THIRD QUARTER REPORT 2018

Polarcus Limited

THIRD QUARTER 2018

Improved revenue and backlog

HEADLINES Q3 2018:

- Segment[1] revenues of USD 55.2 million, up 14% from Q2 2018 (IFRS revenues of USD 87.0 million)
- Gross cost of sales of USD 39.8 million, down 3% from Q2 2018
- Segment[1] EBITDA of USD 7.3 million, up from USD 7.2 million in Q2 2018
- Cash from operations of USD 0.4 million, impacted by USD 9.2 million negative working capital movements
- Backlog of USD 170 million, up from USD 150 million last quarter and USD 125 million at same time last year

[1] All references in this report to "Segment" and "Segment reporting" are adjusted for IFRS 15 effects. See below and Note 2.1.1 for more details regarding IFRS 15 adjustments and implementation

Polarcus recorded increased quarterly Segment revenues of 14% sequentially, driven by multi-client late sales and reimbursable revenue. Utilization for the quarter was 86%, marginally up from 85% in Q2 2018, while achieved day rates on proprietary contract (excluding reimbursable revenue) remained flat. Total Segment revenues were USD 55.2 million, up USD 6.8 million from USD 48.4 million in Q2 2018, driven by a USD 6.0 million increase in contract revenues and a USD 4.2 million increase in late sales (Q2 2018: nil), offset by a reduction of multi-client pre-funding revenue of USD 3.3 million as a result of no vessel allocation to multi-client in Q3 2018.

Gross cost of sales decreased to USD 39.8 million, compared to USD 41.1 million in Q2 2018. Reimbursable cost increased to USD 5.0 million, compared to USD 1.8 million in Q2 2018. General and administrative expenses also decreased in the quarter, down to USD 3.1 million in Q3 2018 compared to USD 3.4 million in Q2 2018.

Cash from operations was USD 0.4 million due to negative working capital movements of USD 9.2 million during the quarter, as a result of an increase in receivables from customers compared to the previous quarter following sequential revenue growth and extended payment terms with some clients.

Global tender activity continues to improve, though near-term pricing remains competitive. The number of square kilometers tendered during the first nine months of 2018 is up 15% year-on-year. The oil price continued to increase through Q3 2018 and is expected to have a positive impact on 2019 E&P company budgets that are expected to be finalized during Q4 2018. The growth in tender activity and oil price, along with increasing E&P company exploration focus, point towards continued improvements to the 3D marine seismic acquisition market going in to 2019.

The Company has 100% of the fleet booked for the remainder of 2018 and 70% of Q1 2019. This is a very different picture compared to the same time last year, hence utilization of the Company's fleet for the winter is expected to be stronger this year. The pricing levels of recent awards represents an improvement in the global marine acquisition market. The Company's backlog at 30 September 2018 and awards announced after the quarter end is estimated at USD 170 million.

KEY FINANCIALS – SEGMENT REPORTING

	Quarter ended			Nine months ended		Year ended
(In millions of USD)	**30-Sep-18**	**30-Jun-18**	**30-Sep-17**	**30-Sep-18**	**30-Sep-17**	**31-Dec-17**
Revenues	55.2	48.4	58.5	143.8	141.8	179.0
EBITDA	7.3	7.2	14.5	26.6	16.1	18.2
EBIT	(0.9)	(5.8)	(3.6)	(14.0)	(49.6)	(68.9)
Net working capital movement	(9.2)	(11.2)	(12.1)	(22.6)	5.2	29.3
Multi-client prefunding revenue	0.5	3.8	2.0	13.8	18.3	21.7
Multi-client prefunding level	21%	91%	169%	76%	133%	105%
Multi-client library net book value	4.9	11.8	28.8	4.9	28.8	10.4

Financial reporting periods starting 1 January 2018 are the first for which the Company has adopted IFRS 15 *Revenues from Contracts with Customers*. IFRS 15 has a significant impact on the timing of the recognition of revenue and associated amortization arising from the Company's multi-client projects during the prefunding stage. For internal management reporting, Polarcus continues to use the revenue recognition principles applied before the application of IFRS 15. The numbers used for management reporting are referred to as "Segment Reporting" and enable better comparison with prior period results as these are based on the same accounting principles that were in effect in 2017.

REVENUES – SEGMENT REPORTING

	Quarter ended			Nine months ended		Year ended
(In millions of USD)	**30-Sep-18**	**30-Jun-18**	**30-Sep-17**	**30-Sep-18**	**30-Sep-17**	**31-Dec-17**
Contract revenue						
- Proprietary contract revenue	34.9	32.5	41.9	85.4	88.0	104.6
- Reimbursable	5.2	1.6	0.6	8.6	2.7	3.9
- Management fees	3.5	3.5	3.7	10.6	11.2	14.9
- Bare boat charter	6.8	6.8	6.8	20.3	16.7	23.5
	50.5	44.4	53.1	124.9	118.5	146.9
Multi-client revenue						
- Prefunding	0.5	3.8	2.0	13.8	18.3	21.7
- Late sales	4.2	-	2.8	4.3	3.4	6.0
	4.7	3.8	4.8	18.1	21.7	27.7
Other income	-	0.2	0.6	0.8	1.6	4.4
Total	**55.2**	**48.4**	**58.5**	**143.8**	**141.8**	**179.0**

KEY FINANCIALS (in accordance with IFRS)

	Quarter ended			Nine months ended		Year ended
(In millions of USD)	**30-Sep-18**	**30-Jun-18**	**30-Sep-17**	**30-Sep-18**	**30-Sep-17**	**31-Dec-17**
Revenues	87.0	44.6	58.5	162.3	141.8	179.0
EBITDA (excl. non-recurring items)	39.1	3.4	14.5	45.1	16.1	18.2
EBITDA	39.1	3.4	14.5	58.0	14.6	41.3
EBIT (excl. non-recurring items)	(1.0)	(5.1)	(3.6)	(13.8)	(49.6)	(68.9)
EBIT	(1.0)	(0.8)	(3.6)	3.4	(52.5)	(137.0)
Net profit/(loss) for the period	(8.4)	(8.1)	(9.1)	(13.7)	(80.8)	(172.5)
Basic earnings per share (USD)	(0.02)	(0.016)	(0.06)	(0.03)	(0.63)	(1.28)
Net cash from operating activities	0.4	(6.2)	2.6	(0.2)	15.6	34.1
Total assets	487.0	527.7	523.8	487.0	523.8	402.9
Total liabilities	390.8	423.2	387.5	390.8	387.5	358.2
Total Equity	96.2	104.4	136.3	96.2	136.3	44.7
Equity Ratio	20%	20%	26%	20%	26%	11%
PP&E cash investment	2.9	1.5	1.7	80.5	5.6	7.3
Multi-client cash investment	2.3	4.1	1.2	18.1	13.7	20.6
Total cash	28.4	34.7	31.6	28.4	31.6	33.7
Net interest-bearing debt	315.5	307.3	263.5	315.5	263.5	260.7

Revenues increased 95% to USD 87.0 million (Q2 2018: USD 44.6 million), mainly due to higher multi-client revenue as a result of multi-client prefunding revenue recognized in accordance with IFRS 15 and which was not related to the Company's vessel activity during the quarter.

Contract revenue increased by 14% to USD 50.5 million (Q2 2018: USD 44.4 million) due to an increase in proprietary contract revenue and reimbursable revenue. Proprietary contract revenue increased by 7% to USD 34.9 million (Q2 2018: USD 32.5 million), driven by increased vessel allocation to contract.

Multi-client prefunding revenue increased to USD 32.3 million (Q2 2018: nil) as a result of revenue recognized on one multi-client project acquired during the period September 2016 to March 2017. The multi-client revenue was recognized according to IFRS 15, which requires that revenue recognition is delayed in full until the fully processed data set is delivered to the client. All of the multi-client prefunding revenue related to one Brazilian multi-client project for which processing was completed in the quarter. Hence, the multi-client prefunding revenue recognized in the quarter is not related to the Company's vessel activity during the quarter.

Had multi-client prefunding been accounted for in Q3 2018 using the same accounting principles applicable in 2017, the Company would have recognized USD 0.5 million in multi-client prefunding revenue, down 87% from the previous quarter (Q2 2018: USD 3.8 million), with a decrease in the prefunding level to 21% (Q2 2018: 93%).

Vessel allocation to multi-client projects decreased to nil (Q2 2018: 4%). Multi-client cash investment decreased to USD 2.3 million (Q2 2018: USD 4.1 million) as a result of the decreased activity. The cash investment in the quarter related mainly to processing cost of a Brazilian multi-client project.

Multi-client late sales increased to USD 4.2 million (Q2 2018: nil), driven by late sales from two of the Company's multi-client library projects.

Operating expenses

	Quarter ended			Nine months ended		Year ended
(In millions of USD)	**30-Sep-18**	**30-Jun-18**	**30-Sep-17**	**30-Sep-18**	**30-Sep-17**	**31-Dec-17**
Gross cost of sales	39.8	41.1	40.3	118.6	128.0	165.0
Capitalized to multi-client projects	-	(2.9)	-	(14.1)	(10.6)	(16.4)
Net deferred transit adjustment	-	-	-	-	0.4	0.4
	39.8	38.2	40.3	104.5	117.9	149.1
Reimbursable cost	5.0	1.8	0.4	8.5	1.9	3.2
Gain on vessel lease termination	-	-	0.9	-	-	-
Onerous contract provision	-	(2.2)	3.0	(5.5)	(0.9)	(3.9)
Restructuring provision	-	-	(3.9)	(13.9)	(3.9)	1.6
Bad debt provision movement	-	-	-	-	-	(1.2)
Total	**44.8**	**37.8**	**40.6**	**93.6**	**114.9**	**148.8**

Cost of sales increased 19% to USD 44.8 million (Q2 2018: USD 37.8 million), driven by an increase in reimbursable costs. Gross cost of sales decreased 3% to USD 39.8 million (Q2 2018: USD 41.1 million), despite a 1% increase in the number of fleet vessel operating days. The decrease is driven by less project specific costs. Reimbursable cost increased to USD 5.0 million (Q2 2018: 1.8 million), with a corresponding reimbursable revenue of USD 5.2 million.

General and administrative costs decreased by 8% to USD 3.1 million (Q2 2018: USD 3.4 million).

EBITDA increased to USD 39.1 million (Q2 2018: USD 3.4 million), driven by an increase in multi-client prefunding revenue. EBITDA margin was 45% in the quarter (Q2 2018: 8%).

Depreciation and amortization

	Quarter ended			Nine months ended		Year ended
(In millions of USD)	**30-Sep-18**	**30-Jun-18**	**30-Sep-17**	**30-Sep-18**	**30-Sep-17**	**31-Dec-17**
Depreciation of vessels and equipment	6.9	6.9	11.8	20.1	35.9	47.7
Depreciation capitalized to MC library	-	(0.1)	-	(0.9)	(1.8)	(2.7)
Total	**6.9**	**6.8**	**11.8**	**19.2**	**34.0**	**45.0**

Depreciation and amortization increased by 3% to USD 6.9 million (Q2 2018: USD 6.8 million), driven by a decrease in vessel depreciation capitalized to multi-client projects as a consequence of reduced vessel allocation to multi-client.

Amortization of the multi-client library increased to USD 33.1 million (Q2 2018: USD 1.7 million), due to an increase in multi-client prefunding revenue resulting in accelerated amortization on recognition of the associated revenue. Segment multi-client amortization was USD 1.2 million in the quarter (Q2 2018: USD 1.7 million).

EBIT recorded in the quarter decreased to a loss of USD 1.0 million (Q2 2018: loss of USD 0.8 million).

Net profit and earnings per share

Net profit decreased to a loss of USD 8.4 million (Q2 2018: loss USD 8.1 million). The Company recorded basic and diluted EPS in the quarter of USD 0.02 per share (Q2 2018: loss USD 0.02 per share).

Capital expenditure

	Quarter ended			Nine months ended		Year ended
(In millions of USD)	**30-Sep-18**	**30-Jun-18**	**30-Sep-17**	**30-Sep-18**	**30-Sep-17**	**31-Dec-17**
Seismic vessels (*Polarcus Naila* and *Polarcus Nadia*)	-	-	-	71.9	-	-
Seismic and vessel equipment	2.3	2.3	1.6	5.6	6.5	7.1
Office fixtures & fittings	0.5	-	-	0.5	-	
Total	**2.8**	**2.3**	**1.6**	**78.0**	**6.5**	**7.1**

Capital expenditure increased by USD 0.5 million to USD 2.8 million (Q2 2018: USD 2.3 million) due to investment in office fixtures and fittings following a move to a new office premises, which will result in annual cost savings.

Cash flow and liquidity

Net cash flow from operating activities increased to an inflow of USD 0.4 million (Q2 2018: outflow USD 6.2 million), mainly driven by improved operating profits. The net working capital movement, excluding movements related to IFRS 15 accounting, reduced by USD 3.1 million to negative USD 9.2 million in the quarter (Q2 2018: negative USD 12.3 million).

Net cash flow used in investing activities improved to an inflow of USD 1.2 million (Q2 2018: outflow USD 5.6 million), driven by the sale of the Capreolus multi-client asset for proceeds of USD 6.5 million. Payments for property, plant and equipment increased to USD 2.9 million (Q2 2018: USD 1.5 million). Investments in multi-client assets decreased to USD 2.3 million (Q2 2018: USD 4.1 million) due to a decrease in vessel allocation to multi-client projects in the quarter.

Net cash flow from financing activities was an outflow of USD 10.1 million (Q2 2018: inflow USD 0.4 million), with the decrease mainly due to the proceeds of a repair offering equity raise in the previous quarter, as well as an increase in interest payments, debt repayments and restricted cash movements. Interest payment increased to USD 4.6 million (Q2 2018: USD 3.0 million), due to the timing effect of bi-annual payments on certain loan tranches. Repayment of interest-bearing debt increased to USD 3.0 million in the quarter (Q2 2018: 1.6 million), due to an increase in repayment of the Company's convertible bond (Tranche A) compared to the previous quarter and an advance repayment of USD 0.8 million towards the Fleet facility loan driven by the sale of the Capreolus multi-client asset. Payments into restricted cash increased to an outflow of USD 2.2 million (Q2 2018: inflow USD 0.1 million), mainly due to escrow deposits.

The Company's cash and cash equivalents decreased to USD 26.1 million at the quarter end, down from USD 34.6 million at the end of the previous quarter. Total cash held at the quarter end was USD 28.4 million (Q2 2018: USD 34.7 million), including restricted cash of USD 2.3 million (Q2 2018: USD 0.1 million). The Company's USD 40.0 million working capital facility was undrawn at the quarter end.

OPERATIONS

Vessel utilization

	Quarter ended			Nine months ended		Year ended
	30-Sep-18	**30-Jun-18**	**30-Sep-17**	**30-Sep-18**	**30-Sep-17**	**31-Dec-17**
Utilization	**86%**	**85%**	**92%**	**85%**	**80%**	**77%**
By category:						
Contract*	86%	81%	92%	77%	75%	71%
Multi-Client	-	4%	-	7%	5%	6%
Transit	12%	14%	8%	12%	13%	13%
Yard stay	-	-	-	-	3%	2%
Standby	2%	1%	-	3%	4%	8%
Total	**100%**	100%	100%	**100%**	100%	100%

* Includes the vessels *V. Tikhonov* and *Ivan Gubkin* (formerly *Polarcus Amani*) which are on bareboat charters.
Polarcus Nadia is excluded from vessel utilization subsequent to cold-stacking on 01 April 2015.

Utilization increased to 86% (Q2 2018: 85%), driven by an increase in the number of days spent on contract projects, partially offset by less vessel allocation to multi-client projects. Excluding vessels on long-term bareboat charters (and *Polarcus Nadia*), utilization for the remaining fleet for the quarter remained flat at 79% (Q2 2018: 79%) and is 77% for the first nine months of the year.

Sales and outlook

Global tender activity continues to improve, though near-term pricing remains competitive. The number of square kilometers tendered during the first nine months of 2018 is up 15% year-on-year, continuing to support indications that exploration activity is returning to new and dormant basins. The oil price continued to increase through Q3 2018 and is expected to have a positive impact on 2019 E&P company budgets that are expected to be finalized during Q4 2018. The growth in tender activity and oil price, along with increasing E&P company exploration focus, point towards continued improvements to the 3D marine seismic acquisition market going in to 2019.

The Company has 100% of the fleet booked for the remainder of 2018 and 70% of Q1 2019. This is a very different picture compared to the same time last year, hence utilization of the Company's fleet for the winter is expected to be stronger this year. The pricing levels of recent awards represents an improvement in the global marine acquisition market. The Company's backlog at 30 September 2018 and awards announced after the quarter end is estimated at USD 170 million.

The Company will continue to focus on optimizing its operational cost profile and controlling the pace of its investments in a highly disciplined manner. Gross cost of sales (excluding operating lease expense) was 3% down in Q3 2018 and with good visibility on activity for the remainder of 2018 we estimate full year gross cost of sales to be approximately USD 160 million, an increase compared to the previously guided USD 155 million (2017 – USD 157 million) driven by elevated project specific costs in H2 2018. The Company expects total CAPEX investments for the full year 2018 come in under the USD 10 million guided (2017 – USD 7.1 million), excluding the purchase of *Polarcus Naila* and *Polarcus Nadia* that formed part of the Company's restructuring in Q2 2018. The Company expects general and administrative expenses for the full year 2018 to be USD 13 million, excluding restructuring cost (2017 – USD 14 million).

Interim consolidated statement of comprehensive income

(In thousands of USD)	Notes	Quarter ended 30-Sep-18	Quarter ended 30-Sep-17	Nine months ended 30-Sep-18	Nine months ended 30-Sep-17	Year ended 31-Dec-17
Revenues						
Contract revenue	3	50,506	53,126	124,867	118,514	146,925
Multi-client revenue	3	36,513	4,835	36,612	21,689	27,707
Other income	3	-	586	798	1,578	4,351
Total Revenues		**87,019**	**58,546**	**162,276**	**141,781**	**178,983**
Operating expenses						
Cost of sales	4	(44,825)	(40,645)	(93,581)	(114,903)	(148,769)
General and administrative costs		(3,119)	(3,355)	(10,709)	(12,308)	(15,947)
Onerous contracts		-	-	-	-	27,027
Depreciation and amortization	5	(6,963)	(11,810)	(19,277)	(34,089)	(45,018)
Multi-client amortization	6	(33,140)	(6,328)	(36,637)	(31,606)	(42,108)
Impairments		-	(57)	1,351	(1,393)	(91,178)
Total Operating expenses		**(88,047)**	**(62,195)**	**(158,853)**	**(194,300)**	**(315,993)**
Operating profit/(loss)		**(1,028)**	**(3,649)**	**3,423**	**(52,518)**	**(137,011)**
Finance costs	7	(7,917)	(11,111)	(25,694)	(31,892)	(44,392)
Finance income		573	334	1,494	934	2,449
Changes in fair value of financial instruments	8	-	4,898	479	2,555	6,632
Gain on financial restructuring	11	-	-	6,398	-	-
		(7,344)	**(5,878)**	**(17,323)**	**(28,403)**	**(35,311)**
Profit/(loss) before tax		**(8,372)**	**(9,527)**	**(13,899)**	**(80,921)**	**(172,322)**
Income tax expense		-	452	191	149	(131)
Net profit/(loss) and total comprehensive income/(loss)		**(8,372)**	**(9,075)**	**(13,708)**	**(80,773)**	**(172,453)**
Earnings per share attributable to the equity holders during the period *(In USD)*						
- Basic		(0.016)	(0.059)	(0.032)	(0.626)	(1.275)
- Diluted		(0.016)	(0.059)	(0.032)	(0.626)	(1.275)

Interim consolidated statement of financial position

(In thousands of USD)	Notes	30-Sep-18	30-Sep-17	31-Dec-17
Assets				
Non-current Assets				
Property, plant and equipment	9	382,013	412,524	324,122
Multi-client project library	6	26,893	28,847	10,406
Total Non-current Assets		**408,906**	**441,371**	**334,528**
Current Assets				
Receivable from customers		34,029	37,650	19,766
Other current assets		15,704	13,124	14,930
Restricted cash		2,311	6,753	7,818
Cash and bank		26,071	24,872	25,846
Total Current Assets		**78,114**	**82,400**	**68,361**
Total Assets		**487,020**	**523,771**	**402,888**
Equity and Liabilities				
Equity				
Issued share capital	10	51,379	15,344	15,344
Share premium	10	635,906	614,192	614,192
Other reserves		25,774	30,271	24,411
Retained earnings/(loss)		(616,875)	(523,537)	(609,228)
Total Equity		**96,184**	**136,270**	**44,719**
Non-current Liabilities				
Interest bearing debt	11	334,116	288,634	-
Long-term provisions		-	35,116	-
Other financial liabilities		-	8,104	8,624
Total Non-current Liabilities		**334,116**	**331,854**	**8,624**
Current Liabilities				
Interest bearing debt	11	8,600	6,500	294,293
Provisions		-	2,920	5,489
Accounts payable		14,057	15,889	13,351
Other accruals and payables		34,063	30,337	36,412
Total Current Liabilities		**56,720**	**55,647**	**349,545**
Total Equity and Liabilities		**487,020**	**523,771**	**402,888**

Interim consolidated statement of cash flows

(In thousands of USD)	Notes	Quarter ended 30-Sep-18	Quarter ended 30-Sep-17	Nine months ended 30-Sep-18	Nine months ended 30-Sep-17	Year ended 31-Dec-17
Cash flows from operating activities						
Profit/(loss) for the period		(8,373)	(9,075)	(13,708)	(80,773)	(172,453)
Adjustment for:						
Depreciation and amortization	5	6,963	11,810	19,277	34,089	45,018
Multi-client amortization	6	33,140	6,328	36,637	31,606	42,108
Impairments		-	57	(1,351)	1,393	91,178
Changes in fair value of financial instruments	8	-	(4,898)	(479)	(2,555)	(6,632)
Employee share option expenses		115	133	403	406	534
Interest expense	7	7,624	9,802	24,106	29,014	39,742
Interest income		(83)	(62)	(289)	(157)	(223)
Gain on financial restructuring	11	-	-	(6,398)	-	-
Gain on termination of vessel operating lease	9	-	-	(13,907)	-	-
Effect of currency (gain)/loss		179	578	263	1,266	1,200
Net movements in provisions		-	-	(5,489)	(3,920)	(35,731)
Net working capital movements		(39,117)	(12,118)	(39,216)	5,219	29,323
Net cash flows from operating activities		**449**	**2,557**	**(151)**	**15,588**	**34,064**
Cash flows from investing activities						
Payments for property, plant and equipment		(2,948)	(1,700)	(80,511)	(5,592)	(7,340)
Payments for multi-client library		(2,308)	(1,200)	(18,126)	(13,703)	(20,631)
Proceeds from sale of multi-client library		6,500	-	6,500	-	-
Net cash flows used in investing activities		**1,244**	**(2,899)**	**(92,137)**	**(19,295)**	**(27,972)**
Cash flows from financing activities						
Proceeds from the issue of ordinary shares	10	-	-	43,021	39,003	39,003
Transaction costs on issue of shares	10	-	-	(1,719)	(1,173)	(1,173)
Net receipt from bank loans	11	-	-	82,672	-	-
Repayment of interest bearing debt		(2,978)	(1,333)	(13,325)	(4,670)	(6,893)
Interest paid		(4,633)	(5,219)	(12,701)	(14,678)	(18,618)
Financial restructuring fees paid		-	-	(3,856)	-	-
Other finance costs paid		(339)	(70)	(793)	(498)	(859)
Decrease/(Increase) in restricted cash		(2,204)	(13)	5,506	(6,023)	(7,087)
Security deposit related to currency swaps		-	2,190	1,370	3,120	1,750
Paid towards liability under currency swaps	11	-	-	(7,672)	-	-
Interest received		83	62	289	157	223
Net cash flows used in financing activities		**(10,072)**	**(4,385)**	**92,793**	**15,238**	**6,346**
Effect of foreign currency revaluation on cash		(179)	101	(280)	(390)	(324)
Net increase in cash and cash equivalents		**(8,557)**	**(4,626)**	**225**	**11,141**	**12,115**
Cash and cash equivalents at the beginning of the period		34,627	29,498	25,846	13,731	13,731
Cash and cash equivalents at the end of the period		**26,071**	**24,872**	**26,071**	**24,872**	**25,846**

Interim consolidated statement of changes in equity

For the nine months ended 30 September 2018

(In thousands of USD except for number of shares)	Number of Shares	Issued Share capital	Share Premium	Other Reserves	Retained Earnings/ (Loss)	Total Equity
Balance as at 1 January 2018	153,438,539	15,344	614,192	24,411	(609,228)	44,719
Total comprehensive income/(loss) for the period		-	-	-	(13,708)	(13,708)
Employee stock options		-	-	403	-	403
Warrants issued		-	-	960	-	960
Other movements*		-	-	-	6,061	6,061
Issue of share capital						
01 March 2018 at NOK 1.30 per share	230,769,231	23,077	14,802	-	-	37,879
13 March 2018 at NOK 1.30 per share (bond conversions)	98,809,712	9,881	6,566	-	-	16,447
12 April 2018 at NOK 1.30 per share ("Repair issue")	30,769,231	3,077	2,065			5,142
Transaction costs on issue of shares		-	(1,719)	-	-	(1,719)
Balance as at 30 September 2018	**513,786,713**	**51,379**	**635,906**	**25,774**	**(616,875)**	**96,184**

*Other movements represent the effect of adopting IFRS-15 using modified retrospective approach effective 01 January 2018. Refer to Note 2.1.1 for details

For the nine months ended 30 September 2017

(In thousands of USD except for number of shares)	Number of Shares	Issued Share capital	Share Premium	Other Reserves	Retained Earnings/ (Loss)	Total Equity
Balance as of 1 January 2017	530,472,947	5,305	586,401	29,865	(442,764)	178,806
Total comprehensive income/(loss) for the period		-	-	-	(80,773)	(80,773)
Employee stock options		-	-	406	-	406
Issue of share capital						
08 March 2017 at NOK 0.33 per share	1,000,000,000	10,000	28,853	-	-	38,853
07 April 2017 at NOK 0.33 per share	3,912,439	39	111			150
Transaction costs on issue of shares		-	(1,173)	-	-	(1,173)
Consolidation of shares						
New shares issued	4	-	-	-	-	-
10:1 Consolidation on 16-May-17	(1,380,946,851)	-	-	-	-	-
Balance as at 30 September 2017	**153,438,539**	**15,344**	**614,192**	**30,271**	**(523,537)**	**136,270**

For the year ended 31 December 2017

(In thousands of USD except for number of shares)	Number of Shares	Issued Share capital	Share Premium	Other Reserves	Retained Earnings/ (Loss)	Total Equity
Balance as at 1 January 2017	530,472,947	5,305	586,401	29,865	(442,764)	178,807
Total comprehensive income/(loss) for the period		-	-	-	(172,453)	(172,453)
Employee stock options		-	-	534	-	534
Other movements*				(5,988)	5,988	-
Issue of share capital						
08 March 2017 at NOK 0.33 per share	1,000,000,000	10,000	28,853	-	-	38,853
07 April 2017 at NOK 0.33 per share	3,912,439	39	111			150
Transaction costs on issue of shares		-	(1,173)	-	-	(1,173)
Consolidation of shares						
New shares issued	4	-	-	-	-	-
10:1 Consolidation on 16-May-17	(1,380,946,851)	-	-	-	-	-
Balance as at 31 December 2017	**153,438,539**	**15,344**	**614,192**	**24,411**	**(609,228)**	**44,719**

*Other movements represent the fair value of employee stock options unexercised and expired during the period.

Notes to the interim consolidated financial statements

1 General information

The interim consolidated financial statements of Polarcus Limited and its subsidiaries (together the "Company" or "Polarcus") for the quarter and nine months ended 30 September 2018 were authorized for issue in accordance with a resolution of the Board of Directors passed on 31 October 2018.

Polarcus is an innovative marine geophysical company with a pioneering environmental agenda, delivering high-end towed streamer data acquisition and imaging services from Pole to Pole.

Polarcus Limited is incorporated in the Cayman Islands with its registered office at Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman KY1-9008, Cayman Islands. The Company has its main administration office in the Dubai Multi Commodities Centre, United Arab Emirates which is the domicile of the Company.

The Company currently owns a fleet of seven high end 3D vessels. Six vessels are in operation, being *Polarcus Naila*, *Polarcus Asima*, *Polarcus Alima*, *Polarcus Adira*, *Vyacheslav Tikhonov and Ivan Gubkin*. *Polarcus Nadia*, another vessel in the Company's fleet has been cold-stacked since Q1 2015.

1.1 Going concern

These interim consolidated financial statements for the periods ended 30 September 2018 are prepared using the going concern assumption.

1.1.1 Comprehensive financial restructuing completed and additional equity raised

During the first half of 2018 the Company completed a financial restructuring of its balance sheet (the "Restructuring"), including an issue of new shares for gross proceeds of NOK 300 million through a private placement (the "Private Placement"). A further NOK 40 million of equity was raised in April 2018 (the "Repair Issue" and, together with the Private Placement, the "Equity Issues").

The Equity Issues, together with an increased working capital facility of USD 40 million, significantly improved the Company's short-term liquidity, while in the period up to 2022 the company's liquidity will be further improved by the impact of lower interest payments and lease savings, as well as reduced debt amortization.

Further details of the changes to the Company's financing arrangements and improvements in the Company's liquidity position as a result of the Restructuring are explained in later parts of the notes to these interim consolidated financial statements (mainly, Note 9.1 *Termination of operating leases and buyback of N-Class vessels*, Note 10 *Share capital* and Note 11 *Interest bearing debt*).

1.1.2 Financial covenants

As part of the Restructuring, a number of financial covenants that the Company was previously subject to have been removed and the main financial covenants that the Company is subject to post the Restructuring are:

- Minimum liquidity reserve of USD 10 million
- Minimum working capital as positive at all times

The Company was in compliance with both of the above covenants as at 30 September 2018.

1.1.3 Future outlook

The Company's financial projections used in its going concern evaluation are based on certain assumptions about the future, including those related to contract pricing and vessel utilization, expected multi-client late sales from existing multi-client assets, expected future CAPEX investment and the availability of funding for such investments. The Company is dependent upon securing sufficient backlog in the future. Based on these assumptions, the Company expects to have sufficient liquidity to operate for at least 12 months after the balance sheet date.

Management and the Board of Directors closely monitor the going concern assumptions, cash flow forecast and compliance with financial covenants. Management and the Board of Directors confirm that the financial statements have been prepared under the going concern assumption and conclude this is appropriate.

The Company's backlog at 30 September 2018 and awards announced after the quarter end is estimated at USD 170 million.

2 Basis of presentation

These interim consolidated financial statements for the quarter and nine months ended 30 September 2018 are prepared in accordance with IAS 34 *Interim Financial Reporting*. They do not include all the information required for full annual financial statements and should be read in conjunction with the audited consolidated financial statements of the Company for the year ended 31 December 2017 as published and available at Company's website www.polarcus.com.

The accounting policies applied by the Company in these interim consolidated financial statements are consistent with those applied in the audited consolidated financial statements for the year ended 31 December 2017 unless otherwise stated below. Please refer to Note 2 *Summary of significant accounting policies* in the Consolidated Financial Statements in the 2017 Annual Report for information on the Company's accounting policies.

2.1 New accounting standards

2.1.1 IFRS 15 *Revenue from Contracts with Customers*

The Group adopted IFRS 15 effective 1 January 2018, using the modified retrospective approach with the date of transition being 1 January 2018.

IFRS 15 establishes a new five-step model that applies to the revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The adoption of IFRS 15 has a significant impact on the timing of recognizing prefunding revenue from the Group's multi-client projects. Prior to IFRS 15, the Group recognized prefunding revenues as the seismic data acquisition services were performed, using a percentage of completion method. Post adoption of IFRS 15, the prefunding revenue is recognized only when a multi-client project is completed and at the point in time when the customer receives the fully processed data (or receives access to such fully processed data). The Group does not expect adoption of IFRS 15 to have any material impact on recognition of any other types of the Group's revenues.

The below table shows the effect of implementing IFRS 15 to the Group's opening statement of financial position (at 1 January 2018), using the modified retrospective approach.

(In thousands of USD)	
Increase in the carrying value of the multi-client library (asset)	40,910
Deferred multi-client prefunding revenue (liability)	34,848
Net increase in equity	6,061

The Company had three multi-client projects that were in the prefunding stage as at the transition date of 1 January 2018. Using the modified retrospective approach, the prefunding revenue recognized on these three projects until 31 December 2017 has been reversed back in to the opening balance of equity with an increase of the same amount in the Company's current liabilities. Similarly, the amortization that has been recognized on these three projects until 31 December 2017 has been reversed back in to the opening balance of equity with an equal amount added back to the opening carrying value of the multi-client library. The net difference between prefunding revenue de-recognized and amortization reversed resulted in an increase of USD 6.1 million in the opening value of the Company's consolidated shareholders equity.

The opening balance sheet adjustment required as a result of implementation of IFRS 15 caused the carrying value of one multi-client project to exceed the total revenue expected to be generated from that particular project. As a consequence, the Company recognized a non-cash impairment of USD 3.0 million on 1 January 2018.

As the Company used the modified retrospective approach for implementing IFRS 15, the comparative numbers are not restated.

2.1.2 IFRS 9 *Financial instruments*

The Company adopted IFRS 9 effective 1 January 2018. IFRS 9 replaced IAS 39 *Financial instruments: Recognition and measurement* with effect from 1 January 2018. Adoption of IFRS 9 did not have any significant effect on the Company's consolidated financial statements.

2.2 Presentation of interest bearing debt

Effective 1 January 2018, the Company classifies and discloses the carrying value of interest bearing financing arrangements as one line in its statement of financial position as "Interest bearing debt". Any part of the interest bearing debt that is repayable within 12 months from the reporting date is disclosed under the 'Current Liabilities'. All comparative numbers are restated to reflect this change in classification.

3 Segment information

Effective 1 January 2018, the chief operating decision maker of the Company reviews all activities of the Company as one segment, adjusted for all non-recurring items and for the impact of adopting IFRS 15. As described under Note 2.1.1, the adoption of IFRS 15 has an impact on the timing of recognition of multi-client prefunding revenue and associated multi-client amortization. While reviewing the financial performance of the Company, management have, for the purposes of internal reporting, continued to report according to the revenue recognition principles applied prior to the adoption of IFRS 15, whereby multi-client prefunding revenue is recognized on a percentage of completion basis.

The numbers under the Segment column in the table below include the multi-client prefunding revenue and the amortization of multi-client projects that the Company would have recognized if the Company had followed the accounting policies that were in place prior to the adoption of IFRS 15. Non-recurring items are excluded from the Segment information in order to compare the performance with the prior periods. The segment information for comparative periods are adjusted to eliminate non-recurring items.

(In thousands of USD)	Quarter ended 30-Sep-18 Segment	Adjustments[1]	As reported	Quarter ended 30-Sep-17 Segment	Adjustments[2]	As reported
Revenues						
Contract revenue	50,506	-	50,506	53,126	-	53,126
Multi-client prefunding	482	31,816	32,298	2,030	-	2,030
Multi-client late sales	4,215	-	4,215	2,805	-	2,805
Other income (Insurance claims)	-	-	-	586	-	586
Total Revenues	**55,203**	**31,816**	**87,019**	**58,546**	**-**	**58,546**
Operating costs	(47,944)	-	(47,944)	(44,000)	-	(44,000)
EBITDA	**7,259**	**31,816**	**39,075**	**14,547**	**-**	**14,547**
Depreciation and amortization	(6,963)	-	(6,963)	(11,810)	-	(11,810)
Multi-client amortization	(1,189)	(31,952)	(33,140)	(6,328)	-	(6,328)
Impairments	-	-	-	-	(57)	(57)
Operating profit/(loss) (EBIT)	**(892)**	**(136)**	**(1,028)**	**(3,591)**	**(57)**	**(3,649)**
Net financial expense	(7,344)	-	(7,344)	(5,878)	-	(5,878)
Profit/(loss) before tax	**(8,237)**	**(136)**	**(8,372)**	**(9,470)**	**(57)**	**(9,527)**
Other key segment reporting items:						
Net Working capital movement	(9,218)	(29,899)	(39,117)	(12,118)	-	(12,118)
Multi-client library net book value	4,901	21,992	26,893	28,847	-	28,847
Multi-client prefunding %	21%	-	1399%	169%	-	169%

(In thousands of USD)	Nine months ended 30-Sep-18 Segment	Adjustments[1]	As reported	Nine months ended 30-Sep-17 Segment	Adjustments[2]	As reported
Revenues						
Contract revenue	124,867	-	124,867	118,514	-	118,514
Multi-client prefunding	13,789	18,509	32,298	18,252	-	18,252
Multi-client late sales	4,314	-	4,314	3,437	-	3,437
Other income (Insurance claims)	798	-	798	1,578	-	1,578
Total Revenues	**143,767**	**18,509**	**162,276**	**141,781**	**-**	**141,781**
Operating costs	(117,142)	12,852	(104,290)	(125,722)	(1,489)	(127,211)
EBITDA	**26,625**	**31,361**	**57,986**	**16,059**	**(1,489)**	**14,570**
Depreciation and amortization	(19,277)	-	(19,277)	(34,089)	-	(34,089)
Multi-client amortization	(21,329)	(15,308)	(36,637)	(31,606)	-	(31,606)
Impairments	-	1,351	1,351	-	(1,393)	(1,393)
Operating profit/(loss) (EBIT)	**(13,981)**	**17,404**	**3,423**	**(49,636)**	**(2,882)**	**(52,518)**
Net financial expense	(23,721)	6,398	(17,323)	(28,403)	-	(28,403)
Profit/(loss) before tax	**(37,702)**	**23,803**	**(13,899)**	**(78,039)**	**(2,882)**	**(80,921)**

	Nine months ended 30-Sep-18 Segment	Adjustments[1]	As reported	Nine months ended 30-Sep-17 Segment	Adjustments[2]	As reported
Other key segment reporting items:						
Net Working capital movement	(22,624)	(16,592)	(39,216)	5,219	-	5,219
Multi-client library net book value	4,901	21,992	26,893	28,847	-	28,847
Multi-client prefunding %	76%	-	178%	133%	-	133%

(In thousands of USD)	Year ended 31-Dec-17 Segment	Adjustments[2]	As reported
Revenues			
Contract revenue	146,925	-	146,925
Multi-client prefunding	21,724	-	21,724
Multi-client late sales	5,984	-	5,984
Other income (Insurance claims)	4,351	-	4,351
Total Revenues	**178,983**	**-**	**178,983**
Operating costs	(160,749)	(3,967)	(164,716)
Provision for onerous contracts	-	27,027	27,027
EBITDA	**18,234**	**23,059**	**41,293**
Depreciation and amortization	(45,018)	-	(45,018)
Multi-client amortization	(42,108)	-	(42,108)
Impairments	-	(91,178)	(91,178)
Operating profit/(loss) (EBIT)	**(68,891)**	**(68,119)**	**(137,011)**
Net financial expense	(35,311)	-	(35,311)
Profit/(loss) before tax	**(104,202)**	**(68,119)**	**(172,322)**
Other key segment reporting items:			
Net Working capital movement	29,323	-	29,323
Multi-client library net book value	10,406	-	10,406
Multi-client prefunding %	105%	-	105%

[1] = adjustments consist of IFRS 15 related adjustments and adjustments of non-recurring costs (impairments, cost of onerous contract provisions and restructuring costs)

[2] = adjustments for non-recurring costs (impairments, cost of onerous contract provisions and restructuring costs)

4 Cost of sales

(In thousands of USD)	Quarter ended 30-Sep-18	Quarter ended 30-Sep-17	Nine months ended 30-Sep-18	Nine months ended 30-Sep-17	Year ended 31-Dec-17
Gross cost of sales	39,817	40,271	118,615	128,022	165,027
Capitalized to multi-client projects	-	-	(14,108)	(10,559)	(16,400)
Net deferred transit adjustment	-	-	-	443	443
	39,817	**40,271**	**104,507**	**117,905**	**149,069**
Reimbursable cost	5,008	373	8,470	1,858	3,195
Net movement in bad debt provision	-	-	-	(940)	(1,167)
Onerous contract provision unwinding	-	-	(5,489)	(3,920)	(3,920)
Gain on termination of vessel operating lease*	-	-	(13,907)	-	-
Restructuring costs	-	-	-	-	1,591
Net cost of sales	**44,825**	**40,645**	**93,581**	**114,903**	**148,769**

*This amount represents the reversal of accrued operating lease expenses relating to the operating lease arrangements for the vessels *Polarcus Nadia* and *Polarcus Naila* upon termination of the leases and buy back of the vessels by the Company during Q1 2018. Also refer to Note 9.1 *Termination of operating leases and buyback of N-Class vessels*.

5 Depreciation and amortization

(In thousands of USD)	Quarter ended 30-Sep-18	Quarter ended 30-Sep-17	Nine months ended 30-Sep-18	Nine months ended 30-Sep-17	Year ended 31-Dec-17
Depreciation of seismic vessels and equipment	6,947	11,792	20,081	35,865	47,663
Depreciation of office equipment	16	18	51	65	83
Depreciation capitalized to multi-client library	-	-	(856)	(1,841)	(2,728)
Total	**6,963**	**11,810**	**19,277**	**34,089**	**45,018**

6 Multi-client project library

(In thousands of USD)	Quarter ended 30-Sep-18	Quarter ended 30-Sep-17	Nine months ended 30-Sep-18	Nine months ended 30-Sep-17	Year ended 31-Dec-17
Balance at the beginning of the period	65,620	33,587	10,406	45,107	45,107
Reversal of accumulated amortization*	-	-	40,910	-	-
Investments during the period	914	1,588	16,508	13,505	16,679
Capitalized depreciation	-	-	856	1,841	2,728
Sale of multi-client library	(6,500)	-	(6,500)	-	-
Amortization	(33,140)	(6,328)	(36,637)	(31,606)	(42,108)
Impairments	-	-	1,351	-	(12,000)
Balance at the period end	**26,893**	**28,847**	**26,893**	**28,847**	**10,406**

*This amount represents the reversal of amortization that has been recognized on the three multi-client projects that were in the prefunding stage when the Company adopted IFRS 15 on 1 January 2018. Also refer to Note 2.1 *New accounting standards*.

6.1 Sale of multi-client library

On 28 June 2018 the Company entered into an agreement to sell its Capreolus 3D survey, a multi-client library offshore Australia, for a cash consideration of USD 6.5 million. The sale transaction was completed on 8 August 2018.

6.2 Impairment of multi-client library

The opening balance sheet adjustment required as a result of implementing IFRS 15 caused the carrying value of one multi-client project to exceed the total revenue expected to be generated from that particular project. As a consequence, the Company recognized a non-cash impairment of USD 3.0 million on 1 January 2018.

The carrying value of the Capreolus multi-client library on the date of entering into the agreement to sell (refer to Note 6.1 above) was lower than its net realisable value. Therefore, the Company reversed USD 4.9 million of impairments previously charged to this project, which resulted in a net positive impairment of USD 1.3 million for the nine months ended 30 September 2018.

6.3 Amortization of multi-client library

During the quarter ended 30 September 2018, the Company completed a multi-client project in Brazil and handed over the processed data to the client. In the same quarter, in accordance with IFRS-15, the Company recognised all prefunding revenue collected on this project. As this multi-client project did not have any Late sales potential, 100% of the cost capitalised (USD 32.6 million) was amortised in the same quarter. The remaining amortisation of USD 0.5 million in the quarter and USD 4.0 million in the nine months ended 30 September 2018 represents the straight-line amortisation recognised on the other multi-client projects.

7 Finance costs

(In thousands of USD)	Quarter ended 30-Sep-18	Quarter ended 30-Sep-17	Nine months ended 30-Sep-18	Nine months ended 30-Sep-17	Year ended 31-Dec-17
Interest expenses on bond loans	3,520	5,511	9,837	15,383	21,929
Interest expenses on other interest bearing debt	3,765	4,243	13,476	13,134	16,954
Net interest expenses	**7,285**	**9,754**	**23,313**	**28,517**	**38,883**
Other finance costs	339	48	793	498	859
Currency exchange losses	292	1,309	1,587	2,878	4,650
Total	**7,917**	**11,111**	**25,694**	**31,892**	**44,392**

8 Changes in fair value of financial instruments

(In thousands of USD)	Quarter ended 30-Sep-18	Quarter ended 30-Sep-17	Nine months ended 30-Sep-18	Nine months ended 30-Sep-17	Year ended 31-Dec-17
Gain/(loss) on swaps instrument	-	1,731	952	2,407	1,887
Gain/(loss) on fair value of bond loans	-	3,167	(473)	148	4,746
Carrying amount and fair value at the period end	**-**	**4,898**	**479**	**2,555**	**6,632**

As part of the Restructuring, the cross currency interest rate swap agreement was terminated during Q1 2018 (also refer to Note 11.4 *Swap Facility*). The unsecured bonds were measured at fair value until the effective Restructuring date of 1 March 2018 and are being measured at amortised cost post-Restructuring (also refer to Note 11.1.2 *Unsecured bond loans*).

9 Property, plant and equipment

(In thousands of USD)

	Seismic vessels and equipment	Office equipment	Total
Costs			
Balance as at 1 January 2018	979,734	3,063	982,796
Additional capital expenditures	77,555	470	78,024
Balance as at 30 September 2018	1,057,288	3,533	1,060,821
Depreciation and impairments			
Balance as at 1 January 2018	655,701	2,974	658,675
Depreciation for the period	20,081	51	20,132
Balance as at 30 September 2018	675,783	3,025	678,807
Carrying amounts			
As at 1 January 2018	324,032	89	324,122
As at 30 September 2018	**381,506**	**508**	**382,013**
Pledged assets as at 30 September 2018	378,134	-	378,134

USD 71.9 million of the additional capital expenditure during the nine months ended 30 September 2018 represents the acquisition of the vessels *Polarcus Nadia* and *Polarcus Naila* ("N-Class Vessels"), accounted for at the fair value of the consideration paid, that the Company acquired as part of the Restructuring, as further described below.

9.1 Termination of operating leases and buyback of N-Class vessels

On 26 February 2018, as part of the Restructuring, the Company and GSH2 Seismic Carrier I AS ("GSH") terminated the operating lease arrangement for the N-Class vessels in exchange for the Company purchasing the vessels from GSH for a total consideration of USD 75 million in fully financed debt and issue of warrants. The purchase price of USD 75 million was fully financed through a New Fleet Facility, as described in Note 11.3 *New Fleet Facility*.

Fair value of the consideration paid for the N-Class vessels is USD 71.9 million, consisting of USD 70.9 million being fair value of the New Fleet Facility and USD 1.0 million being fair value of the warrants issued to GSH.

The number of warrants issued to GSH as part of the consideration is 12,846,144, representing approximately 2.5% of the Company's issued share capital after completion of the Restructuring, Private Placement and the Repair Issue. The exercise price for the warrants is set at NOK 3.90 and the warrants are exercisable at any time until 30 November 2022.

On the date of termination of the leases, the Company had an aggregate accrued expense of USD 13.9 million relating to the operating lease arrangements for the N-Class vessels. The full amount of the accrued operating lease expense was credited to 'Cost of sales' in Q1 2018 on termination of the leases.

10 Share capital

10.1 Authorized share capital

The Company's authorized share capital as at 30 September 2018 is USD 59,108,916, divided into 591,089,157 shares of a nominal value of USD 0.10 each.

10.2 Movements in the issued share capital

(In thousands of USD except for number of shares)	Number of Shares	Issued Share capital	Share Premium	Total
Balance as at 1 January 2018	153,438,539	15,344	614,192	629,536
Issue of share capital				
1 March 2018 at NOK 1.30 per share	230,769,231	23,077	14,802	37,879
13 March 2018 at NOK 1.30 per share (bond conversions)	98,809,712	9,881	6,566	16,447
12 April 2018 at NOK 1.30 per share ("Repair issue")	30,769,231	3,077	2,065	5,142
Transaction costs on issue of shares		-	(1,719)	(1,719)
Balance as at 30 September 2018	**513,786,713**	**51,379**	**635,906**	**687,285**

On 1 March 2018, the Company issued 230,769,231 new shares at a subscription price of NOK 1.30 raising NOK 300 million in gross proceeds through the Private Placement. Following the issue of the Private Placement shares, the Company's issued share capital is USD 38,420,777 divided into 384,207,770 shares of a nominal value of USD 0.10 each.

Following a joint bondholders meeting held on 12 February 2018 and associated option for bondholders to apply to convert bonds to equity, on 13 March 2018 the Company issued 98,809,712 new shares to the unsecured bondholders who opted to convert the unsecured bonds to equity as per Alternative-2 described under Note 11.1.2 *Unsecured bond loans* below ("Bond Conversion").

On 12 April 2018, the Company issued 30,769,231 new shares at a subscription price of NOK 1.30 raising NOK 40 million through a Repair Offering.

Following the issue of the Private Placement, Repair Offering and Bond Conversion shares, the Company's issued share capital is USD 51,378,671 divided into 513,786,713 shares at par value of USD 0.10 each.

11 Interest bearing debt

(In thousands of USD)	Nominal outstanding value as at **30-Sep-18**	**30-Sep-18**	**30-Sep-17**	**31-Dec-17**
Bond loans				
125M USD secured, convertible bonds - Tranche A	USD 67.9 million	24,101	20,376	22,901
125M USD convertible bonds - Tranche B	USD 3.5 million	562	6,063	6,063
95M USD unsecured bonds	USD 9.8 million	2,490	13,385	12,314
350M NOK unsecured bonds	NOK 53.5 million	1,593	7,874	7,369
Total bond loans		**28,746**	**47,697**	**48,647**
Other interest bearing debt				
Fleet bank facility - Tranche 1	USD 41.7 million	40,004	46,831	46,930
Fleet bank facility - Tranche 2	USD 35.8 million	34,717	34,726	34,782
Fleet bank facility - Tranche 3	USD 80.9 million	77,877	80,910	81,046
Fleet bank facility - Tranche 4	USD 86.1 million	82,743	82,750	82,887
New Fleet Facility for N-Class vessels	USD 75.0 million	70,970	-	-
DNB loan facility	USD 7.7 million	7,659	-	-
Other loans		-	2,221	-
Total other interest bearing debt		**313,971**	**247,438**	**245,646**
Total Interest bearing debt		**342,716**	**295,135**	**294,293**
Of which:				
Current liability portion		8,600	6,500	294,293
Non-current liability		334,116	288,634	-

11.1 Restructuring of bond loans

11.1.1 Secured convertible bonds

As part of the Restructuring, the maturity of the Secured convertible bonds was extended to 1 July 2022 (previously 30 March 2022). An interest rate of 5.6% annually is payable in cash for the period that the vessel *Vyacheslav Tikhonov* is on a third-party bareboat charter party. If *Vyacheslav Tikhonov* is no longer on a third-party bareboat charter party, the interest rate will be the sum of 2.90% + the applicable amount as per the Margin Grid provided under Note 11.2 *Restructuring of the Fleet Bank Facility* below. The conversion price for the bonds was amended to USD 125.871 per share from USD 138.694 per share. Subsequently, the number of potential shares associated with convertible bonds is 581,034.

Amortisation payments of USD 4.6 million annually in equal quarterly instalments will be payable for as long as *Vyacheslav Tikhonov* is on a third-party bareboat charter party. If the hire rate of the charter is adjusted from the existing hire rate, the amortization payment will be adjusted pro rata for the revised charter earnings for the period of such hire adjustment. If *Vyacheslav Tikhonov* is no longer on hire under a third-party bareboat charter, the Secured bonds will be treated in the same way as the Non-Preferred Loans with respect to amortization payments. Any postponed amortization payments will be added to the payment on the final maturity date.

A cash sweep mechanism is applicable for the Secured convertible bonds for any periods when *Vyacheslav Tikhonov* is no longer on hire under a third-party bareboat charter.

11.1.2 Unsecured bond loans

The maturity date of the unsecured bond loans was extended to 1 January 2025 (previously 30 December 2022). The Unsecured bonds will accrue interest of 5% annually as payment-in-kind.

The total outstanding principal amount under each tranche of the unsecured bond loans was reduced to the previously applicable call price level for that tranche in 2018, which is the new nominal amount. The bonds are callable at any time.

Unsecured bond holders were given an option to choose between Alternative 1 and Alternative 2 as described below. The amount of unsecured bonds that could be converted as per Alternative 2 was limited to 50% of the total outstanding amount of unsecured Bonds.

- Alternative 1 - Continue to hold unsecured bonds on the amended terms set out above or,
- Alternative 2 - Convert unsecured bonds into equity. Unsecured bonds converted under Alternative 2 were converted to 70% of the new nominal value (ie. after the reduction of principal amount as set out above has been carried out) and at a conversion price of NOK 1.30 per share.

The Company received applications from the unsecured bondholders to convert more than 50% of the outstanding unsecured bonds into shares as per Alternative 2 above. On 13 March 2018, the Company converted approximately 50% of the total unsecured bonds into 98,809,712 shares. Bondholders that applied for shares received an allocation of approximately 70.5% of their applications.

On 14 March 2018, the Company merged unsecured tranches under each of the bond issues into one tranche. Following the bond write down, the bond conversion, the merger of different tranches and the principal repayments made since the Restructuring, the Company has the following bonds outstanding at nominal value as at 30 September 2018:

Issue	ISIN	Ticker	Currency	Amount
Convertible bond - Tranche A*	NO0010607435		USD	67,880,000
Convertible bond - Tranche B	NO0010757263		USD	3,555,354
Unsecured USD bond	NO0010680150	PLCS02	USD	9,826,617
Unsecured NOK bond	NO0010714389	PLCS03	NOK	53,514,847

The future cash flows of the restructured unsecured bonds are significantly different from the cash flows under the old terms. Hence, the Unsecured bonds with carrying value USD 26.2 million as at the date of restructuring (1 March 2018) were derecognized from the consolidated statement of financial position and were immediately replaced with the new bonds. Fair value of the new bonds as at the date of Restructuring was estimated to be at USD 3.4 million. The bond-to-equity conversion, as explained above, resulted in an increase in equity of USD 16.4 million. The difference of USD 6.4 million between the carrying value of the old bonds and the total of the fair value of the new bonds and equity issued is recognized as a gain on financial restructuring in the Company's consolidated statement of comprehensive income.

Post-Restructuring, the Company accounts for the new restructured unsecured bonds using the amortised cost method.

11.2 Restructuring of the Fleet Bank Facility

As part of the Restructuring, financing parties to the Fleet Bank Facility agreed to a general extension of the fixed amortization freeze until 1 January 2022 (previously 1 January 2019). However, during this period, the principal part of Tranche-3 of the Fleet Bank Facility will receive fixed amortisation of USD 4 million annually in equal quarterly instalments for the period that the vessel *Ivan Gubkin* continues to be on a third-party bareboat charter. All postponed amortisation payments will be added to the payment due on the final maturity date. The reduction in fixed instalments between 2019 and 2021 improves the Company's liquidity by approximately USD 79 million.

The lenders of the Fleet Bank Facility also agreed to reduced interest rates. All loans under the Fleet Bank Facility will continue to receive cash interest equal to the CIRR rate/floating rate that applies to the relevant loan in accordance with the pre-Restructuring agreement. Tranche-3 of the Fleet Bank Facility that was lent to the subsidiary owning the vessel *Ivan Gubkin* will receive a guarantee premium of 2.75% p.a. for any period that the vessel is on a third-party bareboat charter. For any period that *Ivan Gubkin* is not on a third-party bareboat charter, Tranche-3 will receive a guarantee premium as per the below table (the "Margin Grid") along with all other tranches.

The interest payable under the guarantee premiums for all tranches of the Fleet Bank Facility other than Tranche-3 (the "Non-Preferred loans") will be calculated at the rates mentioned in the below Margin Grid, based on the Company's last twelve months' adjusted EBITDA, defined as EBITDA *less* multi-client cash investments.

Adjusted EBITDA	Interest payable under guarantee premium		
	Cash interest	Payments in kind*	Total
<35 million	0.75%	0.375%	1.125%
35-50 million	1.00%	0.375%	1.375%
50-75 million	1.75%	0.375%	2.125%
75-90 million	2.75%	0.375%	3.125%
>90 million	3.25%	0.375%	3.625%

*Payments in kind at the rate prescribed above will accrue periodically but are not payable until the final maturity date.

The lenders of the Fleet Bank Facility also agreed to certain changes in the financial covenants applicable from 1 January 2018. The key changes are:

- Minimum equity ratio, Debt Service ratio and Minimum market value covenants are removed
- The minimum prefunding level for multi-client projects is reduced to 50% from the current 70% for the period up to and including 31 December 2019 and, thereafter the minimum prefunding level is restored to 70%.

The lenders of the Fleet Bank Facility will participate in a new cash sweep arrangement.

11.3 New Fleet Facility

On 26 February 2018 the Company took out a New Fleet Facility of USD 75 million to finance the purchase of the N-Class Vessels from GSH. The New Fleet Facility is divided into two loans: Loan 1 of approximately USD 29 million to finance the purchase price of *Polarcus Nadia* and Loan 2 of approximately USD 46 million for *Polarcus Naila*.

There will be no fixed amortizations on the New Fleet Facility until 1 January 2022 unless an N-Class vessel is on a third-party bareboat charter, in which case New Fleet Facility lenders shall receive 32% of charter revenue in fixed amortisation of the relevant loan. After 1 January 2022, the New Fleet Facility will be repaid by annual amortization payments of USD 6.25 million pro rata between Loan 1 and Loan 2. The final maturity of the New Fleet Facility is 31 December 2024.

The interest for the New Fleet Facility is set at CIRR or floating rate plus guarantee premium as applicable to Non-Preferred loans as specified under the Margin Grid as explained in Note 11.2 above.

The New Fleet Facility will participate in a cash sweep mechanism together with Fleet Bank Facility lenders and the holders of Secured convertible bonds.

11.4 Swap Facility

As part of the Restructuring, the Company and DNB Bank ASA ("DNB") agreed to terminate the USD:NOK cross currency interest rate swap agreement. The cost of termination of the swap agreement being USD 7.7 million, was fully financed through a new loan facility provided by DNB.

The new loan facility is subject to an interest rate of USD LIBOR+4% and is repayable in three instalments: USD 2 million on 30 June 2019, USD 3 million on 30 June 2020 and USD 2.7 million on 30 June 2021.

12 Transactions with related parties

Zickerman Group DMCC, a company wholly owned by a board member Mr. Peter Zickerman, has been engaged by the Company to perform strategic consultancy services. During the quarter and nine months ended 30 September 2018, the Company has paid USD 0.1 million and 0.3 million respectively to Zickerman Group DMCC for consultancy services (USD 0.1 million and USD 0.4 million for the same periods in 2017).

13 Contingent assets

On 13 April 2015 the Company submitted a claim at the Regional Court of Koblenz, Germany, against the supplier of malfunctioning thruster units, claiming approximately USD 70 million in damages for the costs and loss of revenue related to various thruster damage incidents. The claim remains pending before the Koblenz court. On 10 September 2018 the Koblenz court confirmed its appointment of a legal expert at the Max Planck Institute to report on certain issues of Norwegian law. The expert is not expected to provide his report on the Norwegian law issues arising in the claim before April 2019. The claim remains a contingent asset and no income has been recognized in the current or prior periods.

Alternative performance measures

In order to measure performance on a historic basis, the Company has primarily made use of the non-IFRS measures described below. These are Alternative Performance Measures ("APMs") which are provided to give a deeper understanding of the Company's financial performance. The Company uses APMs to provide supplemental information to the IFRS financial measures.

Adjusted EBITDA	Earnings before interest, tax, depreciation, amortization and impairments, using the adjusted revenues (as described below) as opposed to IFRS revenues. The Company uses adjusted revenue to allow consistency between 2018 and prior accounting periods, which increases the comparability of the financial performance across periods.
Adjusted revenues	The revenues in the period based but excluding the impact of IFRS 15 in 2018, so accounted for based on the revenue recognition principles prevailing in 2017 before the mandatory adoption of IFRS 15. The Company uses adjusted revenue to allow consistency between 2018 and prior accounting periods, which increases the comparability of the financial performance across periods.
Backlog	The aggregate estimated value of future projects for which the Company has a signed contract or letter of award with a client. The Company uses backlog as it gives the amount of the committed activity in future periods, thus providing an indication of the Company's future revenue.
CAPEX	Capital expenditure refers to investments in property, plant and equipment, and intangible assets (excluding multi-client library investments), irrespective of whether the amount is paid for in the period. The Company uses CAPEX to indicate the level of its investments in enhancing its capital assets.
EBIT	Earnings before interest and tax. The Company uses EBIT as it provides an indication of the profitability of the operating activities. The EBIT margin presented is defined as EBIT divided by net revenues.
EBIT (before non-recurring items)	Earnings before interest and tax, excluding non-recurring items
EBITDA	Earnings before interest, tax, depreciation, amortization and impairments. The Company uses EBITDA because it is useful when evaluating operating profitability as it excludes amortization, depreciation and impairments related to investments that occurred in the past.
EBITDA (before non-recurring items)	Earnings before interest, tax, depreciation, amortization and impairments, excluding non-recurring items
IFRS-15 adjustments	The effect of adopting IFRS 15 effective 1 January 2018 to the Company's consolidated financial statements. The Company uses IFRS-15 adjustments to explain how some of the Company's reported key numbers, post-adoption of IFRS 15, relate to the historic (pre-IFRS 15) key numbers.
Net interest bearing debt	The total book value of the Company's non-current and current debt, less the balance of cash and cash equivalents, as well as any restricted cash that is restricted for the purposes of repaying debt. The Company uses net interest bearing debt as it provides an indication of the Company's debt position by indicating the Company's ability to pay off all its debt if they became due simultaneously using only its available cash.
Non-recurring items	Impairment charges, the cost of onerous contract provisions and restructuring costs. The Company believes that non-recurring items should be identified as they are typically non-cash items that are not expected to occur infrequently and are often a result of technical accounting judgments as opposed to operational performance.

Prefunding Level	The prefunding level is calculated by dividing the multi-client prefunding revenues by the cash investments in the multi-client library. The Prefunding Level is considered as an important measure as it indicates how the Company's financial risk is reduced on multi-client investments.
Total cash	The total of restricted and unrestricted cash held by the Company at the reporting date. The Company uses total cash as it provides an indication of the Company's complete cash position.

The non-IFRS financial measures presented herein are not recognised measurements of financial performance under IFRS, but are used by the Company to monitor and analyse the underlying performance of its business and operations. These should not be considered as an alternative to profit and loss for the period, operating profit for the period or any other measures of performance under generally accepted accounting principles.

The Company believes that the non-IFRS measures presented herein are commonly used by investors in comparing performance between companies.

Accordingly, the Company discloses the non-IFRS financial measures presented herein to permit a more complete and comprehensive analysis of its operating performance relative to other companies across periods. Because other companies may calculate the non-IFRS financial measures presented herein differently, the non-IFRS financial measures presented herein may not be comparable to similarly defined terms or measures used by other companies.

EBIT (before non-recurring items) and EBITDA (before non-recurring items) show the EBIT and EBITDA of the Company after adjustments for impairment charges, the cost of onerous contract provisions and restructuring costs. These APMs are financial performance measures that are adjusted for the impact of items that are not considered by the Company to be part of the underlying core business as they are considered to be more irregular in both amount and frequency of occurrence.

The following table reconciles EBITDA with EBITDA (before non-recurring items):

	Quarter ended			Nine months ended		Year ended
(In millions of USD)	**30-Sep-18**	**30-Jun-18**	**30-Sep-17**	**30-Sep-18**	**30-Sep-17**	**31-Dec-17**
EBITDA	39.1	3.4	14.5	58.0	14.6	41.3
Adjusted for:						
Restructuring cost	-	-	-	1.1	1.5	4.0
Gain on termination of vessel operating lease	-	-	-	(13.9)	-	-
Onerous contract provision	-	-	-	-	-	(27.1)
EBITDA (before non-recurring items)	39.1	3.4	14.5	45.1	16.1	18.2

The following table reconciles EBIT with EBIT (before non-recurring items):

	Quarter ended			Nine months ended		Year ended
(In millions of USD)	**30-Sep-18**	**30-Jun-18**	**30-Sep-17**	**30-Sep-18**	**30-Sep-17**	**31-Dec-17**
EBIT	(1.0)	(0.8)	(3.6)	3.4	(52.5)	(137.0)
Adjusted for:						
Restructuring cost	-	-	-	1.1	1.5	4.0
Gain on termination of vessel operating lease	-	-	-	(13.9)	-	-
Onerous contract provision	-	-	-	-	-	(27.1)
Impairment	-	(4.3)	-	(4.3)	1.4	91.2
EBITDA (before non-recurring items)	(1.0)	(5.1)	(3.6)	(13.8)	(49.6)	(68.9)