilities</b>			
Trade and other payables	14	13,620	468
Current income tax liabilities		903	67
Borrowings	15	-	47
Derivative financial instruments	9	4,080	3,150
		<b>18,603</b>	<b>3,732</b>
<b>Total liabilities</b>		<b>227,689</b>	<b>3,732</b>
<b>Total liabilities and equity</b>		<b>329,711</b>	<b>108,763</b>

Signed on 24 April 2008 as approved on behalf of the Board of Directors:

Svein Eggen, Chairman,

Rich Altman, CEO

The notes on pages 14 to 47 are an integral part of these consolidated financial statements.

## Remedial (Cyprus) Public Company Limited

### Consolidated Statement of Changes in Equity For the Year Ended 31 December 2007 (Expressed in United States dollars in thousands)

	Share Capital \$000s	Share Premium* \$000s	Retained Earnings \$000s	Other Reserves \$000s	Total \$000s
<b>Balance at 1 January 2006</b>	2	-	-	-	2
Cost of issuance of shares (Note 13)	-	(6,050)	-	-	(6,050)
Net expense recognised directly in equity	-	(6,050)	-	-	(6,050)
Net loss for the year	-	-	(3,923)	-	(3,923)
<b>Total recognised expense for 2006</b>	-	<b>(6,050)</b>	<b>(3,923)</b>	-	<b>(9,973)</b>
Issuance of shares (Note 13)	58	114,944	-	-	115,002
<b>Balance as of 31 December 2006</b>	<b>60</b>	<b>108,894</b>	<b>(3,923)</b>	-	<b>105,031</b>
<b>Balance as of 1 January 2007</b>	<b>60</b>	<b>108,894</b>	<b>(3,923)</b>	-	<b>105,031</b>
Net loss for the year	-	-	(4,129)	-	(4,129)
<b>Total recognised expense for 2007</b>	-	-	<b>(4,129)</b>	-	<b>(4,129)</b>
Employee share option scheme: - value of employees' services	-	-	-	1,120	1,120
<b>Balance as of 31 December 2007</b>	<b>60</b>	<b>108,894</b>	<b>(8,052)</b>	<b>1,120</b>	<b>102,022</b>

\* - The share premium is not available for distribution in the form of dividends.

The notes on pages 14 to 47 are an integral part of these consolidated financial statements.

## Remedial (Cyprus) Public Company Limited

### Consolidated Cash Flow Statement

For the Year Ended 31 December 2007

(Expressed in United States dollars in thousands)

	Notes	2007 \$000s	2006 \$000s
<b>Cash flows from operating activities</b>			
Net loss before income tax		(3,753)	(3,856)
Adjustments for:			
Depreciation	5	92	24
Amortisation	7	129	-
Share options – value of employees’ services		1,120	-
Change in fair value of founders warrants	16	930	3,150
Finance income – net	19	(2,415)	(453)
<b>Operating loss before changes in operating assets and liabilities</b>		<b>(3,897)</b>	<b>(1,135)</b>
Trade and other receivables		(708)	(31)
Trade and other liabilities		16	469
<b>Net cash used in operating activities</b>		<b>(4,589)</b>	<b>(697)</b>
Income taxes paid		(275)	-
		<b>(4,864)</b>	<b>(697)</b>
<b>Cash flows from investing activities</b>			
Purchase of plant and equipment	5	(306)	(262)
Payments for construction in progress	6	(68,614)	(20,548)
Interest received credited to construction in progress		6,558	-
Interest paid capitalised to construction in progress		(16,928)	-
Purchase of intangible assets	7	(79)	(2,250)
Purchase of investment in securities		-	(109,540)
Proceeds on redemption of investments in securities	11	85,681	23,858
Interest received		989	-
Dividends received		1,334	453
<b>Net cash from / (used in) investing activities</b>		<b>8,635</b>	<b>(108,289)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of ordinary shares (net)	13	-	108,954
Proceeds from bond issue	15	204,750	-
<b>Net cash from financing activities</b>		<b>204,750</b>	<b>108,954</b>
<b>Net increase/(decrease) in cash, cash equivalents and bank overdrafts</b>		<b>208,521</b>	<b>(32)</b>
Cash, cash equivalents and bank overdrafts as of beginning of year		(32)	-
<b>Cash, cash equivalents and bank overdrafts as of end of year</b>	12	<b>208,489</b>	<b>(32)</b>

The notes on pages 14 to 47 are an integral part of these consolidated financial statements.

# Remedial (Cyprus) Public Company Limited

## Notes to Consolidated Financial Statements For the Year Ended 31 December 2007

### 1. General Information

#### Incorporation

Remedial (Cyprus) Public Company Limited (the Company) is incorporated under the laws of the Republic of Cyprus, as a limited liability public company. The Company was incorporated on 17 March 2005 under the name of Brufani Shipmanagement Limited, and changed its name to Remedial (Cyprus) Limited on 5 October 2006 and latterly to Remedial (Cyprus) Public Company Limited on 26 February 2007. The registered office of the Company is located at 284 Arch Makariou III, Fortuna Court, Block B, 3<sup>rd</sup> Floor, Office 32, 3105 Limassol, Cyprus.

The Company's shares are traded on the OTC list of the Norwegian Securities Dealers Association under the ticker code "ROFF".

These consolidated financial statements were authorised for issue by the board of directors on 24th April 2008.

#### Principal activities and Group structure

The Company and its subsidiaries are referred to as the Group.

The Company was dormant from the date of incorporation to 15 September 2006, when it was activated to own and operate purpose-built Elevating Support Vessels (ESV<sup>TM</sup>) that are innovative self-propelled jack-up rig/vessel hybrids. Each proprietary ESV<sup>TM</sup> unit is designed to facilitate well intervention activities and work-over services to the offshore oil and gas industry. Using the Group's ESV<sup>TM</sup> technology allows customers to enhance hydrocarbon production from mature wells and fields. The size of each vessel and robust ESV<sup>TM</sup> design will allow customers to increase operating efficiency by working from a stable, custom-designed facility and to benefit from higher utilisation levels (due to reduced sensitivity to weather conditions), resulting in a lower per-well cost of intervention. The remedial services will be provided through a number of subsidiaries. Remedial Offshore Limited, a wholly owned subsidiary is an international business company incorporated under the laws of The Bahamas, which will provide operational support and personnel. Remedial Offshore Limited has the following operating subsidiaries which are fully consolidated in the financial statements;

- Remedial Offshore de Mexico SA, a limited liability company organised under the laws of Mexico which is actively developing business opportunities in Mexico.
- Remedial Offshore (M) SDN. BHD., a limited liability company organised under the laws of Malaysia which is actively developing business opportunities in Malaysia.
- Remedial Offshore LLC, a limited liability company organised under the laws of the State of Texas, USA, which will provide engineering and procurement support services for its parent company.

Remedial Offshore Limited will establish other wholly owned subsidiaries or branches in countries where it provides services.

## **Remedial (Cyprus) Public Company Limited**

### **Notes to Consolidated Financial Statements For the Year Ended 31 December 2007 (Continued)**

#### **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.

##### **(a) Basis of Preparation**

The consolidated financial statements are prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative financial instruments) at fair value through profit or loss, in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), and the requirements of the Cyprus Companies Law, Cap. 113.

All International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) and effective as at 1 January 2007 have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of certain provisions of IAS 39 “Financial Instruments: Recognition and Measurement” relating to portfolio hedge accounting.

The preparation of the consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. Actual results could differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

##### **Adoption of new and revised IFRS**

###### *(a) Standards, amendment and interpretations effective in 2007*

In the current year the Group adopted all new and revised IFRS that are relevant to its operations and are effective for accounting periods beginning on 1 January 2007.

This adoption did not result in substantial changes to the Group’s accounting policies, except that the adoption of IFRS 7 “Financial Instruments: Disclosures” and IAS 1 (Amendment) “Presentation of Financial Statements – Capital Disclosures” has enhanced existing disclosures relating to financial instruments and capital.

# Remedial (Cyprus) Public Company Limited

## Notes to Consolidated Financial Statements For the Year Ended 31 December 2007 (Continued)

### 2. Summary of Significant Accounting Policies (Continued)

#### (a) Basis of Preparation (Continued)

##### Adoption of new and revised IFRS

##### *(b) Interpretation early adopted by the Group*

IAS 23 (Amendment) 'Borrowing costs' (effective from 1 January 2009). The amendment to the standard is still subject to endorsement by the European Union. It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group has capitalised borrowing costs to the assets under construction during 2007.

##### *(c) Standards, amendments and interpretations to existing standards that are not yet effective*

The following standards, amendments and interpretations to existing standards have been published and are mandatory for accounting periods beginning on or after 1 January 2008 or later periods, but the Group has not early adopted them:

- IFRIC Interpretation 11 *IFRS 2 – Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007).
- IFRS 8 *Operating Segments*: (effective from 1 January 2009).
- IFRIC 14, IAS 19 *The limit on a defined benefit asset, minimum funding requirements and their interaction* (effective from 1 January 2008). \*
- IFRIC Interpretation 12 *Service Concession Arrangements* (effective from 1 January 2008). \*
- IFRIC Interpretation 13 *Customer loyalty programmes* (effective from 1 July 2008). \*
- IAS 1 (Revised 2007) *Presentation of Financial Statements* (effective from 1 January 2009).\*

# Remedial (Cyprus) Public Company Limited

## Notes to Consolidated Financial Statements For the Year Ended 31 December 2007 (Continued)

### 2. Summary of Significant Accounting Policies (continued)

#### (a) Basis of Preparation (Continued)

##### Adoption of new and revised IFRS (continued)

- IFRS 2 *Share based payment (Amendment 2008: Vesting Conditions and Cancellations)* (effective from 1 January 2009).\*
- IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements (Amendment 2008: Puttable Financial Instruments and Obligations Arising on Liquidation)* (effective from 1 January 2009).\*
- IFRS 3 (Revised 2008) *Business combinations* (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009).\*
- IAS 27 (Revised 2008) *Consolidated and Separate Financial Statements* (effective from 1 July 2009).\*

\* *Have not yet been endorsed by the European Union. The Company will only be able to apply them when endorsed by the European Union.*

The Board of Directors anticipates that the adoption of these Standards in future periods will not have a material impact on the financial statements of the Group.

#### (b) Principles of Consolidation

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

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred.

# Remedial (Cyprus) Public Company Limited

## Notes to Consolidated Financial Statements For the Year Ended 31 December 2007 (Continued)

### 2. Summary of Significant Accounting Policies (Continued)

#### (c) Foreign Currency Translation

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

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

##### (ii) *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 consolidated income statement.

#### (d) Leases

Leases in which a significant portion of the risk 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 consolidated income statement on a straight-line basis over the period of the lease.

#### (e) Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the consolidated balance sheet.

#### (f) Plant and Equipment

Plant and equipment is stated at historical cost, which includes expenditure that is directly attributable to the acquisition of the items (including interest expense incurred relating to the financing of the construction of the asset), less accumulated depreciation. Subsequent costs are included in the asset's carrying amount or are 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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

## Remedial (Cyprus) Public Company Limited

### Notes to Consolidated Financial Statements For the Year Ended 31 December 2007 (Continued)

#### 2. Summary of Significant Accounting Policies (Continued)

##### (f) Plant and Equipment (Continued)

Costs capitalised are not depreciated until the asset is available for use in a manner intended by management, and are classified as construction in progress.

Depreciation on plant and equipment is calculated using the straight-line method to allocate their costs over their estimated useful lives. The estimated useful lives are as follows:

Computer software and equipment	5 years
Furniture, fixtures, equipment	3-10 years

Leasehold improvements are depreciated over the remaining term of the lease.

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 [see Note 2(h)].

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other losses – net' in the consolidated income statement.

##### (g) Intangible Assets

Acquired intangible assets, including equipment designs, patents and licences, are recorded at historical cost. The Group's intangible assets have finite useful lives and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of the intangible assets over their estimated useful life of 18 years.

# Remedial (Cyprus) Public Company Limited

## Notes to Consolidated Financial Statements For the Year Ended 31 December 2007 (Continued)

### 2. Summary of Significant Accounting Policies (Continued)

#### (h) Impairment of Non-Financial Assets

Assets that are subject to depreciation and 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.

#### (i) Financial assets

The Group has classified its investment in securities as financial assets at fair value through profit or loss. Management determines the classification of its investment in securities at initial recognition and re-evaluates this at each reporting date.

Regular purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Investments in securities are initially recognised at fair value plus transaction costs, except for financial assets at fair value through profit or loss where transactions costs are expensed as incurred. Investments in securities are derecognised when the rights to receive cash flows from them have expired or where they have been transferred and the Group has also transferred substantially all risk and rewards of ownership.

Financial assets at fair value through profit or loss are subsequently carried at fair value based on quoted prices for quoted investments or valuation techniques, including recent arm's length transactions and discounted cash flow analysis, for unquoted securities. Realised and unrealised gains and losses arising from sales and changes in fair value of these investments are recognised in the income statement in the period in which they arise.

# Remedial (Cyprus) Public Company Limited

## Notes to Consolidated Financial Statements For the Year Ended 31 December 2007 (Continued)

### 2. Summary of Significant Accounting Policies (Continued)

#### (j) Derivative Financial Instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments, such as prepayment options for a loan, are treated as separate financial instruments when their economic characteristics and risk are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value.

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the consolidated income statement within 'Other losses – net', except to the extent that the change in the fair value arose on a derivative resulting from an instrument entered into for the purpose of financing construction in progress and the construction is ongoing. In this instance the change in fair value is capitalised as part of the asset's cost.

#### (k) Trade Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the consolidated income statement.

#### (l) Share Capital

Ordinary shares are classified as equity. When a derivative financial instrument gives one party a choice over how it is settled (e.g. the issuer or the holder can choose settlement net in cash or by exchanging shares for cash), it is a financial asset or a financial liability unless all of the settlement alternatives would result in it being an equity instrument. Incremental costs directly attributable to the issuance of shares are debited to the share premium account in the consolidated statement of changes in equity.

## **Remedial (Cyprus) Public Company Limited**

### **Notes to Consolidated Financial Statements For the Year Ended 31 December 2007 (Continued)**

#### **2. Summary of Significant Accounting Policies (Continued)**

##### **(m) Trade Payables**

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

##### **(n) 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 consolidated income statement (or capitalised if the borrowing is principally to finance the cost of construction in progress which is ongoing) over the period of the borrowings using the effective interest method.

Borrowings costs on host debt contracts with an embedded derivative are fully allocated to the debt component. The amount allocated to the debt is initially netted off against the carrying value of the debt.

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

##### **(o) Income Recognition**

Interest income is recognised on a time proportionate basis using the effective interest method.

##### **(p) Borrowings costs**

Borrowing costs are recognised as an expense in the period in which they are incurred, except for borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Such borrowing costs are capitalised as part of the cost of that asset.

To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset is determined as the actual borrowing costs incurred in that borrowing during the period less any investment income on the temporary investment of those borrowings.

# Remedial (Cyprus) Public Company Limited

## Notes to Consolidated Financial Statements For the Year Ended 31 December 2007 (Continued)

### 2. Summary of Significant Accounting Policies (Continued)

#### (p) Borrowings costs (Continued)

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalised during a reporting period does not exceed the amount of borrowing costs incurred during that reporting period.

#### (q) Current and Deferred Tax

The current income tax charge and resultant tax liabilities and assets for the current and prior periods are measured at the amount expected to be paid to or recovered from the taxation authorities using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

# Remedial (Cyprus) Public Company Limited

## Notes to Consolidated Financial Statements For the Year Ended 31 December 2007 (Continued)

### 2. Summary of Significant Accounting Policies (Continued)

#### (r) Employee Benefits

The Group operates an equity-settled, share based compensation plan. 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.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium (excess over nominal value) when the options are exercised.

The Group recognises a liability and an expense for bonuses. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

### 3. Risk Management

#### 3.1 Financial instrument risk factors

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

##### 3.1 (a) Market Risk

###### *(i) Market Risk – Foreign exchange*

The Group will operate internationally and will be exposed to foreign exchange risk arising from various currency exposures relating to local operating costs in the countries in which it will establish operations. The Group will typically earn revenues in US dollars and the forecast US dollar equivalent of the local operating costs will be taken into account when tendering for contracts. Normally the local operating costs will not be hedged unless they account for a significant proportion of the anticipated contract revenues.

The Group has foreign exchange exposures relating to its two shipyard contracts in progress (capped at 2% of contract value) and two purchases of owner furnished equipment. As of 31 December 2007, a 10% devaluation of the US dollar would result in an increase in the forecast delivery cost of the assets under construction of approximately \$ 2 million.

# Remedial (Cyprus) Public Company Limited

## Notes to Consolidated Financial Statements For the Year Ended 31 December 2007 (Continued)

### 3. Risk Management (Continued)

#### 3.1 Financial instrument risk factors (Continued)

##### 3.1 (a) Market Risk (Continued)

###### *(ii) Market risk – Cash flow and fair value interest rate*

The Group's interest rate risk arises from interest bearing assets and long term borrowings. The Group had significant cash balances during the year as a result of the proceeds from the initial equity placement and the subsequent bond issue. These funds were invested in a combination of overnight deposits and three month deposits and reflect the prevailing rates at the time of placement. The \$ 210 million bond carries a variable interest rate based upon a three month US\$ floating LIBOR plus a margin.

Cash balances and borrowings issued at variable rates expose the Group to cash flow interest rate risk. For most of the year the cash balance exceeded the value of the bond debt and as both positions were based on variable rates, the Group did not place hedges to fix the interest rates.

As of 31 December 2007, if US\$ LIBOR and 3 month US\$ LIBOR had been 1% higher/lower with all other variables held constant, the loss for the year would have been \$ 500,000 lower/higher and the capitalised cost of construction in progress would have been \$ 100,000 higher/lower.

On a go forward basis the cash balance will largely be spent on the Construction in Progress. The Group intends to enter into an interest swap in order to fix the variable element of the bond debt once the corresponding cash balance has significantly diminished. This will expose the Group to a fair value interest rate risk.

##### 3.1 (b) Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks. As of 31 December 2007, the cash and cash equivalents and deposits with banks of the Group were placed with the following banks:

	<u>\$000s</u>
Merrill Lynch	100,000
Wachovia	100,157
JP Morgan Chase	8,308

All the above banks exceed the minimum A- investment rating set by the Group for financial institution counter party risk.

# Remedial (Cyprus) Public Company Limited

## Notes to Consolidated Financial Statements For the Year Ended 31 December 2007 (Continued)

### 3. Risk Management (Continued)

#### 3.1 (c) Liquidity risk

The Group is in the early stages of development. Through the use of \$ 80 million of the initial equity placement and the \$ 210 million bond issue, the Company has raised sufficient funds to pay the forecast construction cost of the first two ESV™ vessels through to anticipated delivery including a contingency reserve. Management monitors on a monthly basis the development of the actual and forecast delivery cost to ensure that the funds allocated remain sufficient to finance the two ESV™ vessels through to anticipated delivery.

After allowing for the financing of the first two ESV™ vessels, the balance of the initial equity proceeds have been retained to finance overhead costs, working capital and expenditure on long lead items associated with the construction of a potential third ESV™ vessel. Management monitors the actual and a rolling forecast balance of these equity proceeds on a monthly basis.

The Group anticipate that during 2008 further finance will be required in order to fund working capital needs. In the event that the Group decide to construct additional ESV™ vessels, additional equity and debt will also be required to fully finance these builds. At the Extraordinary General Meeting held in April 2007 the general meeting authorised the Board to issue up to 1.5 million new shares at any time in the following two years. The Company intends to issue these shares to finance the future growth of the Group, when appropriate.

The \$ 210 million bond is repayable in March 2012.

#### 3.2 Capital management

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

As the Group is in its early stages of development, the Group expects that it will be required during 2008 to raise additional equity funds and debt capacity to finance working capital needs and the further growth of the business through the construction of additional ESV™ vessels.

The Group will in the future monitor capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non current borrowings as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as equity as shown in the consolidated balance sheet plus net debt.

## Remedial (Cyprus) Public Company Limited

### Notes to Consolidated Financial Statements For the Year Ended 31 December 2007 (Continued)

#### 3. Risk Management (Continued)

##### 3.2 Capital management (Continued)

The Company has a requirement as a condition of the \$ 210 million bond to maintain an equity ratio above 25%. For the purposes of the bond agreement, the equity ratio is calculated as total equity divided by total capital. As of 31 December 2007, the Company's equity ratio is set out below:

	2007 \$000s	2006 \$000s
Total borrowings (note 15)	209,086	47
Less: cash and cash equivalents (note 12)	(208,489)	(15)
<b>Net debt</b>	<b>597</b>	<b>32</b>
<b>Total equity</b>	<b>102,022</b>	<b>105,031</b>
<b>Total capital</b>	<b>102,619</b>	<b>105,063</b>
<b>Gearing ratio</b>	<b>1%</b>	<b>0%</b>
<b>Equity ratio</b>	<b>99%</b>	<b>100%</b>

##### 3.3 Fair value estimation

The fair value of financial instruments traded in active markets is based upon quoted market prices at the balance sheet date. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group currently reviews the fair value of its warrants and stock options in issue and the fair value of the put and call option included as part of the \$ 210 million bond agreement. The Group uses a variety of valuation methods and makes assumptions based upon market conditions and similar instruments used by comparable entities.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

##### 3.4 Other Risks

###### Commodity price risk

The Group faces two principal areas of commodity price risk. The first relates to the cost of materials and equipment which go into the construction of the Group's ESV<sup>TM</sup> vessels. A large proportion of the material and equipment for the Group's first two ESV<sup>TM</sup> vessels has already been committed under fixed price contracts and so little exposure remains on the two ESV<sup>TM</sup> vessels under construction. A 5% increase in the price of steel and copper would increase the forecast construction cost of a future ESV<sup>TM</sup> vessel by approximately \$ 3 million.

# **Remedial (Cyprus) Public Company Limited**

## **Notes to Consolidated Financial Statements For the Year Ended 31 December 2007 (Continued)**

### **3.4 Other Risks (Continued)**

#### **Commodity price risk (Continued)**

The second area of commodity price risk which the Group is exposed to relates to the price of oil and gas. The demand from potential clients for the Group's ESV<sup>TM</sup> vessels is in part driven by the price of oil and gas. However, as the ESV<sup>TM</sup> vessels are focussed on enhancing production from existing wells, the Group believe that it will take a major movement in the price of oil and gas to impact the demand for the Group's ESV<sup>TM</sup> vessels.

## **4. Critical Accounting Estimates and Assumptions**

### **4.1 Critical accounting estimates and assumptions**

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will 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) Impairment**

The Group reviews long-lived assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When the carrying amount of an asset does not yet include all the cash outflows to be incurred before it is ready for use or sale, the estimate of future cash outflows includes an estimate of any further cash outflow that is expected to be incurred before the asset is ready for use or sale. This is the case for the ESV<sup>TM</sup> vessels under construction that are not yet completed. If the total of the undiscounted future cash flows is less than the carrying amount of the asset or group of assets, the asset is not recoverable and an impairment loss is recognised for the difference between the estimated fair value and the carrying value of the asset or group of assets. Long-lived assets are assessed for possible impairment upon the occurrence of a triggering event. Events that can trigger assessments for possible impairments include, but are not limited to (a) significant decreases in the market value of an asset, (b) significant changes in the extent or manner of use of an asset, and (c) a physical change in the asset. Estimating undiscounted future cash flows requires the Group to make judgments about long-term forecasts of future revenues and costs related to the assets subject to review. These forecasts are uncertain as they require assumptions about demand for the Group's products and services, future market conditions and future technological developments.

# Remedial (Cyprus) Public Company Limited

## Notes to Consolidated Financial Statements For the Year Ended 31 December 2007 (Continued)

### 4. Critical Accounting Estimates and Assumptions (Continued)

#### 4.1 Critical accounting estimates and assumptions (Continued)

##### (a) Impairment (Continued)

Significant and unanticipated changes in these assumptions could require a provision for impairment in a future period. Given the nature of these evaluations and their application to specific assets and specific times, we cannot reasonably quantify the impact of changes in these assumptions. No triggering events were identified during the year and therefore the Group did not recognize any material impairment for the year ended 31 December 2007.

##### (b) Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example embedded derivatives) is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions at each balance sheet date and similar instruments used by comparable entities.

The primary assumptions used in the valuations are interest rates, expected life of instruments, volatility and likelihood of certain events happening.

Financial instruments or embedded derivatives carried at fair value include:

- Warrants to founders
- Redemptions rights on borrowings

Assumptions used in the calculations of fair value of the financial instrument that are more sensitive are described below.

## **Remedial (Cyprus) Public Company Limited**

### **Notes to Consolidated Financial Statements For the Year Ended 31 December 2007 (Continued)**

#### **4. Critical Accounting Estimates and Assumptions (Continued)**

##### **4.1 Critical accounting estimates and assumptions (Continued)**

###### **(b) Fair value of derivatives and other financial instruments (Continued)**

###### **Warrants to founders**

The Company has issued 225,000 warrants to the founding shareholders for no consideration. The Company's option to settle the warrants for cash results in these instruments being classified as derivative financial instruments and they are carried at fair value in the consolidated financial statements.

As of 31 December 2007, the value of the warrants was calculated to be \$ 18.13 per warrant using 31% volatility and a share price of 140 Norwegian Krone ("NOK").

The fair value of the warrants is strongly dependent on the NOK value of the shares. An increase/decrease of 10 NOK in the share price would increase/decrease the fair value of the warrants to founders by \$ 416,000. A 10% change (plus or minus) in volatility has almost no impact on fair value and a change in the market interest rate of +/- 1% would increase/decrease the fair value of the warrants to founders by \$ 17,000.

###### **Redemption rights on borrowing**

The Company has issued a \$ 210 million bond where it has options to call the bond at prices (varying dependent upon time between 106% and 102%) that depart from the carrying amount of the bond. These redemption options are embedded derivatives and are measured at fair value through profit or loss (changes in fair value are charged to construction in progress if they meet the conditions specified in the accounting policy for borrowing costs).

The fair value of the borrowing is strongly dependent on the interest rate. A change in the market interest rate of +/- 1% would decrease/increase the fair value of the borrowing by \$ 344,000 / \$ 330,000. The value of the redemption right is directly related to the value of the loan.

## **Remedial (Cyprus) Public Company Limited**

### **Notes to Consolidated Financial Statements (continued) For the Year Ended 31 December 2007 (Continued)**

#### **4. Critical Accounting Estimates and Assumptions (Continued)**

##### **4.2 Critical judgments in applying the Group's accounting policies**

###### **(a) The Going Concern Assumption**

The Group is in the start-up phase of the development of its business. Principal risks include those typical of a start-up entity including the ability to secure contracts for the use of the ESV™ vessels and ensuring a reliable delivery of the ESV™ vessels from the respective shipyards. Due to its stage of development, the Group has a requirement to raise additional funds during 2008. Management has assumed that the necessary funds can be successfully raised and consequently have prepared the financial statements on a going concern basis. Note 3.1 (c) provides a full description of the Group's liquidity position and funding requirements.

###### **(b) Borrowing costs**

Management has examined the requirements of IAS 23 and IAS 39 for the capitalisation of borrowing costs. Management has concluded that the fair value gains/ losses on embedded derivatives relating to the borrowing should be capitalised as part of the capitalised borrowing costs because the underlying host contract is a debt. Therefore changes in value of those embedded derivatives will be presented as a component of borrowing costs during the period of the vessels construction. In addition the Company keeps separate records of money received from equity and money received from borrowings. Interest earned on money received from equity is credited in the consolidated income statement while interest earned on deposits in relation to the borrowing is netted off with other borrowing costs capitalised in accordance with the accounting policy for borrowing costs specifically for the purpose of obtaining a qualifying asset.

## Remedial (Cyprus) Public Company Limited

### Notes to Consolidated Financial Statements For the Year Ended 31 December 2007 (Continued)

#### 5. Plant and Equipment

	<b>Computer equipment and software \$000s</b>	<b>Furniture, fixtures and equipment \$000s</b>	<b>Total \$000s</b>
<b>Year ended 31 December 2006</b>			
Opening net book amount	-	-	-
Additions	215	47	262
Depreciation charge	(22)	(2)	(24)
<b>Closing net book amount</b>	<b>193</b>	<b>45</b>	<b>238</b>
<b>At 31 December 2006</b>			
Cost	215	47	262
Accumulated depreciation	(22)	(2)	(24)
Net book amount	193	45	238
<b>Year ended 31 December 2007</b>			
Opening net book amount	193	45	238
Additions	147	159	306
Depreciation charge	(65)	(27)	(92)
<b>Closing net book amount</b>	<b>275</b>	<b>177</b>	<b>452</b>
<b>At 31 December 2007</b>			
Cost	362	206	568
Accumulated depreciation	(87)	(29)	(116)
Net book amount	275	177	452

Depreciation expense of \$ 3,000 has been capitalised under Construction in Progress and \$ 89,000 has been charged to administrative expenses in the consolidated income statement.

#### 6. Construction in Progress

The Company has entered into agreements for the construction of two ESV<sup>TM</sup> vessels. The Company purchases the key equipment for the ESV<sup>TM</sup> vessels and supplies the equipment (Owner Furnished Equipment – OFE) to the shipyard for installation into the ESV<sup>TM</sup> vessels. The Company has purchased most of the OFE for the first two ESV<sup>TM</sup> vessels and has signed a construction contract with Yantai Raffles Shipyard Limited for ESV<sup>TM</sup> vessel 1 and with COSCO Nantong for ESV<sup>TM</sup> vessel 2. Under the OFE and shipyard contracts the Company is obligated to make interim payments on the achievement of progress or physical milestones. The payments made against these milestones are recorded as

## Remedial (Cyprus) Public Company Limited

### Notes to Consolidated Financial Statements For the Year Ended 31 December 2007 (Continued)

#### 6. Construction in Progress (Continued)

Construction in Progress. The Company has also entered into an LOI (taking the form of a limited expenditure contract) with Beacon Maritime for a third ESV<sup>TM</sup> vessel and authorised expenditures on long lead-time materials and OFE to facilitate potential client requirements. Payments made in respect to the third ESV<sup>TM</sup> vessel have also been recorded as Construction in Progress.

The movements in Construction in Progress were attributed as follows;

	<b>\$000s</b>
<b>Year ended 31 December 2006</b>	
Opening net book amount	-
Additions	20,548
Depreciation charge	-
<b>Closing net book amount</b>	<u>20,548</u>
<b>At 31 December 2006</b>	
Cost	20,548
Accumulated depreciation	-
Net book amount	<u>20,548</u>
<b>Year ended 31 December 2007</b>	
Opening net book amount	20,548
Additions	91,798
Depreciation charge	-
<b>Closing net book amount</b>	<u>112,346</u>
<b>At 31 December 2007</b>	
Cost	112,346
Accumulated depreciation	-
Net book amount	<u>112,346</u>

## Remedial (Cyprus) Public Company Limited

### Notes to Consolidated Financial Statements For the Year Ended 31 December 2007 (Continued)

#### 6. Construction in Progress (Continued)

Analysis of construction in progress cost by individual ESV<sup>TM</sup> vessel is as follows:

	<b>2007</b>	<b>2006</b>
	<b>\$000s</b>	<b>\$000s</b>
ESV <sup>TM</sup> vessel 1	41,238	20,548
ESV <sup>TM</sup> vessel 2	56,167	-
ESV <sup>TM</sup> vessel 3	14,941	-
	<b>112,346</b>	<b>20,548</b>

The expenditures relating to vessel 3 principally relate to engineering work and the procurement of long lead materials and equipment. Approximately, \$1.5m of this material, were sold and delivered to Yantai subsequent to the year end for use in the construction of vessel 1 in order to maintain the revised delivery schedule.

Analysis of Construction in Progress additions by nature:

	<b>2007</b>	<b>2006</b>
	<b>\$000s</b>	<b>\$000s</b>
Third party expenditures – shipyard	36,179	20,548
Third party expenditures – OFE, transport, misc	42,817	-
Capitalised interest paid	16,928	-
Capitalised interest earned	(7,368)	-
Income tax provision on capitalised interest received	736	-
Fair value changes	(369)	-
Bond Amortisation	121	-
Direct payroll costs capitalised	1,374	-
Direct expenses capitalised	466	-
Overhead capitalised	914	-
	<b>91,798</b>	<b>20,548</b>

Capitalised payroll costs is in respect of employees who have responsibility for ensuring that the design and engineering specifications of the ESV<sup>TM</sup> are being followed, and employees who have specific responsibility for managing the construction of the vessels at the shipyards.

# Remedial (Cyprus) Public Company Limited

## Notes to Consolidated Financial Statements For the Year Ended 31 December 2007 (Continued)

### 6. Construction in Progress (Continued)

For the purpose of the cash flow statement, payments for construction in progress are analysed as follows:

	2007 \$000s	2006 \$000s
Third party expenditures – shipyard	36,179	20,548
Third party expenditures – OFE, transport, misc	42,817	-
Direct payroll costs capitalised	1,374	-
Direct expenses capitalised	466	-
Overhead capitalised	914	-
Less amount still payable	(13,136)	-
	<u>68,614</u>	<u>20,548</u>

### 7. Intangible Assets

	\$000s
<b>Year ended 31 December 2006</b>	
Opening net book amount	-
Additions	2,250
Amortisation charge	-
<b>Closing net book amount</b>	<u>2,250</u>
<b>At 31 December 2006</b>	
Cost	2,250
Accumulated amortisation	-
Net book amount	<u>2,250</u>
<b>Year ended 31 December 2007</b>	
Opening net book amount	2,250
Additions	79
Amortisation charge	(129)
<b>Closing net book amount</b>	<u>2,200</u>
<b>At 31 December 2007</b>	
Cost	2,329
Accumulated depreciation	(129)
<b>Net book amount</b>	<u>2,200</u>

In December 2006, the group purchased the patents and processes unique to the design and technology of the ESV<sup>TM</sup> vessels from two of the founding shareholders for \$1,600,000. The Company also acquired drawings, necessary for the design and construction of the ESV<sup>TM</sup> vessels, from an affiliate of one of the founding shareholders for \$650,000. The cost of the intangible assets will be amortised over eighteen (18) years.

# Remedial (Cyprus) Public Company Limited

## Notes to Consolidated Financial Statements For the Year Ended 31 December 2007 (Continued)

### 8 (a) Financial instruments by category

	Loans and receivables	Assets at fair value through the profit and loss	Total
	\$000s	\$000s	\$000s
<b>31 December 2007</b>			
<b>Assets as per balance sheet</b>			
Derivative financial instruments	-	4,583	4,583
Cash and cash equivalents	208,489	-	208,489
<b>Total</b>	<b>208,489</b>	<b>4,583</b>	<b>213,072</b>
	<b>Other financial liabilities</b>	<b>Liabilities at fair value through the profit and loss</b>	<b>Total</b>
	<b>\$000s</b>	<b>\$000s</b>	<b>\$000s</b>
<b>Liabilities as per balance sheet</b>			
Borrowings	209,086	-	209,086
Derivative financial instruments	-	4,080	4,080
<b>Total</b>	<b>209,086</b>	<b>4,080</b>	<b>213,166</b>
		<b>Available for sale \$000s</b>	<b>Total \$000s</b>
<b>31 December 2006</b>			
<b>Assets as per balance sheet</b>			
Investment in securities		85,681	85,681
<b>Total</b>		<b>85,681</b>	<b>85,681</b>
	<b>Other financial liabilities</b>	<b>Liabilities at fair value through the profit and loss</b>	<b>Total</b>
	<b>\$000s</b>	<b>\$000s</b>	<b>\$000s</b>
<b>Liabilities as per balance sheet</b>			
Borrowings	47		47
Derivative financial instruments	-	3,150	3,150
<b>Total</b>	<b>47</b>	<b>3,150</b>	<b>3,197</b>

## Remedial (Cyprus) Public Company Limited

### Notes to Consolidated Financial Statements For the Year Ended 31 December 2007 (Continued)

#### 8 (b) Credit quality of financial assets

The cash and cash equivalents are invested with financial institutions with a minimum credit rating of A- or above. The investment in securities during 2006 was invested with financial institutions with a minimum credit rating of A- or above.

#### 9. Derivative Financial Instruments

	2007		2006	
	Assets \$000s	Liabilities \$000s	Assets \$000s	Liabilities \$000s
Call & put options on bond	4,583	-	-	-
Founder warrants	-	4,080	-	3,150
<b>Total</b>	<b>4,583</b>	<b>4,080</b>	-	<b>3,150</b>
Less non-current portion:				
Call & put options on bond	4,583	-	-	-
Founder warrants	-	-	-	-
	<b>4,583</b>	-	-	-
<b>Current portion</b>	-	<b>4,080</b>	-	<b>3,150</b>

The \$ 210 million bond issued by the Company provides the Company with options to repay the bond before maturity at a cost of 106% of the face value of the bond up until March 2010. Thereafter the cost of exercising the option reduces to 104% of the face value for the year to March 2011 and 102% of the face value for the year to March 2012. The bond holders also have the option to demand repayment of the bond at a cost of 101% of the face value of the bond in the event of a change of control of the Company. The fair value of these options is calculated as \$ 4,583,000 as of 31 December 2007.

On 22 September 2006, the Company issued 225,000 warrants to Remedial Offshore Holdings Ltd., as nominee for the founding shareholders, for no consideration. The warrants entitle the holders to acquire one (1) share of the Company for each warrant at a price of \$8 per share. Alternatively, the Company can opt to settle the exercise of warrants by paying the holders an amount in cash equal to (i) the average volume weighted traded price for the shares of the Company during the last five (5) trading days prior to the date of exercise notice; (ii) less the warrants exercise price; (iii) multiplied by the number of warrants that are exercised. The warrants are exercisable until they expire on 31 December 2008. The Company's option to settle the warrants for cash results in these instruments being classified as derivative financial instruments and they are carried at fair value in the consolidated financial statements.

## Remedial (Cyprus) Public Company Limited

### Notes to Consolidated Financial Statements For the Year Ended 31 December 2007 (Continued)

#### 10. Trade and Other Receivables

	2007 \$000s	2006 \$000s
Prepayments	738	31
Accrued interest	903	-
	<u>1,641</u>	<u>31</u>

The fair values of trade and other receivables equal their recorded values.

#### 11. Investments in Securities

As of 31 December 2006, the Company had investments totalling \$85,680,781 in Citi Institutional Liquid Reserves, Ltd. (Citi), an open-end money market fund incorporated in the Cayman Islands. During the year, the Company transferred the investments into cash deposits.

#### 12. Cash and Cash Equivalents

	2007 \$000s	2006 \$000s
Cash at bank and on hand	27,712	15
Short term bank deposits – bond monies held under an escrow arrangement	180,777	-
	<u>208,489</u>	<u>15</u>

The proceeds of the bond can only be spent for the purposes of constructing the first two ESV<sup>TM</sup> vessels and servicing the interest payments on the bond. The funds are managed by Winterbotham Trust Company Limited, a bank and trust company licenced by The Central Bank of The Bahamas and the drawdown of the funds requires the approval of Norsk Tillitsmann, the bond trustee.

## Remedial (Cyprus) Public Company Limited

### Notes to Consolidated Financial Statements For the Year Ended 31 December 2007 (Continued)

#### 12. Cash and Cash Equivalents (continued)

Cash, cash equivalents and bank overdrafts include the following for the purposes of the cash flow statement:

	2007 \$000s	2006 \$000s
Cash and cash equivalents	208,489	15
Bank overdrafts	-	(47)
	<b>208,489</b>	<b>(32)</b>

#### 13. Share Capital, Share Premium and Other Reserves

The original authorised share capital of the Company was 10,000 Cyprus pounds (CY£) divided into 10,000 shares of CY£1.00 each, of which 1,000 shares were issued on the date of incorporation.

By resolution of the Board of Directors on 25 September 2006, the Company re-denominated its share capital to US\$ and converted the 1,000 shares of CY£1.00 each, to 222,000 shares of US\$0.01 each.

	Number of shares 000s	Ordinary shares \$000s	Share premium \$000s	Other reserves \$000s	Total \$000s
At 1 January 2006	1	2	-	-	2
Conversion to \$0.01 shares	221	-	-	-	-
Issue of shares to founders	153	2	-	-	2
Issue of shares to venture capital fund	625	6	4,994	-	5,000
Institutional share placement	5,000	50	109,950	-	110,000
Institutional placement fees	-	-	(6,050)	-	(6,050)
Issue of non VPS shares (6)	-	-	-	-	-
<b>At 31 December 2006</b>	<b>6,000</b>	<b>60</b>	<b>108,894</b>	<b>-</b>	<b>108,954</b>
Fair value of warrants and options issued	-	-	-	1,120	1,120
<b>At 31 December 2007</b>	<b>6,000</b>	<b>60</b>	<b>108,894</b>	<b>1,120</b>	<b>110,074</b>

## Remedial (Cyprus) Public Company Limited

### Notes to Consolidated Financial Statements For the Year Ended 31 December 2007 (Continued)

#### 13. Share Capital, Share Premium and Other Reserves (continued)

Share premium represents the excess of the issue price the Company receives for its shares over the par value less the cost of shares issued.

##### *Share warrants and options*

The Company has granted share warrants and options to certain directors and employees. The exercise price of the granted options is equal to the market price of the shares on the date of the grant. Options typically require that the employee completes one year of service from the date of issuance before they can be exercised. The options typically can be exercised up to three years from date of issuance. The Company has no legal or constructive obligation to repurchase or settle the options in cash except for the 225,000 founders' warrants as detailed in Note 9.

During the year the Company issued 125,000 warrants to the Chairman. The warrants entitle the holder to acquire one share of the Company at a price of \$ 22 per share. The options vest progressively and at 31 December 2007, 75,000 warrants were available for exercise. The warrants are exercisable until they expire on 15 November 2010.

During the year the Company also issued 135,000 share options to certain employees. These share options allow the holders to acquire one share of the Company at prices ranging from 145 to 160 NOK per share. The options vest during 2008 and are exercisable until 2010. The average exercise price of the options equates to 157 NOK per share.

The fair value of the warrants and options granted during the year was determined using the Black-Scholes valuation model. The significant inputs into the model were the share price on the date of the grant, the exercise price, the vesting period and option life, volatility and a risk free rate of return.

No warrants or options were exercised during 2007 and 2006.

#### 14. Trade and Other Payables

	<b>2007</b>	<b>2006</b>
	<b>\$000s</b>	<b>\$000s</b>
Trade payables	13,225	-
Accrued expenses	395	468
	<u><b>13,620</b></u>	<u><b>468</b></u>

## Remedial (Cyprus) Public Company Limited

### Notes to Consolidated Financial Statements For the Year Ended 31 December 2007 (Continued)

#### 15. Borrowings

	2007	2006
	\$000s	\$000s
Non-current		
Bond debt	209,086	-
	<u>209,086</u>	<u>-</u>
Current		
Bank overdraft	-	47
	<u>-</u>	<u>47</u>

The carrying amounts of the borrowings approximate their fair value

In March 2007, the Company issued a five year \$ 210 million bond at a 360 day interest rate equivalent to 3 month LIBOR plus 5.25%. The interest payments are paid quarterly based upon the 3 month LIBOR rate at the end of the previous quarter. The funds generated from the issuance of the bond can only be used for the purposes of constructing the first two ESV™ vessels and servicing the interest payments on the bond. The bonds are secured by way of a floating charge over the first two ESV™ vessels under construction (including the associated Owner Furnished Equipment).

For the purpose of the cash flow statement the net proceeds of the bond issue and utilisation of the bond proceeds are analysed as follows:

	\$000s
Bond proceeds gross	210,000
Bond raise commissions	<u>(5,250)</u>
<b>Bond proceeds net</b>	<b><u>204,750</u></b>
Fair value of embedded derivative at date of issue	<u>4,457</u>
Recorded value of bond	<u>209,207</u>

## Remedial (Cyprus) Public Company Limited

### Notes to Consolidated Financial Statements For the Year Ended 31 December 2007 (Continued)

#### 16. Other Losses - Net

	2007 \$000s	2006 \$000s
Change in fair value of founders warrants	(930 )	(3,150)
	<u>(930 )</u>	<u>(3,150)</u>

#### 17. Expenses by nature

	2007 \$000s	2006 \$000s
Wages and salaries	1,673	231
Share options granted to directors and employees	1,120	-
Auditors' remuneration	188	100
Professional fees	929	392
Depreciation and amortisation	221	24
Operating lease payments	205	13
Other expenses	902	399
<b>Total administrative and other expenses</b>	<u><b>5,238</b></u>	<u><b>1,159</b></u>

Included within other expenses is the cost of a \$ 0.75m payment to a ship yard for the purchase of fabrication slot reservation option which was expensed when the option time expired

#### 18. Employees' benefits

	2007 \$000s	2006 \$000s
Wages and salaries expensed	1,673	231
Wage and salaries charged to Construction in Progress	1,374	-
Total wage and salaries	<u><b>3,047</b></u>	<u><b>231</b></u>
Share options granted to directors and employees	1,120	-
	<u><b>5,238</b></u>	<u><b>231</b></u>
<b>Number of employees</b>	<b>15</b>	<b>5</b>

By 31 December 2007, total number of employees equaled 24.

## Remedial (Cyprus) Public Company Limited

### Notes to Consolidated Financial Statements For the Year Ended 31 December 2007 (Continued)

#### 19. Finance income

	<b>2007</b>	<b>2006</b>
	<b>\$000s</b>	<b>\$000s</b>
Finance income		
- Interest income on short term bank deposits	1,081	-
- Dividend income on short term investments	1,334	453
<b>Finance income</b>	<b>2,415</b>	<b>453</b>

#### 20. Income Tax Liability

The Group is subject to income tax on its earnings, with the exception of the subsidiary domiciled in The Bahamas. The tax expense in the consolidated income statement in respect of the Group is comprised of the following:

	<b>2007</b>	<b>2006</b>
	<b>\$000s</b>	<b>\$000s</b>
Current tax	<u>376</u>	<u>67</u>

The tax on the Group's loss before tax differs from the theoretical amount that would arise using the applicable tax rate as follows.

	<b>2007</b>	<b>2006</b>
	<b>\$000s</b>	<b>\$000s</b>
Loss before income tax:	<u>(3,753)</u>	<u>(3,856)</u>
Tax calculated at the applicable corporation tax rate of 10%	(375)	(386)
Tax effect of expenses not deductible for tax purposes	205	423
Tax effect of allowances and income not subject to tax	(27)	(44)
Tax effect of tax losses for which no deferred tax asset was recognised	197	7
Defence contribution Cyprus	315	67
Tax on profit earned by US subsidiary entity on provision of engineering support services	61	-
Tax charge	<u>376</u>	<u>67</u>

The Group is subject to corporation tax on taxable profits at the rate of 10% in Cyprus. Under certain conditions interest may be also subject to defence contribution at the rate of 10%. In such a case 50% of that interest will be exempt from corporation tax thus having an effective tax rate burden of a maximum of 15%. In certain cases dividends received from abroad may be subject to defence contribution at the rate of 15%.

## Remedial (Cyprus) Public Company Limited

### Notes to Consolidated Financial Statements For the Year Ended 31 December 2007 (Continued)

#### 20. Income Tax Liability (continued)

The Group is subject to corporation tax on taxable profits at the rate of 35% in the US, principally on engineering services provided by the US subsidiary.

The Company has tax losses carried forward amounting to \$2,042,473 (2006: US\$75,000) for which no deferred tax asset has been recognized as no revenue generating contract has yet been secured.

The Company has provided for a potential income tax liability of \$ 737,000 on the interest received from the investment of the cash proceeds of the bond, which represents defence contribution that will arise if the interest is considered to be of a passive nature. As the interest received has been credited against construction in progress, the corresponding potential tax liability has been capitalised to construction in progress. The Company believes that the interest earned results from the ordinary activity of the business (active interest) and should therefore be exempt from defence contribution and only subject to corporation tax. No corporation tax arises as for corporation tax purposes, interest expense can be offset by against the interest income arising from the bond, reducing the taxable interest to zero. The Company is seeking a ruling on the taxability of this interest from the Cyprus Tax Authorities. The Company has deemed it prudent to provide for the potential tax liability until such time as the ruling is received.

#### 21. Loss per share

##### (a) Basic

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2007	2006
Loss attributable to equity holders of the Company - \$000s	\$(4,129)	\$(3,923)
Weighted average number of ordinary shares in issue - 000s	6,000	712
<b>Basic loss per share - \$</b>	<b>\$(0.69)</b>	<b>\$(5.51)</b>

## Remedial (Cyprus) Public Company Limited

### Notes to Consolidated Financial Statements For the Year Ended 31 December 2007 (Continued)

#### 21. Loss per share (continued)

##### (b) Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has three categories of dilutive potential ordinary shares: founders' warrants, chairman warrants and employee stock options. The computation of diluted earnings per share excludes the effect of assuming the conversion of the founders' warrants, chairman warrants and employee stock options as the effect would be anti-dilutive.

	2007	2006
Loss attributable to equity holders of the Company - \$000s	\$(4,129)	\$(3,923)
Weighted average number of ordinary shares in issue – 000s	6,000	712
Adjustments for:		
Warrants and options	485	24
Weighted average number of ordinary shares for diluted loss per share	<u>6,485</u>	<u>736</u>

#### 22. Commitments and Contingencies

##### (a) Capital commitments

At the balance sheet date the Group had contracted capital expenditure not yet incurred as follows:

	2007	2006
	\$000s	\$000s
No later than 1 year	123,710	28,475
Later than 1 year and no later than 5 years	24,407	32,543
	<u>148,117</u>	<u>61,018</u>

## Remedial (Cyprus) Public Company Limited

### Notes to Consolidated Financial Statements For the Year Ended 31 December 2007 (Continued)

#### 22. Commitments and Contingencies (Continued)

##### (b) Operating lease commitments

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

	2007 \$000s	2006 \$000s
No later than 1 year	6	6
Later than 1 year and no later than 5 years	231	151
	<u>237</u>	<u>157</u>

##### (c) Operating expenditure commitment

At the balance sheet date the Group had contracted future operational expenditure not yet incurred as follows:

	2007 \$000s	2006 \$000s
No later than 1 year	2,310	-
Later than 1 year and no later than 5 years	-	-
	<u>2,310</u>	<u>-</u>

The commitment relates to a dry tow contract for the transportation of ESV<sup>TM</sup> vessel 2 on delivery from the COSCO shipyard. The value of the commitment increases over time up to a maximum of \$ 5.2 million.

##### (d) Recent volatility in global financial markets.

Since the second half of 2007 there has been a sharp rise in foreclosures in the US subprime mortgage market. The effects have spread beyond the US housing market as global investors have re-evaluated their exposure to risks, resulting in increased volatility and lower liquidity in the fixed income, equity, and derivative markets. The volume of financing has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings and refinance its existing borrowings at terms and conditions that applied to similar transactions in recent periods. Debtors or borrowers of the Group may also be affected by the lower liquidity situation which could in turn impact their ability to repay their amounts owed. Management is unable to reliably estimate the effects on the Group's financial position of any further possible deterioration in the liquidity of the financial markets and their increased volatility.

## Remedial (Cyprus) Public Company Limited

### Notes to Consolidated Financial Statements For the Year Ended 31 December 2007 (Continued)

#### 23. Related Party Balances and Transactions

The Group defines related parties as its significant shareholders, its directors and key management personnel, and entities over which they have significant influence. Related party transactions not disclosed elsewhere in the consolidated financial statements comprise:

	2007	2006
	\$000s	\$000s
Key management compensation:		
- Salaries and other short term benefits	667	231
- Founders' warrants	620	2,100
- Share based payments	341	-
	<u>1628</u>	<u>2,331</u>
Directors compensation:		
- Fees	86	-
- Chairman warrants	592	-
	<u>678</u>	<u>-</u>

The Group also signed a \$ 81.3m construction contract in 2006 with Yantai Raffles Shipyard Limited. During the year, a related party, YRS Investments owned 5% of the shares of the Group. No payments were made to YRSL during the year (2006, \$ 20.2m).

#### 24. Subsequent Events

The Group has been formally advised its ESV<sup>TM</sup> vessel under construction at Yantai will now be delivered late Q1 2009 compared to a previously forecast delivery in Q3 2008. The group was required under the terms of its \$ 210m Bond Agreement to notify the Bond Trustee of the delay in the forecast vessel delivery date from Yantai and to demonstrate the two vessels under construction remain fully financed through delivery. The Bond Trustee has confirmed they are satisfied Remedial has properly demonstrated its compliance with the above requirement.

Auditors' report on pages 7 to 9.