Magseis Fairfield ASA

Q1 2019

magseis fairfield

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HIGHLIGHTS

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- **Revenue of USD 119.5m (USD 24.6m Q1 2018), up from USD 76.2m in Q4 2018**
- **System sales of MASS nodes accounted for USD 28.1m (0), down from USD 40.8m in Q4 2018**
- **EBITDA of USD 16.0m (USD 10.4m Q1 2018), up from USD 8.0m in Q4 2018**
- **Net loss after tax of USD 6.5m (USD +5.7m Q1 2018), compared to a net loss of USD 2.0m in Q4 2018**
- **Maintaining full-year revenue guidance of USD 500m and EBITDA of USD 100m**

CEO STATEMENTS

Magseis Fairfield generated revenue of USD 120 million in the first full quarter after the business combination of Magseis and Fairfield in the fourth quarter last year. The first part of the year has been active.

So far this year we have completed four contracts and started up four five data acquisition contracts, and successfully delivered the second shipment under the large MASS I node sales contract we entered into last year.

While the MASS I sales contract provided strong margins for the first quarter, our operations and financials have been affected by mobilization ahead of the start-up of a large Middle East survey and costs of USD 7.7 million for change of deployment platform in the Gulf of Mexico. The market environment is further improving. We see higher margins in recently signed contracts and current contract negotiations, and an increasing number of tenders and new projects coming to the market.

The new Gulf of Mexico crew commenced operations at the end of the quarter. At the same time, we have been working to finalize operations in Malaysia, and are glad to report that the operational challenges were resolved and that we completed the survey with high data quality.

The integration of the legacy Magseis and Fairfield organizations continues to develop well. Magseis Fairfield aims to be the world's leading provider of next generation marine seismic solutions and clearly demonstrate our scale, technology, efficiency and QHSE capabilities in our most recent project in the Gulf of Mexico.

At the end of the quarter, our crew completed mobilization of the world's largest deepwater node fleet for a project comprising of one node handling vessel, three source vessels and one supply vessel. The survey covers 3,100 square kilometres and the data will be acquired with Magseis Fairfield's advanced deepwater ZXPLR system. This project shows that we are pushing the boundaries in ocean bottom seismic acquisition, through innovative technology and methodology. We are extremely proud of the effort and collaboration that has gone into fielding this unique OBS fleet which will set a new standard in our industry.

Per Christian Grytnes - **CEO Magseis Fairfield**

KEY FINANCIALS

In thousands of USD

Profit and loss	Q1 2019	Q1 2018	Full Year 2018
Revenues	119 502	24 564	136 477
Cost of sales	88 293	9 691	86 764
EBITDA	16 037	10 370	23 012
EBIT	-2 718	6 618	3 077
Net profit/loss	-6 480	5 667	-2 821
Basic earnings (loss) per weighted average shares	-0.04	0.08	-0.04
Financial position			
Total assets	587 146	165 032	527 310
Total liabilities	260 037	27 278	193 737
Total equity	327 109	137 754	333 573
Equity ratio	55.7 %	83.5%	63.3%
Cash flow			
Net cash flow from operating activities	-1 899	-6 243	13 732

OPERATIONS

Magseis Fairfield worked on five different seismic acquisition projects in the first quarter 2019, one of which was completed during the quarter and three in April and May. Work commenced on two new projects during the first quarter, and three so far in the second quarter.

In addition, the company delivered some 3,000 nodes in the second system sales delivery to BGP Offshore in the first quarter.

The total order backlog at the publication date for the report was USD 390 million, of which USD 333 million for delivery in 2019.

After close to three years of more or less continuous operations in the Red Sea, the company has now reached the end of a very successful campaign in the region. The operation in the Red Sea continued to run in accordance with the very high standards that have been established and the end client have expressed very positive feedback on the data quality.

The Artemis Athene set sail from the Red Sea towards the North Sea in April and is scheduled for a yard stay in Norway before entering into operations in North West Europe early in the third quarter.

The operation in Malaysia was finalized early April and the challenges related to the operational performance and source issues were resolved during the first quarter. The performance of the second ROV vessel that entered the operation in January was good.

The industry's first ever sparse deep-water node acquisition project was completed in the Gulf of Mexico (GoM) early in the first quarter. Despite some delays due to vessel and ROV equipment issues, the ZXPLR nodes performed to customer's expectations and the project was ultimately completed safely and on budget. Following completion of this operation, the crew transitioned to a new vessel and ROV system contracted to provide a safer and more comfortable working environment for the offshore crew. This will expand the operational window in elevated weather and provide opportunity for improved operational efficiency.

Following a very rapid mobilization, Magseis Fairfield also started another deepwater operation in the GoM, utilizing its MASS technology. Operational performance has been excellent, with lessons learned from previous surveys clearly benefiting the operation.

The second crew in the Middle East, operating Z700 nodes, got into full swing during the first quarter, with both newly rigged node handlers performing well and the source vessel producing above expected daily averages.

Daily node deployment and retrieval rates continue to increase, with node deployment and recovery peaking in excess of 1400 nodes/day. Performance should continue to improve as the crew moves into a better weather season in the second quarter.

Mobilization is currently ongoing for the repeat survey over the Eldfisk block on behalf of ConocoPhillips. This will be another ROV based OBN survey whereby the WGP operation utilized for the LoFS 16 acquisition will provide the seismic source effort. This survey is a 4D repeat of the acquisition done in 2017, utilizing the MASS Modular technology. Again, the node preparation, data of download etc. will be done in one of the robotized MASS Modular systems on shore, reducing the mobilization time and cost for the ROV vessel to a minimum.

For WGP, the first quarter started with maintenance on the two active source systems held in storage at the WGP facility in Stavanger. The work program was safely completed in full by the end of February, after which both systems were ready to commence operations.

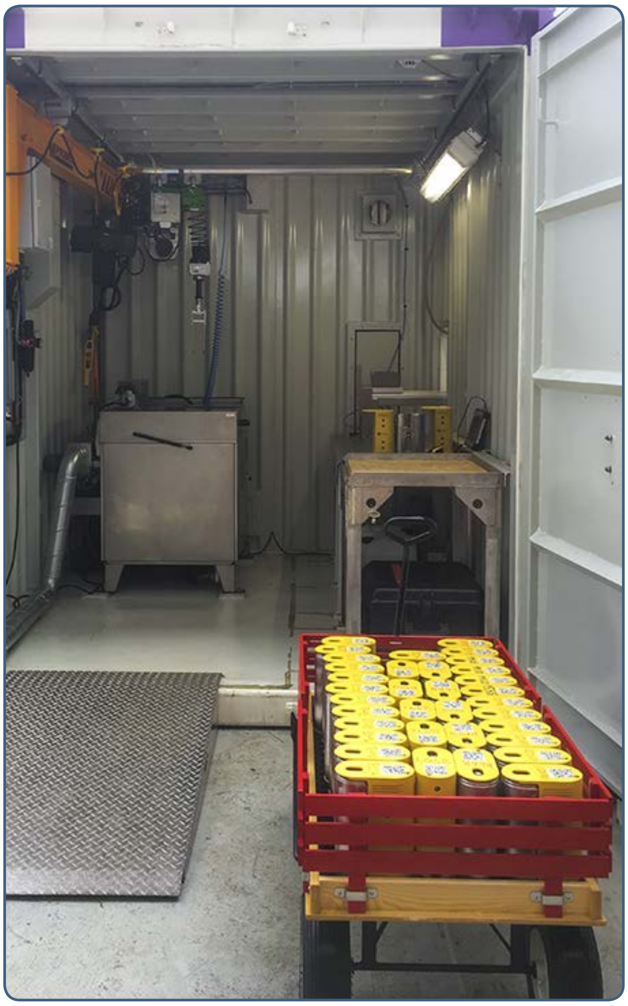
The ConocoPhillips LoFS 16 on Ekofisk and the Equinor Snorre/Grane surveys were both mobilized towards the end of April.

Construction of the triple source system for the Equinor Johan Sverdrup PRM operation commenced in the first quarter and is scheduled for delivery early in the third quarter. Discussions with the Johan Sverdrup project team indicate that mobilization of the equipment shall commence in mid-July, with the first survey of the 5-year contract targeted to start in early August.

Looking at new business opportunities, a proof of concept trial has been approved for the use of WGP's existing extra high-resolution 3D seismic (XHR-3D) system, formally known as P Cable. A trial of the system commenced early May offshore Denmark with the aim that the data acquired shall demonstrate further advantages of this new method of high-resolution 3D seismic.

TECHNOLOGY

The Technology Business Unit is responsible for developing and manufacturing MASS and Z nodes and handling systems in Norway/Sweden and Houston, respectively. There is high activity across the organization to expand the node pool and increase our operational efficiency, and it has been exciting first quarter starting the integration of Magseis, Fairfield and WGP.



The sale of MASS nodes and handling systems to BGP has required a substantial effort in building, shipping, installing, training and supporting the crew in Abu Dhabi, and this will continue until the last installation has been completed late Q3/early Q4. In addition to continuously supporting Operations, the team is also working on the future MASS III systems where longer battery lifetime and higher deployment speeds are key targets.

In US, Manufacturing is doing all the ground work for several node build programs for ZXPLR and Z100, the latter node being for the sales and rental market. With the next ZXPLR crew, we will also deliver a fully automated and compact back deck system to reduce mob/demob times, increase operational efficiency and have a hands-off node handling.

The integration into one company is well underway with extensive collaboration across the organization

QHSE

Q1 2019 is the first quarter with fully complied QHSE reporting from all three legacy companies, which generated more than 2,000,000 exposure hours in the quarter.

In the Eastern and Western Hemisphere Operations business units, the first quarter saw the mobilization of the first MASS project in the Gulf of Mexico, the first delivery and rigging of MASS nodes and systems in Dubai, the rigging of a new vessel with start-up of the GoM project, as well as continued operations in Malaysia, the Red Sea and Qatar.

WGP successfully completed re-certification to ISO 9001, 14001 and OHSAS 18001.

All operations ran with overall good HSE performance, with one Restricted Workday Case caused by a minor back strain. HSE performance was also good across the whole technology business unit, with no injuries, work related ill health or environmental incidents.

Shore based activities were dominated by integration of the legacy organizations, which will be moved over to a common QHSE reporting system. The three top-level QHSE policies (Health and Safety, Quality and Environment) have been aligned and rolled out across the whole organization, and the rest of the management system is under review.

BOARD OF DIRECTORS REPORT

FINANCIAL REVIEW

The Fairfield and WGP Group was acquired at 18 December 2018, thus references to amounts relating to these units do not have comparable amounts in Q1 2018.

Revenues

Revenues for the first quarter of 2019 were USD 119.5 million compared to USD 24.6 million in Q1 2018 and USD 76.2 million in the previous quarter.

Magseis legacy business accounted for revenue of USD 61.9 million, and USD 57.6 million to Fairfield and WGP.

System sales of MASS 1 nodes accounted for USD 28.1 million of Magseis legacy revenue, down from USD 40.8 million in the fourth quarter 2018.

Operational costs

Group cost of sales (COS) amounted to USD 88.3 million in the first quarter of 2019, compared to USD 9.7 million in the first quarter of 2018.

The cost level was adversely affected by mobilization ahead of start-up of a large survey program in the Middle East as well as USD 7.7 million in expensed one-off costs related to the change of deployment platform for the crew in GoM. The new crew was mobilized for start-up of a multiclient survey at the end of the first quarter, and is now booked on back-to-back contracts through April 2020.

COS for the Magseis legacy part of the operation increased by USD 33.0 million from first quarter of 2018 to USD 42.6 million in first quarter 2019, whereof USD 16.7 million related to MASS 1 node sales and the remaining to the operations in the GoM, Red Sea and Malaysia. COS for the Fairfield and WGP sales was USD 45.7 million.

Selling, general and administration expenses (SG&A) and other expenses amounted to USD 14.5 million in the first quarter of 2019. Magseis legacy SG&A and other expenses was USD 5.5 million compared to USD 3.9 million in the first quarter of 2018. Fairfield and WGP accounted for USD 9.0 million.

Research and development

Research and development (R&D) expenses amounted to USD 0.6 million for the first quarter of 2019, which was unchanged from the first quarter of 2018. This is primarily R&D in Magseis legacy.

Depreciation, amortization and impairment

Depreciation was USD 14.8 million in the first quarter of 2019. Depreciation in Magseis legacy was USD 4.1 million compared to USD 3.6 million in the first quarter last year. Depreciation for Fairfield and WGP was USD 10.7 million.

Of the depreciation, USD 4.1 million relates to right-of-use assets booked in accordance with the adoption of IFRS 16 from 1 January 2019. Reference to note 10 Leases.

The amortization of USD 4.0 million is mainly related to the identified technology- and customer assets following the preliminary purchase price allocation of the Fairfield and WGP acquisition

No impairment was recognized in the first quarter of 2019 or the first quarter of 2018.

Profits

The EBITDA was USD 16.0 million in the first quarter of 2019, compared to USD 10.4 million in the first quarter of 2018. Magseis legacy recorded an EBITDA of USD 13.1 million, including USD 10.9 million related to the sale of MASS I nodes. Fairfield and WGP contributed with USD 2.9 million in EBITDA in the quarter. The EBITDA development was adversely affected by mobilization cost and the change of deployment platform as commented in the operational cost section.

EBIT was USD -2.7 million for the first quarter, compared to USD 6.6 million in the first quarter last year.

Net financial costs amounted to USD -2.1 million, compared to USD -0.2 million in the same period last year, whereas the net loss before tax of USD 4.8 million compared to a net profit before tax of USD 6.4 million in the first quarter 2018.

Net financial costs in the first quarter of 2019 include a cost of USD 0.6 million related to revaluation of warrants. Income tax expense amounted to USD 1.6 million, bringing the net loss for the first quarter to USD 6.5 million. In the first quarter 2018 the company reported a net profit of USD 5.6 million after an income tax expense of USD 0.8 million.

Balance Sheet

Total assets increased to USD 587.1 million from USD 165.0 million at the end of the first quarter 2018. USD

345.5 million of the change is related to the acquisition of Fairfield and WGP, including working capital. A preliminary purchase price allocation (PPA) has been performed and presented in the annual report of 2018. Excess purchase value has been allocated to technology and customer related assets while remaining value has been recorded as goodwill. The PPA is preliminary and could be adjusted further in 2019. Reference to note 12 Business combinations.

As per 31 March 2019, current assets amounted to USD 263.3 million, compared to USD 78.9 million as per 31 March 2018. USD 24.7 million related to inventory of seismic equipment for sale from Magseis legacy and USD 25.9 million from Fairfield and WGP. Trade receivables stood at USD 131.0 million, of which Magseis legacy accounted for USD 82.3 million, and Fairfield and WGP for USD 48.6 million. This compares to trade receivables of USD 24.9 million at the end of the first quarter last year. Cash and cash equivalents were USD 50.0 million (USD 15 million restricted) per 31 March 2019, compared to USD 44.6 million (USD 1.0 million restricted) per 31 March 2018.

The Group's equity amounted to USD 327.1 million per 31 March 2019, compared to USD 137.8 million per 31 March 2018. The equity ratio was thus 55.7%, compared to 83.5% at the end of March 2018. The adoption of IFRS 16 has had the following effect on the balance sheet: A total right-of-use asset of USD 38.5 million and a corresponding lease liability of USD 38.5 was established in January 2019. At 31 March 2019 the lease liability was USD 35.2 million where of USD 17.8 mill was non-current and USD 17.2 mill was a current liability. Adjusting for the total lease liability, the equity ratio would have been 59.3%.

Non-current liabilities were USD 69.4 million per 31 March 2019, compared to USD 12.9 million per 31 March 2018. These liabilities are mainly related to the non-current portion of USD 32 million of a total USD 50 million loan facility from DNB, as well as warrants valued at USD 7.3 million. Related to a cooperation agreement for development of a deep-water solution for seismic operations, funding of an accumulated USD 8.1 million has been received from Shell Global Solutions. This funding is recognised as a finance arrangement in the financial statements and considered a contingent liability.

Current liabilities amounted to USD 190.7 million per 31 March 2019, compared to USD 14.4 million per 31 March 2018. Total current liabilities for Fairfield and WGP were USD 100.2 million per 31 March 2019. Trade payables were USD 66.9 million, of which USD 55.3 million related to Fairfield and WGP. This compares to trade payables of USD 5.0 million at the end of the first quarter last year.

Included in other current liabilities is prepayment from clients USD 30.7 million, project related accruals USD 18.1 million and provision of USD 6.3 million. The current portion of long-term loan and lease obligations amounted to USD 38.9 million as of 31 March 2019, compared to USD 3.0 million as of 31 March 2018. The current portion of the recognized lease liability according to IFRS 16 was USD 18.4 million at 31 March 2019.

Bank covenants

For the DnB USD 50 million loan facility, the required equity ratio was reset to 50% for all quarters in 2019 from the original covenant requirement of 60%.

The Leverage definition has been amended as follows: "Leverage shall be defined as "means, in respect of any Relevant Period, the ratio of Total Debt less Cash on the last day of the Relevant period to EBITDA in respect of that Relevant Period".

Further to the DnB USD 50 million loan facility, the bank guarantee towards a customer was previously secured by cash collateral of USD 15 million. The cash collateral has been released. The guarantee commission thereby increased from 1.00% to 3.00%.

Following these changes, Magseis Fairfield Group is not in breach of the DnB loan covenants as per 31 March 2019. Based on the Group's financial forecast, there are no indications that there will be any breach of the covenants in 2019.

Cash Flow

Cash flow from operating activities was USD -1.9 million in the first quarter 2019, compared to USD -6.2 million in the first quarter 2018. This included an increase in net working capital of USD 24.3 million, with the increase mainly reflecting higher receivables from billable projects that will be collected as they fall due.

Net cash used for investing activities amounted to USD -4.8 million in the first quarter, down from USD -14.9 million in the first quarter 2018 due to reduced investments in seismic equipment.

Cash flow from financing activities was USD -11.4 million in the first quarter of 2019, compared to USD 35.9

million in the same period of 2018. This mainly represents repayment of finance lease obligations and loans, whereas the cash flow in the first quarter 2018 mainly reflected net proceeds from a share capital increase of USD 38.6 million.

Employees

As per 31 March 2019, the Group had a total of 625 employees including contractors, up from 614 at the end of 2018. This includes an offshore seismic crew of 155 employees, up from 150 at the end of last year.

20 LARGEST SHAREHOLDERS 31 MARCH 2019			
Shareholder	**Nominee**	**Number of shares**	**%**
Fairfield MS LLC		33 500 000	18.1%
Morgan Stanley & Co. LLC	Nominee	9 778 897	5.3%
ANFAR INVEST AS		6 196 856	3.3%
UBS AG	Nominee	6 000 015	3.2%
SEI INSTITUTIONAL INTERNATIONAL		5 875 826	3.2%
WESTCON GROUP AS		5 661 436	3.1%
AS CLIPPER		5 596 521	3.0%
KAS Bank N.V.	Nominee	5 000 000	2.7%
KLP AKSJENORGE		4 857 948	2.6%
GEO INNOVA AS		4 638 382	2.5%
EVERMORE GLOBAL VALUE FUND		3 983 502	2.2%
Merrill Lynch Prof. Clearing Corp.	Nominee	3 900 000	2.1%
KOMMUNAL LANDSPENSJONSKASSE		3 411 771	1.8%
JPMorgan Chase Bank	Nominee	3 329 627	1.8%
REDBACK AS		3 218 289	1.7%
VERDIPAPIRFONDET NORDEA NORGE VERD		3 197 733	1.7%
STRAWBERRY CAPITAL AS		2 624 926	1.4%
VERDIPAPIRFONDET NORDEA KAPITAL		2 472 872	1.3%
VERDIPAPIRFONDET PARETO INVESTMENT		2 340 000	1.3%
BARRUS CAPITAL AS		2 292 351	1.2%
Total 20 largest shareholders		**117 876 952**	**63.7 %**
Other shareholders		67 107 429	36.3 %
Total outstanding shareholders		**184 984 381**	**100.0 %**

Outlook

Magseis Fairfield had a backlog of USD 390 million at the report publication, of which USD 333 million for delivery in 2019. The company sees an improving market environment, and maintains its 2019 guidance for revenue of USD 500 million and EBITDA of USD 100 million.

STATEMENT OF FINANCIAL COMPLIANCE

We confirm, to the best of our knowledge, that the condensed consolidated interim financial statements for the period 1 January to 31 March 2019 have been prepared in accordance with current applicable accounting standards and IAS 34 Interim Financial Reporting and gives a true and fair view of the assets, liabilities, financial position and results of the Group. We also confirm, to the best of our knowledge that the condensed consolidated interim financial statements present a fair view of the development and performance of the business during the period, and together with the 2018 Annual Report a description of the principal risks and uncertainties facing the Group.

Board of Directors of Magseis Fairfield ASA,
Lysaker, 27 May 2019

Charles W. Davidson Jr
Chairman

Jan Gateman,
Director and Executive Vice President

Bettina R. Bachmann,
Non-executive Director

Edvin Endresen
Non-executive Director

Wenche Kjølås
Non-executive Director

Angela Durkin
Non-executive Director

Luis Araujo
Non-executive Director

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In thousands of USD	*Note*	**Q1 2019** *(unaudited)*	**Q1 2018** *(unaudited)*	**Full Year 2018** *(audited)*
REVENUE AND OTHER INCOME				
Revenue	*4*	119 502	24 564	136 477
Total revenue and other income		**119 502**	**24 564**	**136 477**
OPERATING EXPENSES				
Cost of sales		88 293	9 691	86 764
Research and development expenses		640	560	3 995
Selling, general and administrative costs and other expense		14 532	3 942	22 705
Depreciation	*5*	14 797	3 561	19 097
Amortisation	*6, 7*	3 958	191	839
Total operating expenses		**122 220**	**17 946**	**133 400**
OPERATING PROFIT (LOSS)		**-2 718**	**6 618**	**3 077**
FINANCIAL INCOME AND EXPENSES				
Finance income		1 058	2	2 628
Finance costs		-3 177	-193	-5 058
Net finance items		**-2 119**	**-191**	**-2 430**
NET PROFIT (LOSS) BEFORE TAX		**-4 837**	**6 427**	**647**
Income tax expense		1 642	760	3 468
NET PROFIT (LOSS)		**-6 480**	**5 667**	**-2 821**
Basic earnings (loss) per weighted average shares (in USD)		-0.04	0.08	-0.04
Diluted earnings (loss) per weighted average shares (in USD)		-0.04	0.08	-0.04
OTHER COMPREHENSIVE INCOME				
Other comprehensive income		0	0	0
Total comprehensive income (loss) for the period		**-6 480**	**5 667**	**-2 821**

CONDENSED AND CONSOLIDATED BALANCE SHEET

In thousands of USD	*Note*	**YTD 2019** *(unaudited)*	**YTD 2018** *(unaudited)*	**YE 2018** *(audited)*
ASSETS				
Non-current assets				
Goodwill	*12*	93 731	0	93 731
Equipment	*5*	153 810	80 968	148 598
Multi-client library	*6*	0	0	0
Other intangible assets	*7*	76 332	5 142	80 280
Total non-current assets		**323 873**	**86 110**	**322 609**
Current assets				
Cash and cash equivalents		50 006	44 597	68 110
Trade receivables		130 960	24 900	75 335
Inventories		55 364	1 877	32 538
Other current assets		26 943	7 549	28 718
Total current assets		**263 273**	**78 921**	**204 701**
TOTAL ASSETS		**587 146**	**165 032**	**527 310**
EQUITY AND LIABILITIES				
Shareholders' equity				
Share capital	*8*	1 166	545	1 166
Share premium	*8*	382 155	178 508	382 152
Other equity		3 257	3 201	3 244
Retained earnings		-54 344	-39 377	-47 864
Currency translation reserve		-5 124	-5 124	-5 124
TOTAL EQUITY		**327 109**	**137 754**	**333 573**
LIABILITIES				
Non-current liabilities				
Obligation under finance lease	*10*	17 863	0	0
Other non-current financial liabilities		51 512	12 855	50 846
Total non-current liabilities		**69 375**	**12 855**	**50 846**
Current liabilities				
Trade payables		66 971	4 978	48 037
Current tax payable		2 828	1 473	1 855
Current portion of obligations under finance lease and loan	*10*	38 891	2 963	27 301
Other current liabilities		81 973	5 010	65 698
Total current liabilities		**190 662**	**14 424**	**142 891**
TOTAL LIABILITIES		**260 037**	**27 278**	**193 737**
TOTAL EQUITY AND LIABILITIES		**587 146**	**165 032**	**527 310**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of USD	Share capital	Share premium reserve	Share based payments reserve	Retained earnings	Currency tranlation reserve	Total
Balance at 1 January 2018	**438**	**141 486**	**3 284**	**-45 044**	**-5 124**	**95 040**
Profit / (loss)	0	0	0	-2 821	0	-2 821
Other comprehensive income	0	0	0	0	0	0
Share issuance 1 February	40	14 229	0	0	0	14 269
Share issuance 21 February	68	24 244	0	0	0	24 312
Expenses related to share issuance 1 February	0	-1 351	0	0	0	-1 351
Expenses related to share issuance 21 February	0	-101	0	0	0	-101
Share issuance 17 December	428	144 814	0	0	0	145 243
Expenses related to share issuance 17 December	0	-6 146	0	0	0	-6 146
Share issuance 19.12.2018	192	64 975	0	0	0	65 168
Share-based payments (options)	0	0	-40	0	0	-40
Balance at 31 December 2018	**1 166**	**382 152**	**3 244**	**47 864**	**-5 124**	**333 573**
Balance at 1 January 2019	**1 166**	**382 152**	**3 244**	**-47 864**	**-5 124**	**333 573**
Profit / (loss)	0	0	0	-6 480	0	-6 480
Other comprehensive income	0	0	0	0	0	0
Share issuance 14 January	0	4	0	0	0	4
Expenses related to share issuance 14 Jan.	0	-1	0	0	0	-1
Share-based payments (options)	0	0	13	0	0	13
Balance at 31 March 2019	**1 166**	**382 155**	**3 257**	**-54 344**	**-5 124**	**327 109**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW				
In thousands of USD	*Note*	**YTD 2019** *(unaudited)*	**YTD 2018** *(unaudited)*	**Full Year 2018** *(audited)*
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit / (Loss) before tax		**-4 837**	**6 427**	**647**
Adjustment for:				
Income tax and witholding tax paid		-456	-334	-2 904
Depreciation and amortisation	*5,6,7*	18 755	3 636	19 498
Share based payments expense		13	-82	-40
Interest expense		2 574	302	1 523
Interest income		-286	-2	-492
Cost of sales of nodes, non cash effect		6 599	0	9 221
Working capital adjustments:				
(Increase) / decrease in current assets		-59 468	-15 078	-43 033
Increase / (decrease) in trade, other payables and accruals		35 208	-1 111	29 313
Net cash from operating activities		**-1 899**	**-6 243**	**13 732**
Cash flows from investing activities				
Interest received		286	2	182
Acquisition of equipment	*5*	-4 970	-14 854	-34 402
Prepaid seimic equipment		-135	0	637
Investment in sudsidaries Fairfield and WGP		0	0	-163 263
Net cash used in investing activities		**-4 819**	**-14 852**	**-196 845**
Cash flows from financing activities				
Proceeds from loan		0	27	50 027
Payment of finance lease obligation and loan		-9 600	-937	-4 033
Proceeds from issue of share capital		4	38 580	183 823
Expenses related to issue of share capital		-1	-1 451	-7 597
Interest paid		-1 790	-302	-772
Net cash from financing activities		**-11 387**	**35 917**	**221 447**
Net change in cash and cash equivalents		-18 104	14 821	38 335
Cash and cash equivalents at 1 January		68 110	29 776	29 776
Cash and cash equivalents at period end		**50 006**	**44 597**	**68 110**

Restricted cash - USD 15 million at the balance sheet date. This relates to a cash collateral for a guarantee that was released by DnB on 16 May 2019 and replaced by a guarantee commission increase from 1.00% to 3.00%

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Reporting entity

Magseis Fairfield ASA is a public limited liability company listed on Oslo Stock Exchange main list and incorporated in Bærum, Norway. The address of the Company's registered office is Strandveien 50, 1366 Lysaker. These condensed consolidated interim financial statements comprise Magseis Fairfield ASA (referred to as the "Company") and its subsidiaries (together referred to as "Magseis" or the "Group"). The Group is primarily involved in marine seismic operations and seismic related activities.

2.1 Basis of preparation

(a) Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard IAS 34 "Interim Financial Reporting" as issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU).

The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the annual financial statements as of 31 December 2018.

The condensed consolidated interim financial statements were authorised for issue by the Board of Directors on 27 May 2019.

(b) Basis of measurement

The condensed consolidated interim financial statements have been prepared on the historical cost basis except for financial instruments at fair value, which are recorded through the profit and loss.

(c) Going concern

The condensed consolidated interim financial statements have been prepared on the going concern basis.

(d) Functional and presentation currency

The Company and its subsidiaries have functional and presentation currency is United States Dollar (USD).

The consolidated financial statements for the Group are presented in United States Dollars (USD). All financial information presented in USD has been rounded to the nearest thousand unless otherwise stated.

(e) Alternative Performance Measures ("APMs")

The European Securities and Markets Authority (ESMA) issued guidelines on Alternative Performance Measures ("APMs") that came into force on 3 July 2016. The Company has defined and explained the purpose of the following APMs;

EBITDA

EBITDA means Earnings before interest, taxes, amortisation, depreciation and impairments. Magseis has included EBITDA as a supplemental disclosure because management believes that the measure provides useful information regarding the Company's ability to service debt and to fund capital expenditures and provides a helpful measure for comparing its operating performance with that of other companies.

EBIT (Operating Profit)

Earnings before interest and tax is an important measure for Magseis as it provides an indication of the profitability of the operating activities. The EBIT margin presented is defined as EBIT (Operating Profit) divided by net revenues.

Backlog

Backlog is defined as the total value of future revenue from signed customer contracts. Management believes that the backlog figure is a useful measure in that it provides an indication of the amount of customer backlog and committed activity in the coming periods.

Working Capital

Working capital is defined as Trade receivables less Trade payables.

2.2 Basis for consolidation

The condensed consolidated interim financial statements comprise the financial statements of the Company and its subsidiaries as of 31 March 2019. Subsidiaries are entities controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Intra-group balances and transactions, and any unrealised income and expense arising from intra-group transactions, are eliminated.

2.3 Significant accounting judgements, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. The accounting judgements, estimates and assumptions used to prepare the condensed consolidated interim financial statements are the same as those used to prepare the 2018 annual financial statements.

2.4 Summary of significant accounting policies

The accounting principles used to prepare the condensed consolidated interim financial statements are the same as those used to prepare the 2018 annual financial statements with except for the changes described below.

IFRS 16 Leases

The company has adopted IFRS 16, applying the modified retrospective method for transition. This method requires the cumulative effect of initially applying IFRS 16 to be recognised in the opening balance
1 January 2019, with no restating of comparative periods. In addition, it was decided to measure right-of-use assets by reference to the measurement of the lease liability on transition date. This will ensure there is no immediate impact to the equity on that date. Further information in note 2 in the Annual Report 2018. The new standard is replacing IAS 17 leases. Instead of recognizing an operating expense for its operating lease payments, the Group will recognize interest on its lease liabilities and amortization of its right-of-use assets. Reference to note 10 Leases.

3. Operating segments

The Group is operating in one segment being geophysical surveys with respect to products and services. Accordingly, all significant operating decisions are based upon analysis of the Group as one segment. The financial results from this segment are equivalent to the financial statements of the Group as a whole. Magseis are in process of evaluating the future segment reporting based on the acquisition of Fairfield and WGP 18 December 2018 and new sale of nodes for the first time in December 2018 for Magseis Fairfield.

4. Revenues

In thousands of USD	Q1 2019	Q1 2018	Full Year 2018
Contract revenue	65 645	24 524	94 535
Equipment sale revenue	49 881	0	40 849
Multi- client revenue	2 175	0	0
Lease revenue	1 128	0	6
Other revenues	674	22	1 087
Total revenue and other income	**119 502**	**24 546**	**136 477**

5. Equipment

In thousands of USD	Office machines	Seismic equipment	Right-of-use asset under finance lease	Asset under construction	Total
Cost					
Balance at 1 January 2018	680	71 984	4 063	24 882	101 609
Acquistion of new business 2018	734	49 06	28	13 683	63 751
Asset completed and ready for intended use	209	48 364	0	-48 573	0
Additions	233	1 728	0	51 219	53 180
Disposals	0	-22 714	0	0	-22 714
Impairment	0	0	0	0	0
Balance at 31 December 2018	**1 856**	**148 668**	**4 091**	**41 211**	**195 826**
Balance at 1 January 2019	1 856	148 668	4 091	41 211	195 826
IFRS 16 Implementation 1. January 2019	0	0	19 937	0	19 937
Additions	28	383	18 636	4 654	23 702
Asset completed and ready for intended use		17 090	0	-17 090	0
Disposals		-9 624	0	0	-9 624
Assets under construction reclassed to Inventory	0	0	0	-17 032	-17 032
Impairment	0	0	0	0	0
Balance at 31 March 2019	**1 884**	**156 519**	**42 664**	**11 743**	**212 810**
Accumulated depreciation and impairment					
Balance at 1 January 2018	430	28 754	3,342	0	32 527
Depreciation for the year	205	16 392	721	0	17 318
Disposals	0	-2 617	0	0	-2 617
Impairment	0	0	0	0	0
Balance at 31 December 2018	**635**	**42 530**	**4 063**	0	**47 228**
Balance at 1 January 2019	635	42 530	4 063	0	47 228
Depreciation for the year	142	10 595	4 060	0	14 797
Disposals	0	-3 024	0	0	-3 024
Balance at 31 March 2019	**777**	**50 100**	**8 123**	0	**59 000**
Net carrying amounts					
at 1 January 2018	250	43 229	721	24 882	69 083
at 31 December 2018	**1 221**	**106 139**	**28**	**41 211**	**148 599**
at 1 January 2019	1 221	106 139	19 965	41 211	168 536
at 31 March 2019	**1 107**	**106 419**	**34 541**	**11 743**	**153 810**
Depreciation charged to expense at 31 March 2019	**142**	**10 595**	**4 060**	**0**	**14 797**

Useful life of equipment

Useful life of seismic equipment and office machines are 3-7 years.

Impairment

Magseis Fairfield has not recognized any impairment or scrapping of equipment in 2018 and 2019.

Right -of-use assets under finance lease

Opening balance is seismic equipment written down in 2018. For remaining amounts see note 10 leases.

6. Multi-client library

In thousands of USD	2019	2018
Cost		
Balance at 1 January	4 383	4 383
Additions	0	0
Disposals	0	0
Balance at 31 March	**4 383**	**4 383**
Amortisation		
Balance at 1 January	4 383	4 383
Amortisation for the year	0	0
Disposals	0	0
Impairment	0	0
Balance at 31 March	**4 383**	**4 383**
Carrying amounts		
at 1 January	0	0
Balance at 31 March	**0**	**0**

7. Other intangible assets

In thousands of USD	2019	2018
Cost		
Balance at 1 January	83 169	7 373
Additions	0	0
Disposals	0	0
Adjustment currency conversion	0	0
Balance at 31 March	**83 169**	**7 373**
Amortisation		
Balance at 1 January	2 889	2 040
Amortisation for the year	3 948	191
Disposals	0	0
Adjustment currency conversion	0	0
Balance at 31 March	**4 903**	**2 231**
Carrying amounts		
at 1 January	80 280	5 333
at 31 March	**76 332**	**5 142**

Development costs

In 2019 USD zero was capitalised, same as 2018.

8. Share Capital and Reserves

The shares of Magseis Fairfield ASA are listed on the main list at Oslo Stock Exchange.

SHARE CAPITAL ISSUED

		Number of shares	Share capital USD '000	Share premium reserve USD '000
Ordinary shares - Issued and fully paid				
At 1 January 2018		60 892 391	438	141 486
At 1 February 2018	*Private placement of 6,089,239 shares at NOK 18,00 per share*	6 089 239	40	14 229
	Capital raising costs			-1 351
At 21 February 2018	*Private placement of 10,577,428 shares at NOK 18,00 per share*	10 577 428	68	24 244
	Capital raising costs			-101
At 17 & 19 December 2018	*Private placement of 107,423,304 shares at NOK 16,95 per share*	107 423 304	621	209 760
	Capital raising costs	0	0	-6 146
At 31 December 2018		**184 982 362**	**1 165**	**382 152**
At 14 January 2019	Private placement of 2,019 shares at NOK 16,95 per share	2 019	0	4
	Capital raising costs	0	0	-1
At 31 March 2019		**184 984 381**	**1 165**	**382 155**

No dividends were paid during the period ended 31 March 2019 (2018: USD 0).

9. Related parties

Key management personnel and director transactions

A number of key management persons and board members, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. A number of these entities transacted with the Group in the reporting period. The terms and conditions of the transactions with management persons, board members and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis. The aggregate value of transactions and outstanding balances related to key management personal, board members and entities over which they have control or significant influence were as in the table below. The Group also has agreements with companies related to Fairfield Geotechnologies that became the largest shareholder in Magseis Fairfield ASA following the Acquisition of Fairfield and WGP. Reference to note 21 in the annual report.

RELATED PARTIES TRANSACTIONS AND OUTSTANDING BALANCES:

In thousands of USD			Transaction value		Balance outstanding	
Name	**Transactions**	**Note**	**31 March 2019**	**31 March 2018**	**31 March 2019**	**31 March 2018**
J B Gateman	Consultant costs	(I)	50	45	2	14
Westcon Group	Leases	(II)	2 691	5 139	1 534	1 586
Total			**2 741**	**5 185**	**1 536**	**1 600**

(I) *J B Gateman is engaged as an independent consultant as Senior Vice President.*

(II) *Relates to time charters (TC) for one vessel and a sale and leaseback arrangement. As part of the TC agreement for Artemis Athene, Westcon Group also delivers Marine Management services.*
As at 31 December 2018 the time charter lease was completed. An addendum for extention was signed and Athene is currently on lease until 30 September 2019.
Given the short duration of the lease extension, is is not treated as a financial lease according to IFRS 16.

10. Leases

Magseis Group adopted IFRS 16 Leases for reporting periods beginning on and after 1 January 2019 using the modified retrospective method. As a result prior years comparatives for 2018 are not disclosed. See note 2 accounting policies for further information.

Right-of-use assets				
In thousands of USD	**Vessels**	**Offices**	**Other**	**Total**
Carrying value				
Leases capitalized due to implementation of IFRS 16	11 280	7 591	1 072	19 942
Balance right-of-use assets at 1 January 2019	**11 280**	**7 591**	**1 072**	**19 942**
Additions	18 636	0	0	18 636
Depreciation	(3 702)	(261)	(150)	(4 114)
Balance at 31 March 2019	**26 214**	**7 329**	**921**	**34 465**

Lease Liabilities			
In thousands of USD	**Non-current**	**Current**	**Total**
Carrying value			
Leases capitalized due to implementation of IFRS 16	10 731	9 212	19 942
Balance Lease Liabilities at 1 January 2019	**10 731**	**9 212**	**19 942**
Additions	9 846	9 205	19 051
Reclassification to current	0	0	0
Lease payments	(3 747)	0	(3 747)
Balance at 31 March 2019	**16 829**	**18 417**	**35 246**

The Magseis Group leases under IFRS 16 consist of two vessels, office and warehouse leases in Norway, US and UK. The weighted average incremental borrowing rate applied to lease liabilities at initial application 1 January 2019 was 4.71 percent.

Leases expensed in the period

Leases expensed in the period refers to leases with variable payments, leases with immaterial value or leases of short term including leases that expire in 2019 and which are covered by the short term exemption available on transition to IFRS 16 at 1 January 2019. These leases consist of vessels, warehouses, equipment and vehicles.

Leases expensed (operating leases 2018)		
Future minimum lease payments		
In thousands of USD	**31 March 2019**	**31 March 2018**
Less than one year	5 894	13 882
Between one and five years	1 724	3 183
More than five years	0	0
Total	**7 619**	**17 065**

IAS 17 operating lease commitments 31 December 2018 compared to IFRS 16 lease liability 1 January 2019

Operating non-cancellable, nominal lease commitments disclosed according to IAS 17 as of 31 December 2018 amounted to USD 16.3 million while the recognized lease commitments under IFRS 16 at 1 January 2019 was USD 19.9 million. The difference is explained by additional leases being recognized which is partly offset by minor/short term leases not being recognized under IFRS 16.

11. Capital commitments

Future minimum commitments relating to equipment are as follows:

In thousands of USD	31 March 2019	31 March 2018
Contracted but not yet provided for and payable:		
Within one year	31 052	28 688
One year later and no later than five years	0	0
Later than five years	0	0
Total	**31 052**	**28 688**

12. Business Combinations

Magseis ASA acquired Fairfields' seismic technologies businesses on 18 December 2018, comprising all of the shares of the newly established Magseis FF LLC in the USA (carve out entity) and all of the shares of Fairfield International Limited, being the parent company for the WGP Group in the UK.

The rationale for the acquisition of these two entities from Fairfield is to create the technology leader in the new generation of marine seismic and establish a global scale and reach for the integrated business.

The transactions were determined to constitute business combinations and have been accounted for using the acquisition method of accounting in accordance with IFRS 3. The acquisition date of accounting was determined to be 18 December 2018. See note 26 in the 2018 annual report for further information about the acquisitions.

A provisional purchase price allocation (PPA) was performed as at 18 December 2018. The accounting is still provisional due to the complexity and timing of the transaction and the fact that management is in the process of performing a detailed review in particular of the property, plant and equipment acquired in the transaction. As a result, the final PPA and the impact on the financial statements from the transaction may differ. Any changes will be adjusted for retrospectively. The final PPA will be completed within 12 months from the acquisition date at the latest in accordance with IFRS 3.

The fair values of the identifiable assets and liabilities in the transaction as at the date of the transaction was estimated as follows based on the preliminary PPA:

MUSD	Fairfield	WGP group
Property, plant and equipment	55	13
Technology based intangible assets	60	2
Customer relationship	11	3
Cash and cash equivalents	0	3
Inventory	27	1
Trade receivable	24	4
Other current assets	24	1
Other non-current financial liabilities	0	4
Trade payables	27	3
Other current liabilities	23	7
Total identifiable net assets at fair value	151	13
Total consideration	236	22
Godwill	85	9

13. Onerous contract

IAS 37.10 defines an onerous contract as: "... A contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it". IAS 37 requires a provision to be made for an onerous contract.

The provision for onerous contract in south-east Asia per 31 December 2018 was reversed in Q1 2019 against the loss for the contract, and no new provision was necessary.

In thousands of USD	31 March 2019	31 December 2018
Provision for onerous contract	**0**	**7 343**

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