ANNUAL REPORT 2017

Magseis ASA

magseis

Strandveien 50, N-1366 Lysaker NORWAY, Phone: +47 23 36 80 20

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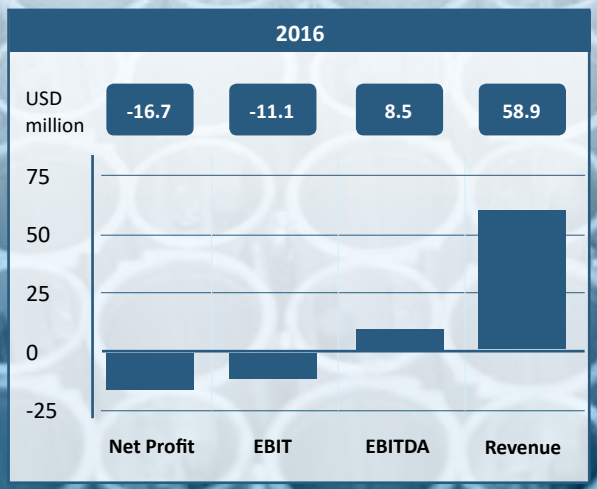
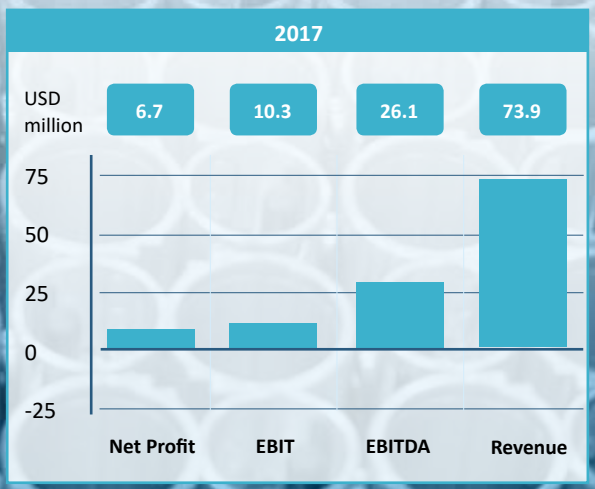
HIGHLIGHTS





- Successfully completed our first modular ROV project in the North Sea for ConocoPhillips's Eldfisk 4D survey
- Field test of Seismic Apparation's Source Isolation technology
- Finishing the first extension to Red Sea survey for BGP and Saudi Aramco in addition to award of the second extension for the same survey
- Raised net USD 39 million of new equity
- Revenue of USD 73.9 million compared to USD 58.9 million in 2016
- EBITDA of USD 26.1 million compared to USD 8.5 million in 2016
- EBIT of USD 10.3 million compared to USD -11.1 million in 2016
- Net Income of USD 6.7 million compared to USD -16.7 million in 2016

CEO COMMENT

With our unique technology MASS (*Marine Autonomous Seismic System*) and strong operational performance, Magseis had record financial results in 2017. We had a significant revenue growth with a solid profit margin. The market conditions are improving, and the company is in an excellent position for future growth and well-positioned to capture a substantial part of an expanding OBS market. We have successfully raised additional growth financing, and this has received strong support from both existing shareholders as well as new investors. We are setting up the organisation and investing in equipment for further expansion and multiple parallel operations during 2018.

Magseis has completed another year without serious incidents and will continue to improve our QHSE system to operate in a sustainable and safe manner for all our stake holders. To offer a safe working environment is essential to our employees and our customers, as we all share the responsibility of a continuous focus on QHSE.

Magseis has delivered a highly-efficient, continuous operation for more than 18 months in the Red Sea for Saudi Aramco and operating a large rolling spread of MASS cable, MASS nodes and covering a complex area with water depths varying from 0 – 1 100m. All of this with delivering high-quality data and excellent HSE performance. "So successful was the technology that it eventually cut costs of the acquisition by 40%. 3D seismic operations were now viable in the Red Sea. For Saudi Aramco, it was all systems go"
(Saudi Aramco, Mapping the Red Sea, November 2017).

Further, we successfully utilised our containerised MASS Modular crew for ConocoPhillips in the North Sea during the summer season. The project was a 4D survey and the first full scale Modular operation, included MASS nodes and 2 ROVs. A three-month project completed on schedule and budget in August 2017. ROV deployment efficiency was higher than expected. ConocoPhillips awarded Magseis their 2017 Supplier Recognition Award "Doing Business Better" for the services provided to acquire seismic over their Eldfisk field. This was awarded due to Magseis proposing a completely new business model proving to be operationally and financially efficient in acquiring high-quality 4D seismic data for reservoir monitoring at a significantly lower cost than previous Eldfisk campaigns.

We have entered into an exclusive agreement to use proprietary Source Isolation technology in ocean bottom seismic. Successful qualification testing was performed during summer 2017. The technology has a significant potential to improve overall acquisition efficiency.

Our patent portfolio continues to grow. Patents are important assets to protect our technology from being copied, and to ensure Magseis the freedom operate worldwide.

Magseis is expanding the backlog. We have signed another 4D seabed seismic acquisition in the North Sea during the summer season of 2018. We will mobilise our MASS Modular crew for the project.

Building backlog will be key to the success of Magseis into 2018 and beyond. In addition to expansion of operations, we are investing into our sales and marketing capacity. Focus areas will be expansion of the global reach and customer interactions. As part of the global expansion, Magseis has opened a Houston office. The focus of the Houston office will be business development of the North and South America region and to bring the MASS technology to the Gulf of Mexico, Brazil and other key Ocean Bottom Seismic markets in the region.

Per Christian Grytnes
CEO Magseis

KEY FINANCIALS				
Profit and loss *In thousands of USD*	**Group 2017**	**Group 2016**	**Parent 2017**	**Parent 2016**
Revenues	73 877	58 905	39 022	39 122
Cost of sales	35 700	39 038	5 849	20 074
EBITDA	26 136	8 506	22 567	8 249
EBIT	10 292	-11 114	8 745	-11 369
Net profit	6 696	-16 695	6 874	-13 246
Basic earnings(loss) per weighted average shares	0.12	-0.48		
Financial position				
Total assets	123 549	86 665	124 307	74 890
Total liabilities	28 509	37 620	26 127	22 883
Total equity	95 040	49 045	98 180	52 007
Equity ratio	76.9%	56.6%	79.0%	69.4%
Cash flow				
Net cash flow from operating activities	24 157	-2 117	30 113	-14 503

QHSE COMMENT

2017 was a successful year with no serious injuries, and no environmental incidents. The stability of the Red Sea operation with Artemis Athene, and the extensive planning and successful execution of the first full scale mobile operation were key contributors to the good QHSE performance throughout the year.

High focus was placed upon management review and follow up of objectives in the Annual Corporate and QHSE plans, contributing to us achieving all key KPI's.

All scheduled audits were successfully completed, giving us the best year to date with regards to internal monitoring and focus on supply chain management.

The formal process towards ISO 9001:2015 accreditation was kicked off early in Q1 2017, and with significant effort from the whole organisation, Magseis achieved formal certification in May. The certification covers all activities in all offices and offshore. Certification is just the start, with work continuing to improve and embed quality into our everyday activities.

In Q3 2017 ENI completed their final stage qualification audits of the head office and vessel with no findings, demonstrating how effective the efforts have been over the last 12 months in implementing our QHSE Management system.

Work towards the new ISO 45001:2018 Occupational health and safety standard began late in the year, with the goal of achieving certification in 2018.

There was significant focus on QHSE competence throughout the year, with a full QHSE e-learning induction program being developed internally and rolled out. In December Magseis also became an approved provider of the industry recognised Institute of Occupational Health and Safety (IOSH) training courses and will begin to run certified Working Safely and Managing Safely courses in Q1 2018.

Susan Penty
VP QHSE Magseis

THIS IS MAGSEIS

Magseis ASA is a Norwegian geophysical company founded in 2009 providing Ocean Bottom Seismic (OBS) Services. Magseis offers large scale and step-changing efficiencies to Ocean Bottom Seismic acquisition services to clients world-wide using its proprietary Marine Autonomous Seismic System (MASS).

MASS consists of ultra-compact 4C sensor capsules, fully automated handling systems and data download.

The lightweight nodes rated from 0 to 3000 m water depth enables unlimited number of nodes and increase the size of the receiver spread deployed on the seabed.

DIRECTORS

Jan P. Grimnes
Chairman
Non-executive

Jan B. Gateman
Director &
Senior Vice President

Bettina R. Bachmann
Director
Non-executive

Jan M. Drange
Director
Non-executive

Gro Gunleiksrud Haatvedt
Director
Non-executive

EXECUTIVE MANAGEMENT

Per Christian Grytnes
CEO

Tom Henrik Sundby
CFO

Bjørn Jensen
COO

Nils Halvor Heieren
CTO

Susan Penty
VP QHSE

Hélène Dessagne
General Councel

André Bjørvik
VP Sales & Marketing

Cathrin Bretzeg
SVP Human Resources

Ivar Gimse
SVP Business Dev.

Jan B. Gateman
SVP R&D

BOARD OF DIRECTORS REPORT

FINANCIAL REVIEW

The Company and its subsidiaries have functional and presentation currency in 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.

Revenues

The Group's revenues of USD 73.9 million relates to ordinary exclusive contract surveys. In 2016, the revenues amounted to USD 58.9 million of which USD 1.8 million related to a multi-client survey, and the rest related to ordinary exclusive contract surveys. The increase is mainly due to two operations in Q2 with ROV modular system, in addition to Artemis Athene operating in Saudi Arabia resulting in higher utilisation in 2017 for the Company's services.

The Parent company's revenues were USD 39.0 million, of which USD 0.5 million relates to grants from Innovation Norway and the rest to Intercompany revenues. 2016 revenues were at a comparable level of USD 39.1 million, of which USD 1.8 million related to a multi-client survey and the rest to Intercompany revenues.

Operational costs

The Group's cost of sales amounted to USD 35.7 million in 2017 and mainly contains cost related to vessel operations such as time charter, fuel cost and crew cost. In 2016 cost of sales amounted to USD 39.0 million. The decrease is mainly related to mobilisation in 2015 were amortised of these costs were added in cost of sales in 2016 when the Red Sea project was performed.

The Parent's cost of sales amounted to USD 5.8 million in 2017 due to no new seismic acquisition contracts entered into by the parent company. The Parent's cost of sales for 2016 amounted to USD 20.0 million.

Selling, general and administration expenses (SG&A) and other expenses amounted to USD 10.0 million in 2017, compared to USD 9.3 million in 2016.

The SG&A and other expenses for the Parent are USD 9.5 million for 2017, compared to USD 9.1 million in 2016.

Research and development (Group and Parent)

Research and development expenses (R&D) were USD 2.0 million, the same level as 2016. R&D costs contain costs related to the R&D department in Sweden and other R&D projects.

The Parent R&D expenses amounted to USD 1.1 million in 2017 and were at USD 1.7 million for 2016, due to more time allocated on tangible and intangible assets being capitalised in 2017.

Depreciation, amortisation and impairment (Group and Parent)

Depreciation amounted to USD 15.1 million in 2017, compared to USD 10.8 million in 2016. Increased depreciation results from more seismic equipment in operation on Artemis Athene.

Amortisation amounted to USD 0.5 million in 2017, compared to USD 1.4 million in 2016. The decrease is mainly due to amortisation of the multi-client survey Tåkehavet in the Barents Sea with USD 0.9 million in 2016.

Impairment amounted to USD 0.2 million in 2017 for scrapping of nodes. During 2016, an impairment of USD 7.4 million was recorded, which was primarily caused by a write-down of residual value for the G1 nodes. The remaining G1 nodes were converted to G2 nodes during 2017, meaning that Magseis does not have any G1 nodes left.

Financial items

In 2017 finance income for the Group amounted to USD 3.7 million, compared to USD 1.6 million for 2016. The finance income mainly comprises of a foreign exchange gain.

Financial costs for the Group amounted to USD 4.1 million in 2017 and comprised of foreign exchange loss in addition to interest expense of USD 1.3 million. In 2016 financial costs for the Group were USD 3.0 million which comprised of foreign exchange loss in addition to interest expense of USD 1.5 million.

In 2017 finance income for the Parent amounted to USD 3.1 million, compared to USD 1.3 million for 2016. The finance income mainly comprises a foreign exchange gain.

Financial costs for the Parent amounted to USD 3.3 million in 2017 and comprised of foreign exchange loss in addition to interest expense of USD 1.1 million. In 2016 financial costs for the Parent were USD 1.9 million which comprised of foreign exchange loss in addition to interest expense of USD 0.8 million.

EBITDA and EBIT

In 2017, the Group recorded an EBITDA of USD 26.1 million, while the Parent's EBITDA amounted to USD 22.6 million. EBIT amounted to USD 10.3 million for the Group and USD 8.7 million for the Parent.

In 2016, the Group recorded an EBITDA of USD 8.5 million, while the Parent's EBITDA amounted to USD 8.2 million. EBIT amounted to USD -11.1 million for the Group and USD -11.4 million for the Parent.

The significant improvement in EBITDA relates to the same factors as the increase in revenues described above. The negative EBIT level for 2016 was, in addition to depreciation, impacted by the one-off impairment of USD 7.4 million as described above.

EBITDA and EBIT

In thousands of USD	Group 2017	Group 2016	Parent 2017	Parent 2016
Revenue	73 877	58 905	39 022	39 122
Cost of sales	35 700	39 038	5 849	20 074
Research and development	2 002	2 022	1 084	1 724
SG&A and other expenses	10 039	9 339	9 523	9 073
EBITDA	**26 136**	**8 506**	**22 567**	**8 251**
Depreciation	15 148	10 769	13 126	10 769
Amortisation	463	1 409	463	1 409
Impairment	233	7 441	233	7 441
EBIT	**10 292**	**-11 114**	**8 745**	**-11 368**

Net Profit

Net Profit for 2017 was USD 6.7 million for the Group,compared to USD -16.7 million in 2016. Net Profit for 2017 was USD 6.9 million for the Parent, compared to USD -13.2 million in 2016.

Other comprehensive income (Group and Parent)

No currency exchange difference is recognised in 2017 and 2016.

Balance sheet

At 31 December 2017, the Group's equity was USD 95.0 million while the Parent's equity amounted to USD 98.2 million, compared to USD 49.0 million for the Group and USD 52.0 million for the Parent in 2016. The increase from year-end 2017 is a result of the net profit from operations and by the capital raise of net USD 39 million conducted in March 2017. The equity ratio was 76.9% as of end December 2017.

Tangible and other intangible assets for the Group amounted to USD 74.4 million as at 31 December 2017 while the Parent's tangible and other intangible assets amounted to USD 80.3 million, compared to USD 48.6 million for the Group and the Parent in 2016. The investments comprise of seismic equipment for node and handling system as well as capitalisation of expenses related to research and development projects per December 2017. The Parent has in addition investment in subsidiaries of USD 5.9 million per December 2017.

At 31 December 2017, the net value of the multi-client library is zero due to amortisation previous years. The value was also zero as of December 2016. The multi-client survey in Magseis was called Tåkehavet.

At 31 December 2017, the Group's current assets amounted to USD 49.1 million while the Parent's current assets amounted to USD 44.0 million, compared to USD 38.1 million for the Group and USD 26.3 million for the Parent in 2016. The increase is due to an increase in cash and cash equivalents and other current asset for the Group. The Parent's increase is due to increase in cash and cash equivalents as per December 2017.

Non-current liabilities amounted to USD 13.0 million as at 31 December 2017, compared to USD 15.1 million in 2016 for both the Group and the Parent. This is mainly related to debt financing received from Export Credit Norway and Innovation Norway totalling USD 5.9 million. The Group complied with the debt covenants as of 31 December 2017. In addition, funding of accumulated USD 7.1 million was received from Shell Global Solutions related to the cooperation agreement for development of a deep-water solution for seismic operations. This funding is recognised as a finance arrangement in the financial statements. Reference is made to note 19 other non-current financial liabilities for further information.
The current portion of long-term debt amounted to USD 3.2 million as of December 2017.

At 31 December 2017 current liabilities for the Group amounted to USD 15.5 million and for the Parent USD 13.1 million, compared to USD 22.5 million as at 31 December 2016 for the Group and for the Parent USD 7.7 million. The decrease for the Group is mainly due to down-payment of pre-funding from BGP as a short-term debt. Furthermore, a decrease of USD 1.7 million in current tax liability is related to operations in Saudi Arabia for corporate tax and withholding tax. The increase for the Parent is mainly due to increase of trade receivables and other current liabilities at year-end 2017.

Cash Flow

Cash flow from operating activities for the Group was USD 24.2 million in 2017, compared to USD -2.1 million during the same period of 2016. Better utilisation of the vessel in operation, in addition to ROV modular operation in the North Sea for 2017 is the main reason for the positive change resulting in positive result before tax compared to the negative result before tax for the same period of 2016, which was heavily impacted by the yard stay and transit ahead of the Red Sea project. Cash flow from operating activities for the Parent was USD 30.1 million in 2017, compared to USD -14.5 million during the same period of 2016. The deviation from EBITDA is due to changes in the working capital.

The net cash flow from investing activities for the Group amounted to USD -44.6 million for 2017, compared to USD -16.5 million during the same period of 2016. In 2017 the investment activity of seismic equipment was higher due to more operations and growth then 2016. The net cash flow from investing activities for the Parent are at the same level as the Group.

In 2017, cash flow from finance activities for the Group was USD 31.2 million compared to USD 26.1 million for 2016. The proceeds are related to the share capital increase of net USD 39.0 million, the proceeds from the cooperation agreement with Shell Global Solutions of USD 0.9 million, offset by instalments and interest relating to the loans and finance lease totalling USD 8.8 million. In 2017, cash flow from finance activities for the Parent was USD 36.7 million, compared to USD 21.8 million for 2016. The difference from the Group is the last instalments of the pre-funding agreement with BGP.

Funding and going concern

The consolidated annual financial report has been prepared on a going concern basis, which contemplates the continuity of normal business activity and the settlement of liabilities in the normal course of business. In 2017 the Group incurred a profit after tax of USD 6.7 million and ended with a cash balance of USD 29.8 million and a working capital surplus of USD 3.1 million as of 31 December 2017. As of 31 December 2017, the Parent incurred a profit after tax of USD 6.9 million and ended with a cash balance of USD 20.2 million and a negative working capital of USD 4.0 million.

The Group has contracted backlog for 50-60% of the planned revenue of USD 100 million.

The Parent company has at the end of January 2018 successfully raised new equity capital of NOK 300 million. The new issue has been approved at an extraordinary general meeting in February 2018.

Based on the Company's ability to generate operational profits and the successful capital issue in January 2018, to fund the Company's growth, It's the opinion of the Board that both the Group and the Parent will be able to continue its operations on a going concern basis.

Risks

The Group is exposed to risk factors including, but not limited to, the ones described below.

The Group intends to grow its operations from one to three by the end of the first quarter of 2018. The current focus and plans expose The Group to a variety of commercial, operational and financial risks, including market risks, credit risks and liquidity risks.

The trading price of the shares in Magseis ASA may fluctuate significantly in response to a number of factors beyond the Company's control, including, but not limited to, quarterly variations in operating results, adverse business developments, changes in financial estimates and investment recommendations or ratings by securities analysts, announcements by the Company or its competitors of new product and service offerings, significant contracts, acquisitions or strategic relationships, publicity about the Company, its products and services or its competitors, lawsuits against the Group, unforeseen liabilities, changes in management, changes to the regulatory environment in which it operates or general market conditions. In recent years, the stock market has experienced extreme price and volume fluctuations. This volatility has had a significant impact on the market price of securities issued by many companies, including companies in the same industry as that of the Company. Those changes may occur without regard to the operating performance of these companies. The price of the shares in Magseis ASA may therefore fluctuate based upon factors that have little or nothing to do with the Company business and its operations, and these fluctuations may materially affect the price of the shares.

Market risk

The Group is exposed to the economic cycle and macro-economic fluctuations, since changes in the general economic situation affect the demand for seismic technology and services. While the marine seismic market remains challenging the Company is seeing renewed growth in the OBS segment, however no assurance can be provided with regards to future market development. The Group's business and operations depend heavily upon development and production spending by oil and gas companies. Historically, in times of low oil price, demand in exploration spending has been reduced in much greater extent than production related spending, where the Group is active.

The Group's customers are and will continue to be involved in the offshore oil and gas industry, which is subject to volatile oil and gas prices. The prices of oil and gas are affected by a range of factors outside the control of the Group, including but not limited to:

- worldwide demand for natural gas and oil;
- the cost of exploring for, developing, producing, transporting and distributing oil and gas;
- expectations regarding future energy prices – for both oil and gas and other sources of energy;
- the ability of the Organisation of Petroleum Exporting Countries ("OPEC") to set and maintain production and impact pricing;
- level of world-wide production;
- government laws and regulations, including environmental protection laws and regulations;
- the development and exploitation of alternative fuels, and the competitive, social and political position of oil and gas as a source of energy compared with other energy sources;
- local and international political, economic and weather conditions;
- political and military conflicts; and
- the development and exploitation of alternative energy sources.

The Group has historically funded its operations through equity financing and for the first time in 2016 debt financing from Export Credit Norway and Innovation Norway. Obtaining such financing may be subject to market risks and other risks that influence the availability, structure and terms of financing. The willingness of investors to invest depends on the outlook for the OBS market, the oil prices and the demand. If the Group are unable to comply with covenants of current or future debt financing arrangements, there could be a default under such arrangements. If such default event should occur, the Group may not be in a position to repay in full all outstanding debt, or the Group may be unable to find alternative financing on favourable or acceptable terms.

The Group's revenue and purchases are denominated in various currencies. This involves risks for variations in currency rate fluctuations.

Credit risk

Lack of payments from customers/clients may significantly and adversely impair the Group's liquidity. The concentration of the Group's customers in the energy industry may impact the Group's overall exposure to credit risk as customers may be similarly affected by prolonged changes in economic- and industry conditions as well as by the general constraints on liquidity resulting from the recent decrease in the oil prices. The Group undertakes due consideration to the credit quality of its potential clients during contract negotiations to minimise the risk of payment delinquency, but no assurance can be given that the Group will be able to avoid this risk.

Liquidity risk

The Group is dependent on having access to long-term funding. There can be no assurance that the Group may not experience net cash flow shortfalls exceeding the Group's available funding sources nor can there be any assurance that the Group will be able to raise new equity, or arrange new borrowing facilities, on favorable terms and in amounts necessary to conduct its on-going and future operations, should this be required.

The Group may not be able to secure new sources of liquidity or funding, should projected or actual liquidity fall below levels the Group requires. The factors giving rise to the Group's liquidity needs could also constrain the ability to replenish the liquidity of the Group. These same factors could also impact the ability of the Group's shareholders to provide it with liquidity, and there can be no assurance that the Group will be able to obtain additional shareholder funding. Failure to access necessary liquidity could require the Group to scale back its operations or could have other materially adverse consequences for its business and its ability to meet its obligations.

The Group has risk when it comes to utilisation and performance of operations for the seismic nodes. The revenues and cash flow from operations give the Group access to working capital for ongoing operations. The revenues and cash flows are both dependent on the financial position of the customers and the willingness of these customers to honour their obligations towards the Group in a timely manner.

The inability of one or more of the contractual parties to make payment under the contracts might have a significant adverse effect on the Group's financial position. The Group's revenues are primarily from large international oil and gas companies, including companies owned wholly or in part by governments.

The Board deems the Group's exposure to credit risk as relatively limited due to the nature of The Group's customer base. The Group may require additional capital in the future, due to unforeseen events or to take advantage of opportunities such as expansion of capacity, acquisitions, joint ventures or other business opportunities that may be identified.

Any negative development in sales, gross margins or sales processes, may lead to a strained liquidity position and a potential need for additional funding through equity financing, debt financing or other means. Any additional equity financing may be dilutive to existing shareholders.

Foreign exchange risk

The Group's significant operations in foreign countries expose it to risks related to foreign currency movements. The Group will attempt to minimize these risks by implementing hedging arrangements, as appropriate, but will not be able to fully avoid these risks.

Currency exchange rates are determined by forces of supply and demand in the currency exchange markets. These forces are affected by the international balance of payments, economic and financial conditions, government intervention, speculation and other factors. Changes in currency exchange rates relative to the USD may affect the USD value of the Group's assets and thereby impact the Group's total return on such assets.

Changes in currency may also affect the Group's costs, e.g. related to salaries paid in local currency. The Group's expenses are primarily in USD, GBP and NOK. As such, the Group's earnings are exposed to fluctuations in the foreign currency market. Currency fluctuations of an investor's currency of reference relative to the USD may adversely affect the value of an investor's investments.

Other business risk

Operating business in many jurisdictions requires that the Group and our partners comply with the laws and regulations of various jurisdictions. In particular, the Group operations are subject to anti-corruption laws and regulations, such as the Norwegian Criminal Code of 2005 ("Norwegian Criminal Code") and economic sanction programs, including, without limitation, those administered by the United Nations and European Union.

As a result of doing business in foreign countries, the Group is exposed to a risk of violating anti-corruption laws and sanctions regulations applicable in those countries where the Group or our partners operate. Some of the foreign locations in which the Group operates may lack a developed legal system and/or have high levels of corruption.

The Group's continued expansion and development of working relationships worldwide increase the risk of violations of Anti-Corruption Laws, or similar laws. Violations of anti-corruption laws and sanctions regulations are punishable by civil penalties, including fines, denial of export privileges, injunctions, asset seizures, debarment from government contracts (and termination of existing contracts) and revocations or restrictions of licenses, as well as criminal fines and imprisonment.

In addition, any major violations could have a significant impact on the Group's reputation and consequently on the Group's ability to win future business. The Group continues to focus on improving the anti-corruption routines, training and controls.

The Group operates in different jurisdictions and in a regulated industry, and noncompliance with regulations could expose us to fines, penalties and other liabilities and negative consequences. Additionally, changes in laws or regulations in the jurisdictions in which the Group operates could cause to incur significant costs and expenses to comply with such laws or regulations.

The financial statement for the Group and the Parent are prepared in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS") and the additional requirements of the Norwegian Accounting Act and generally accepted accounting standards and practices in Norway.

Changes to existing accounting rules or regulations may impact the Group's future profit and loss or cause the perception that the Group is more highly leveraged. In addition, new accounting rules or regulations and varying interpretations of existing accounting rules or regulations may be adopted in the future and could adversely affect the Group's financial position and results of operations.

Working environment and personnel

At the end of 2017, the Group had a total of 127 full-time employees and 12 full time consultants, whereof 103 are men and 24 women. Of the 127 employees, 56 are based offshore and 71 are based onshore. There have not been any serious injuries or accidents in the current or prior year. In 2017 the average sick day percentage for the onshore staff was 0.3 percent and 0.2 percent for the offshore crew. In 2016, the average sick days recorded was 1.7 percent for the onshore staff and 3.9 percent for the offshore crew where all is related to long-term sickness.

The Group's policy prohibits unlawful discrimination against employees, ethnic or national origin, age, gender, sexual orientation or religion. Respect for the individual is the cornerstone of this policy and the Group also aims to treat its employees with dignity and respect.

Statement of executive compensation policies

Part 1: Executive compensation

The Board of Directors has, in accordance with the Public Limited Liability Companies Act § 6-16a, developed policies regarding compensation of the company's top management ("Executive Management"). The objectives of the Executive Management compensation program are, in particular, to:

(i) attract, motivate, retain and reward the individuals on the Executive Management and

(ii) ensure alignment of the Executive Management with the long-term interests of the shareholders.

The Company's executive compensation program is intended to be performance driven and is designed to reward the Executive Management for reaching key financial goals and strategic business objectives and enhancing shareholder value. The most important components of Executive Management compensation are as follows:

(i) Base Salary;
(ii) Cash incentive bonus and
(iii) Long-term equity-based incentives.

1. Base Salary

Base salary is typically the primary component of Executive Management compensation and reflects the overall contribution of the executive to the Company. The base salary is determined based on a range of factors, including:

(i) scope of work and responsibilities;
(ii) competitive pay practices;
(iii) background, training and experience of the executive; and
(iv) past performance of the executive at the Company.

Adjustments to base salary are ordinarily reviewed every 12 months or longer by the Board.

2. Variable Salary

The Company are under establishment of a cash incentive bonus programme for Executive Management and key personnel. Any bonus to be paid and the level thereof is at the Board's sole discretion. The Board may also elect to require the employees to use any bonus to purchase shares in the company.

3. Severance Payment Arrangements

The existing employment agreements for the members of the Executive Management do not include provisions with respect to severance payments. Severance payment arrangements, if any, will therefore be based on negotiations between the Company and the relevant member of the Executive Management on a case-by-case basis.

4. Pension

Members of Executive Management participate in the ordinary pension programs available for all employees of Company.

Part 2: Share-based incentives

1. Existing share option program

The Company has currently a share option incentive program that entitles key management personnel, senior employees and some members of the Board to purchase shares in the Company. The share option program was approved by the Annual General Meeting of 2012 and supplemented and extended by the Annual General Meetings in 2013, 2014, 2015, 2016 and 2017. The maximum number of options that could be granted pursuant to the resolutions by the Annual General Meeting of 2017 was 2,609,443.

Following the 9 May 2016 AGM and options granted after this date are exercisable at the volume weighted average price over the 60 days prior to grant + a 10% premium. All options are equity settled. The options shall become vested over three years, where 20 % of an award shall vest after the first calendar year following the grant date, 30 % of an award shall vest after two calendar years following the grant date and 50 % of an award shall vest after three calendar years following the grant date. Vested outstanding options can be exercised at certain periods of exercise determined by the Board of Directors. The options may only be exercised with respect to a whole number of shares.

As at the date of the notice to the 2018 Annual General Meeting there were a total of 1,120,000 options outstanding, of which 460,500 were exercisable.

2. Share program

The Board of Directors believes that stock programs are appropriate incentives for the Executive Management members and key personnel, aligning the interests to the shareholders of the Company and assisting in the retention of key staff. For the 2018 Annual General Meeting, the Company will propose to replace the existing share option program with Restricted Stock Unit (RSU) and Performance Stock Unit (PSU) program. The terms and conditions of the RSU and PSU program will be presented to the Annual General Meeting.

Part 3: 2017 compliance

During 2017 no deviations from the share-based incentive program as approved by the 2012 Annual General Meeting and since amended by the 2016 Annual General Meeting were made in respect to the Executive Management members. There was no dilutive effect through the share-based incentive program as none of the share options were exercised through equity raise. The Company recognised a share-based payment expense of USD 0.3 million in the 2017 Fiscal year in relations to share options issued.

Corporate responsibility

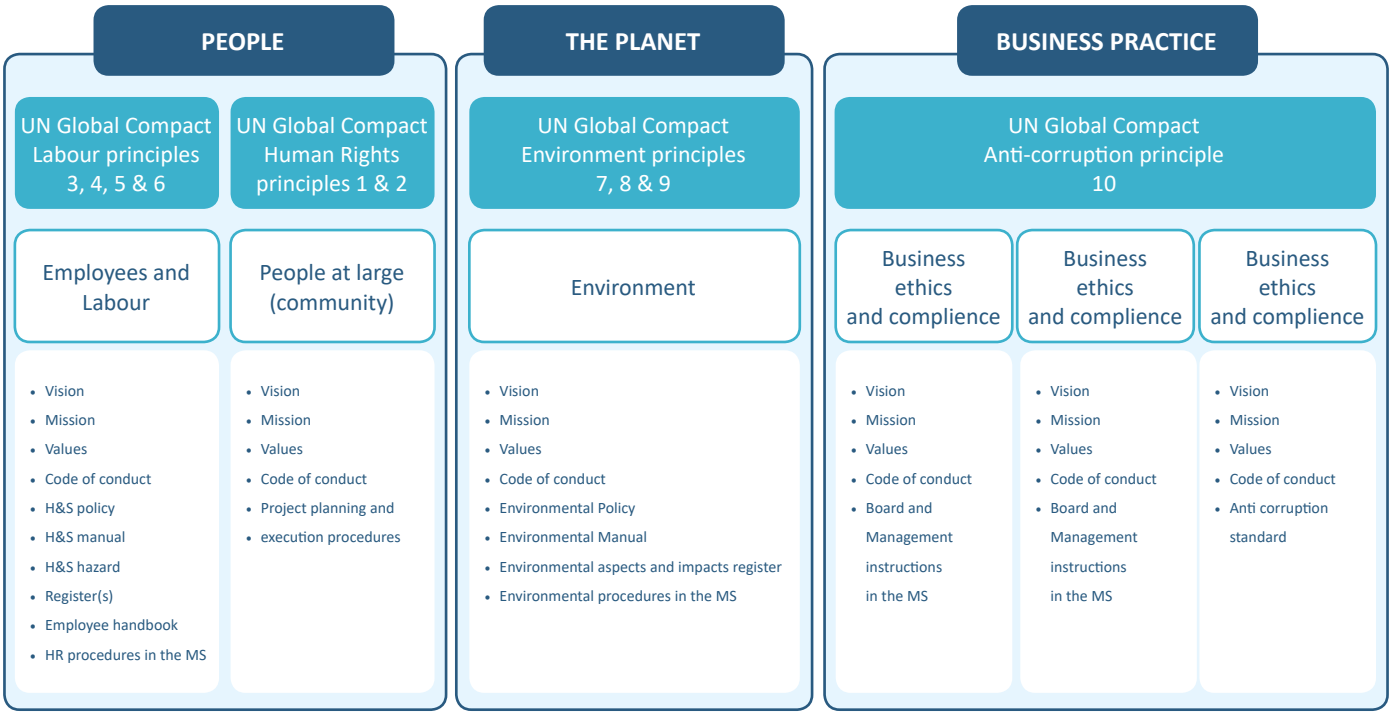
Magseis aspires to be an honest, ethical and trustworthy company. Our reputation depends upon understanding the principles of corporate responsibility, and continuously demonstrating integrity and honesty.

During 2017 the top-level procedure MP-CEO-012 Corporate Responsibility was re-written to align it with the United Nations Global Compact. It was simplified to three focal areas of:

- People
- Planet
- Business practice

CORPORATE RESPONSIBILITY

Corporate responsibility can be thought of as a set of processes whereby a business monitors and ensures its active compliance with the spirit of the law, ethical standards and environmental norms.



In addition, there was continued focus throughout the year upon anti-corruption. This included review and update of the Anti-corruption standard STD-CEO-016 and Code of Conduct STD-CEO-005, implementation of additional training for agents and Magseis representatives, the Magseis Board of Directors, the Magseis senior management team and employees considered at higher risk of exposure to corruption. An annual report has been prepared by the compliance officer and presented to Management and the Board in February 2018.

People – Human rights and Labour

The Group strive to uphold internationally proclaimed human rights, including treating people in a morally fair way and without discrimination. Internally in the organisation this is documented through terms and conditions of employment, Health & Safety and the Code of Conduct. The Code of Conduct section 5.2 states:

5.2 Equal employment opportunities and discrimination
We value diversity in our workforce, as well as in our clients, contractors, suppliers, and others. We provide equal employment opportunity for all applicants and employees. We do not discriminate on the basis of race, colour, religion, sex, national origin, ancestry, age, disability, sexual orientation, marital status, gender identity, genetic information or any other characteristic protected by law, regulation, or ordinance. When possible, we also make reasonable accommodations for disabled employees and applicants, as required by law. We follow these principles in all areas of employment including recruitment, hiring, training, promotion, compensation, benefits, transfer, and social and recreational programs.

With respect to our suppliers, this is managed through supplier pre-qualification and monitoring/ management. On a wider scale, our business's impact on individuals and on the communities affected by our operations is managed through project planning and execution, hand in hand once again with the Code of Conduct.

UN Global compact principles:
- Human Rights - Principles 1 and 2
- Labour - Principles 3 to 6

The United Nations Global Compact Principles 1 through to 6 are derived from:
- Universal Declaration of Human Rights
- International Labour Organization's Declaration on Fundamental Principles and Rights at Work

Planet - Environment

Our top level Environmental policy statement identifies our commitment to the planet, stating that:
'We recognise that our activities have an impact on the environment in the use of raw materials, emissions to air and water, waste generation, and interaction with marine life and habitat. We are committed to minimising this impact as far as is reasonably practicable for both offshore and office-based activities. We do this by maintaining a programme of continual improvement in environmental performance incorporating suitable measurement, monitoring and feedback.'

The Policy is put into practice through the Environmental Manual, procedures and instructions which together constitute the Magseis Management System.

In 2017 the focus was upon Quality, achieving certification to ISO 9001:2015 in May, in 2018 the focus is upon Occupation Health and Safety, with certification to ISO 45001 already well under way, and in 2019 the intention is to focus upon the Environment, working towards ISO 14001 certification.

UN Global compact principles

- Environment - Principles 7 to 9

Business Practice

This captures the essence of fair business practice, supporting the principle that The Group aspires to be an honest and trustworthy company. Beyond anti-corruption which is the 10th principle of the UN Compact, it also incorporates Internal Control, Corporate governance and Ethics and Compliance.

These are managed on an operational level through the Code of Conduct, Anti-corruption compliance standard and a series of operating instructions which together constitute the Magseis Management System.

UN Global compact principle

- Anti-Corruption - Principle 10

Board of Directors of Magseis ASA,
Lysaker, 25 April 2018

Jan P. Grimnes *Chairman*	Jan Gateman *Director and Senior Vice President*	Gro Gunleiksrud Haatvedt *Non-executive Director*
Bettina R. Bachmann *Non-executive Director*	Jan M. Drange *Non-executive Director*	Per Christian Grytnes *Chief Executive Officer*

STATEMENT ON FINANCIAL COMPLIANCE

We confirm, to the best of our knowledge, that the consolidated financial statements and the separate financial statements of the Parent for the period 1 January to 31 December 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations by the International Financial Reporting Interpretations Committee (IFRICs) as adopted by the European Union (EU), and additional requirements in the Norwegian Accounting Act and gives a true and fair view of the assets, liabilities, financial position and results of the Group and Parent. We also confirm to the best of our knowledge that the Board of Directors report includes a true and fair review of the development, performance and financial position of Magseis ASA and the Group together with a description of the principal risks and uncertainties that they face.

Board of Directors of Magseis ASA,
Lysaker, 25 April 2018

Board of Directors of Magseis ASA,
Lysaker, 25 April 2018

Jan P. Grimnes
Chairman

Jan Gateman
Director and Senior Vice President

Gro Gunleiksrud Haatvedt
Non-executive Director

Bettina R. Bachmann
Non-executive Director

Jan M. Drange
Non-executive Director

Per Christian Grytnes
Chief Executive Officer

CORPORATE GOVERNANCE REPORT

General principles, implementation and reporting on Corporate Governance

Magseis ASA ("Magseis, the "Group" and/or the"Company") believes that good and sound corporate governance creates shareholder value and reduces risks. Thus, the Group has made a strong commitment to develop high standards of Corporate Governance.

The Group has complied, and will continue to comply, with the Norwegian Code of Practice for Corporate Governance (the "Corporate Governance Code"), last revised on 30 October 2014, and available on the Norwegian Corporate Governance Board's web site www.nues.no. The principles are also in accordance with section 3-3b of the Norwegian Accounting Act, which can be found at: https://lovdata.no/dokument/NL/lov/1998-07-17-56.

The Corporate Governance Code is based on the "comply or explain" principle. In the event that the Company deviates from the requirements of the Corporate Governance Code, the Company will provide a justification for the deviation.

Magseis considers the development of high Corporate Governance standards as a continuous process and will continue to focus on improving the level of Corporate Governance. The Board of Directors has the overall responsibility for implementation of sound Corporate Governance principles within the Group.

Purpose and background

Good corporate governance is characterised by open, responsible communication and cooperation among the Company's shareholders, Board of Directors and executive management, in the context of both short- and long-term value creation perspectives. The Board of Directors wants the Company's shareholders, employees, customers, suppliers, financial associates, and governmental bodies, as well as society in general, to be confident and trust that Magseis is governed in a satisfactory manner.

The Board of Directors and the nomination committee have procedures in place to ensure that the Board of Directors is sufficiently independent in the execution of its duties. Corporate Governance deals with questions and principles related to the distribution of roles between governing bodies, as well as their respective areas of responsibility and authority. Sufficient attention must be given to the formulation of these roles and functions, in order to secure ample control, but at the same time to encourage innovation and entrepreneurship.

The purpose of this policy is to regulate the division of roles between the shareholders, the Board of Directors and executive management. Through the efficient use of the Company's resources this will help to ensure the greatest possible value creation over time in interests of all shareholders, employees and other stakeholders.

Business of Magseis

The vision of Magseis is to reduce Ocean Bottom Seismic (OBS) cost to a level where it increases the addressable market and becomes a widely used tool, not only for field development, but also for exploration. This is reflected in Article 3 of the Company's Articles of Association, which reads:

> *"The Company's business activities include development of geophysical equipment and methods, generation, marketing and sale of exclusive and non-exclusive geophysical exploration and other thereto naturally related activities".*

The annual report will include the Group's core purpose from the Articles of Association, in order to provide predictability to the shareholders and the capital markets.

The Group's core purpose is to significantly reduce the costs of OBS operations and broaden the scope where OBS can be used. Magseis wants to be the customers' first choice within field development and the exploration industry. In fulfilling this purpose, Magseis will create long-term value for its customers and shareholders.

Equity and dividends

The Group's equity as per 31 December 2017 amounts to USD 95.0 million, 76.9% of the Group's total assets. This is considered adequate relative to the Company's financial objectives, overall strategy and risk profile. On a continuous basis, Magseis evaluates the available alternatives to ensure adequate liquidity for its prioritised project activities and to provide the required long-term financial strength and flexibility. To achieve its ambitious long-term growth objectives, it is likely that Magseis will need to raise additional capital in the years to come.

The Group is currently in a growth phase and has not yet distributed any dividends. As per 31 December 2017, the Company has no distributable equity and the Board of Directors will not propose a dividend for 2017 to the Annual General Meeting. Magseis will over time develop and disclose a dividend policy including an appropriate pay-out to its shareholders.

The Board has proposed to the general meeting that a general mandate to issue new shares is granted to the Board with a limitation of up to 20% of the registered share capital of Magseis. The Group is accordingly not fully compliant with the code which recommends that all mandates shall be limited to defined purposes. In light of the current growth plans for the Group, it is the view of the Board that it needs to have the sufficient flexibility in order to act swiftly on strategic opportunities to further develop the Group and increase shareholder value. It is therefore the view of the Board that this deviation from the Code is justifiable in the common interests of the Group and the shareholders of Magseis.

Equal treatment of shareholders and transactions with close associates

Magseis has only one class of shares, and all shares carry equal voting rights.

The shareholders of the Company have preferential rights to subscribe for new shares. If, and to the extent that the preferential right is set aside, either by the general meeting or by the Board of Directors on the basis of an authorisation, the reason for this will be disclosed by the Company. The explanation will be included as

an appendix to the agenda of the General Meeting or in the stock exchange announcement of the increase in share capital.

Any trades in the Company's own shares will be conducted over the trading platform of Oslo Axess at stock exchange prevailing prices. In respect of any related party agreements which are not immaterial, the Board of Directors will consider obtaining an independent valuation, unless the agreement shall be approved by the General Meeting in accordance with law. Magseis has implemented guidelines to ensure that Board members and members of the executive management notify the Board if they directly or indirectly hold a significant interest in respect of an agreement being made by the Company.

Freely negotiable shares

The Company's shares are not subject to ownership restrictions pursuant to law, licensing conditions or the Articles of Association. All shares are freely negotiable, save to the extent restricted by foreign securities legislation imposed in connection with sale and offering of securities.

General Meetings

Through the Company's General Meeting, the shareholders exercise the highest authority in the Group. General Meetings are held in accordance with the requirements set out in statutory Norwegian law and the recommendations of the Corporate Governance Code. All shareholders are entitled to submit items to the agenda, meet, speak and vote at General Meetings. The Annual General Meeting is held each year before the end of June. Extraordinary General Meetings may be called by the Board at any time.

The notice and supporting information, as well as an attendance- and proxy voting form, are convened by written notice to all shareholders with known addresses. Normally this will also be made available on the Company's website www.magseis.com no later than 21 days prior to the date of the General Meeting. Shareholders who wish to receive the appendices may request the Group to mail such attachments free of charge. The Board will seek to ensure that the proposed resolutions and supporting information distributed in the calling notice for the meeting are sufficiently detailed and comprehensive to allow shareholders to form a view on all matters to be considered at the meeting

Shareholders who are unable to be present at the meeting are encouraged to participate by proxy. A person who will be available to vote on behalf of shareholders as their proxy will be nominated. Proxy forms will allow the proxy-holder to cast votes for each item separately. A final deadline for shareholders to give notice of their intention to attend the meeting or vote by proxy will be set in the notice for the meeting. Such deadline will be set as close as possible to the date of the General Meeting, and under any circumstance in accordance with the principles of section 5-3 of the Public Limited Companies Act.

The Board of Directors, the CEO, the CFO, the Nomination committee and the auditor will under normal circumstances be present at the meeting in person. The Chairman for the meeting is independent. Notice, enclosures and protocol of meetings will be available on Magseis' website.

The General Meeting elects the members of the Board of Directors (employee-elected Board members will be elected among employees), determines the remuneration of the members of the Board of Directors and approves the annual accounts. The General Meeting will normally vote separately on each candidate for election for the Board of Directors and any other corporate bodies to which members are elected by the General Meeting. Further the General Meeting decides other matters, which by law, separate proposal or according to the Group's Articles of Association, are to be decided by the General Meeting.

The minutes from General Meetings will be posted on the Group's Website as soon as possible after the General Meeting has been held. Information that a General Meeting has been held will be made public as soon as possible after the end of the meeting. Any deviation from the proposal by the Board of Directors will be set out in such announcement.

Nomination committee

Magseis' Nomination committee comprises of Roar Bekker (chairperson), Jon Hille Walle and Anders Farestveit. Both Roar Bekker and John Hille Walle are independent of the Board of Directors and the Executive Management. Anders Farestveit is the largest shareholder and an observer in the Board of Directors. The requirement for having a Nomination committee and the committee's duties are incorporated in the Company's Articles of Association. The General Meeting elects the members of the committee and approves the Nomination committee guidelines and remuneration. The Nomination committee's main tasks are to give the General Meeting its recommendations regarding:

(i) the election of Board members to be elected by the shareholders,
(ii) remuneration to the Board members,
(iii) the election of members of the nomination committee; and
(iv) the remuneration of the nomination committee.

The Nomination committee's recommendations must be explained.

The term of service is two years unless otherwise decided by the General Meeting.

Corporate assembly and Board of Directors: Composition and independence

Magseis has not established a corporate assembly and is not required by law to do so.

The members of the Board of Directors are elected by the General Meeting. The Board of Directors has the overall responsibility for the management of the Group. This includes a responsibility to supervise and exercise control of the Group's activities. The Company's Articles provide that the Board of Directors shall have between 3 and 5 members. The proceedings and responsibilities of the Board of Directors are governed by a set of procedural rules. It is the Group's intention that the members of the Board of Directors will be selected in the light of an evaluation of the Group's needs for expertise, capacity and balanced decision making, together with the aim of ensuring that the Board of Directors can operate independently of any special interests and that the Board of Directors can function effectively as a collegial body.

The Directors are encouraged to hold shares in the Group. The

Board of Directors believes that this promotes a common financial interest between the members of the Board of Directors and the shareholders of the Group. Pursuant to the Corporate Governance Code, the majority of the shareholder-elected members of the Board of Directors shall be independent of the Group's executive management and its main business connections. At least two of the shareholder-elected members of the Board shall be independent of the Group's main shareholders. Both Jan M. Drange, Gro G. Haatvedt and Bettina Bachmann are considered to be independent of the Group's main shareholders. The majority of the shareholder-elected directors are accordingly independent of the Group's executive management and main business connections.

The Board of Directors continuously evaluates conflict of interest and the members' independence in each resolution. Currently, one executive consultant is a Director. The current members and observers of the Board of Directors possesses directly or indirectly 17 % of the outstanding shares. One of the directors, which is also one of the co-founders and is hired as an executive consultant, is the fourth largest shareholder with ownership of 6 % of the outstanding shares.

The term of service for members of the Board of Directors is two years unless the General Meeting decides otherwise. However, all directors are eligible for re-election.

The work of the Board of Directors

The Board of Directors meets a number of times during the year. The meetings include strategy meetings, financial reporting and additional meetings under special circumstances if necessary. During 2017, the Board of Directors held 16 meetings. The working methods for the Board of Directors are subject to open discussion.

Between meetings, the Chairman and CEO update the members of the Board of Directors on current matters. Each meeting of the Board of Directors includes a briefing by the CEO followed by a questions and answers session (Q&A). The meetings of the Board of Directors are focused on ensuring satisfactory procedures and corporate culture, promoting high ethical conduct and compliance with legal and regulatory requirements amongst all employees of the Group. The Board of Directors has adopted an annual plan which focuses on the strategic goals of the Group. The Board of Directors has furthermore established guidelines for the executive management with a clear division of responsibilities.

In cases where the Chairman of the Board is or has been actively involved, another member of the Board will be asked to lead the discussions.

Risk management and internal control

The Board of Directors, in conjunction with the executive management, evaluates the risks inherent in the operations of the Group on a continuous basis.

Most of these risks are relating to current operations as well as construction of the Group's proprietary system, obtaining contractual counter-parties, retaining key staff and general financial risks. In addition, the following risks inherent in the business plan are monitored: commodity prices, exchange rates, competition, the political and regulatory environment, counter-party performance, and the potential growth of the business and the application of new technology. Every year the Board of Directors will carry out an annual review of the Company's most important areas of exposure to risk.

The Board of Directors, working with the Finance Department and through the annual audit process, ensures that the Group has reliable internal control and systems for risk management. The Board of Directors is presented and shall approve the annual budget/forecast at the end of the preceding financial year or in the beginning of the commencing financial year. Thereafter, the Board is presented with regular updates and reports identifying material variations from the approved budget/forecast. Explanations are obtained for material variances. The Board of Directors is also presented with interim financial statements on a quarterly basis which they need to approve. The statements are reviewed together with the executive management.

Remuneration of the Board of Directors

In accordance with Norwegian law and the recommendations of the Code, the remuneration to the members of the Board of Directors is resolved at the Annual General Meeting. The remuneration of the Board of Directors is intended to reflect the responsibility and competence of the Board of Directors, as well as the time spent and complexity of the business of the Group. The remuneration of the Board of Directors is not contingent upon the results of operations. No options are afforded to the members of the Board of Directors.

In accordance with the Corporate Governance Code, members of the Board of Directors should not assume other tasks than the directorship for the Company in order to maintain independent. Jan B. Gateman, who is a member of the Board of Directors, is also SVP R&D for Magseis. Thus, the Company is not compliant with the Corporate Governance Code for historical reasons.

Remuneration of the executive personnel

The Group's policy for management remuneration is that leading employees shall receive competitive salary to maintain stability in the executive management. The Group's policy for remuneration of executive personnel is prepared by the Board of Directors and presented and approved at the Annual General Meeting. The Group shall offer a level of salary, which reflects the level of salary in equivalent companies in Norway and abroad. All executive personnel are included in the Group's share option program which is linked to long-term results and achievements for the Group. Such options are incentivising performance and are based on quantifiable factors over which the employee in question has influence. The performance related options/ remuneration is subject to an absolute limit.

Information and communications

Communication with shareholders, investors and analysts is a high priority for Magseis. The Group believes that objective and timely information to the market is a prerequisite for a fair valuation of the Group, and in turn, the generation of shareholder value. The Group continually seeks ways to enhance its communication with the investment community.

Each year the Company will publish an overview of the dates for major events such as: the Annual General Meeting, publication of interim reports and public presentations. All information dis-

tributed to the Company's shareholders will be published on the Company's webpage (www.magseis.com) at the same time as it's sent to the shareholders.

Audit committee

The Company has established an audit committee which comprises Jan P. Grimnes and Jan M. Drange.

The audit committee shall consist of members which fulfils the requirements of section 6-42 of the Public Companies Act. Moreover, the majority of the members should be independent of the Company. Currently members of the audit committee fulfil the requirements of section 6-42 of the Norwegian Public Companies Act and one member fulfil the requirement of being independent of the Company

The audit committee shall;

(i) review interim and annual financial reports and processes,
(ii) monitor the systems for internal control and risk management,
(iii) maintain ongoing contact with the Company's elected auditor regarding the audit of the annual financial statement, and;
(iv) assess and monitor the auditor's independence, hereunder particularly to which extent other services provided by the auditor or the auditing Company, constitute a threat against the auditor's independence.

The auditor should, at least once a year, review together with the audit committee, the Company's internal control, hereunder identify weaknesses and provide suggestions for improvements.

Take-overs

The Articles of Association of Magseis do not contain any restrictions, limitations or defence mechanisms on acquisition of the Group's shares. In accordance with the Securities Trading Act and the Corporate Governance Code, the Board has adopted guidelines for possible takeovers. In the event of an offer, the Board of Directors will not seek to hinder or obstruct takeover bids for Magseis' activities or shares. Any agreement with the bidder that acts to limit the Group's ability to arrange other bids for the Group's shares will only be entered into where the Board of Directors believes it is in the common interest of the Group and its shareholders. Any transaction that is in effect a disposal of the Company's activities should be decided by the General Meeting.

Information about agreements entered into between the Group and the bidder that are material to the market's evaluation of the bid will be publicly disclosed no later than at the same time as the announcement that the bid will be made is published. The Board has the responsibility to ensure that the shareholders are treated equally.

If an offer is made for the shares of Magseis, the Board of Directors will make a recommendation on whether or not the shareholders should accept the offer. Normally the Board will arrange for a valuation from an independent expert.

Auditor

Deloitte AS has been appointed as the auditor for the Company since June 2017. The Board will from time to time evaluate the audit arrangement for the Company.

The auditor participates in meetings of the Audit Committee and the Board of Directors that deal with the annual accounts. The auditor will present to the Board of Directors a report outlining the audit activities in the previous fiscal year and highlight the areas that caused the most attention or discussions with management, together with a plan for the work related to the Group's audit. The Board meets with the Company´s auditor without management present at least once every year. The General Meeting is informed about the Group's engagement and remuneration of the auditor. Further the General Meeting is informed about the fees paid to the auditor for services other than the annual audit and the details are given in notes to the Annual Report. The remuneration paid to the auditor needs approval by the General Meeting.

FINANCIAL STATEMENTS

Statements of comprehensive income

For the year ended 31 December 2017

magseis

In thousands of USD	*Note*	Group 2017	Group 2016	Parent 2017	Parent 2016
REVENUE AND OTHER INCOME					
Total revenue and other income	*5*	**73 877**	**58 905**	**39 022**	**39 122**
OPERATING EXPENSES					
Cost of sales	*6*	35 700	39 038	5 849	20 074
Research and development expenses	*6*	2 002	2 022	1 084	1 724
Selling, general and administrative costs	*6*	9 648	7 863	9 159	7 768
Other expenses		391	1 475	364	1 305
Depreciation	*13*	15 148	10 769	13 126	10 769
Amortisation	*12,14*	463	1 409	463	1 409
Impairment	*13*	233	7 441	233	7 441
Total operating expenses		**63 585**	**70 018**	**30 278**	**50 492**
OPERATING PROFIT (LOSS)		**10 292**	**-11 114**	**8 745**	**-11 369**
FINANCIAL INCOME AND EXPENSES					
Finance income	*7*	3 703	1 593	3 126	1 279
Finance costs	*7*	-4 101	-2 986	-3 307	-1 915
Net finance costs		**-397**	**-1 393**	**- 181**	**- 636**
NET PROFIT (LOSS) BEFORE TAX		**9 895**	**-12 507**	**8 564**	**-12 006**
Income tax expense	*10*	3 199	4 188	1 690	1 241
NET PROFIT (LOSS)		**6 696**	**-16 695**	**6 874**	**-13 246**
Basic earnings (loss) per weighted average shares (in USD)	*16*	0.12	-0.48		
Diluted earnings (loss) per weighted average shares (in USD)	*16*	0.12	-0.48		
OTHER COMPREHENSIVE INCOME					
Other comprehensive income		0	0	0	0
Total comprehensive income (loss) for the year		**6 696**	**-16 695**	**6 874**	**-13 246**

In thousands of USD	*Note*	Group 2017	Group 2016	Parent 2017	Parent 2016
ASSETS					
Non-current assets					
Equipment	*13*	69 083	42 991	69 039	42 991
Multi-client library	*12*	0	0	0	0
Intangible assets	*14*	5 333	5 583	5 333	5 583
Investment in subsidiary	*21*	0	0	5 918	15
Total non-current assets		**74 416**	**48 574**	**80 290**	**48 589**
Current assets					
Cash and cash equivalents	*8*	29 776	18 974	20 219	2 372
Trade receivables		9 137	10 681	64	546
Other current assets	*9*	10 220	8 436	23 735	23 383
Total current assets		**49 133**	**38 092**	**44 017**	**26 301**
TOTAL ASSETS	*2,1*	**123 549**	**86 665**	**124 307**	**74 890**
EQUITY					
Shareholders' equity					
Share capital	*15*	438	303	438	303
Share premium	*15*	141 486	102 594	141 486	102 594
Other equity	*17*	3 284	3 012	3 284	3 012
Retained earnings		-45 044	-51 740	-41 904	-48 778
Currency translation reserve		-5 124	-5 124	-5 124	-5 124
TOTAL EQUITY		**95 040**	**49 045**	**98 180**	**52 007**
LIABILITIES					
Non-current liabilities					
Obligation under finance lease	*18*	0	951	0	951
Other non-current financial liabilities	*19*	13 049	14 188	13 049	14 188
Total non-current liabilities		**13 049**	**15 139**	**13 049**	**15 139**
Current liabilities					
Trade payables	*3*	6 010	5 870	4 126	1 754
Current tax payable	*10*	1 111	2 841	61	1 211
Short-term debt and current portion of long-term debt	*18,19*	3 249	7 881	3 249	2 644
Other current liabilities	*11*	5 090	5 890	5 642	2 135
Total current liabilities		**15 460**	**22 481**	**13 078**	**7 744**
TOTAL LIABILITIES		**28 509**	**37 620**	**26 127**	**22 883**
TOTAL EQUITY AND LIABILITIES	*2,1*	**123 549**	**86 665**	**124 307**	**74 890**

Board of Directors of Magseis ASA,
Lysaker, 25 April 2018

Board of Directors of Magseis ASA,
Lysaker, 25 April 2018

Jan P. Grimnes
Chairman

Jan Gateman
Director and Senior Vice President

Gro Gunleiksrud Haatvedt
Non-executive Director

Bettina R. Bachmann
Non-executive Director

Jan M. Drange
Non-executive Director

Per Christian Grytnes
Chief Executive Officer

GROUP

In thousands of USD	*Note*	Share capital	Share premium reserve	Share based payments reserve	Retained earnings	Currency translation reserve	Total
Balance at 1 January 2016		**254**	**90 945**	**2 630**	**-35 045**	**-5 124**	**53 661**
Profit / (loss) for the year		0	0	0	-16 695	0	-16 695
Other comprehensive income		0	0	0	0	0	0
Total comprehensive income for the year		0	0	0	-16 695	0	-16 695
Share issuance		49	12 134	0	0	0	12 183
Expenses related to share issuance		0	-485	0	0	0	-485
Share-based payments (options)		0	0	382	0	0	382
Balance at 31 December 2016	*15*	**303**	**102 594**	**3 012**	**-51 740**	**-5 124**	**49 045**
Balance at 1 January 2017		**303**	**102 594**	**3 012**	**-51 740**	**-5 124**	**49 045**
Profit / (loss) for the year		0	0	0	6 696	0	6 696
Other comprehensive income		0	0	0	0	0	0
Total comprehensive income for the year		0	0	0	6 696	0	6 696
Share issuance		135	40 376	0	0	0	40 511
Expenses related to share issuance		0	-1 485	0	0	0	-1 485
Share-based payments (options)		0	0	272	0	0	272
Balance at 31 December 2017	*15*	**438**	**141 486**	**3 284**	**-45 044**	**-5 124**	**95 040**

PARENT

In thousands of USD	*Note*	Share capital	Share premium reserve	Share based payments reserve	Retained earnings	Currency translation reserve	Total
Balance at 1 January 2016		**254**	**90 945**	**2 630**	**-35 532**	**-5 124**	**53 174**
Profit / (loss) for the year		0	0	0	-13 246	0	-13 246
Other comprehensive income		0	0	0	0	0	0
Total comprehensive income for the year		0	0	0	-13 246	0	-13 246
Share issuance		49	12 134	0	0	0	12 183
Expenses related to share issuance		0	-485	0	0	0	- 485
Share-based payments (options)		0	0	382	0	0	382
Balance at 31 December 2016	*15*	**303**	**102 594**	**3 012**	**-48 778**	**-5 124**	**52 007**
Balance at 1 January 2017		**303**	**102 594**	**3 012**	**-48 778**	**-5 124**	**52 007**
Profit / (loss) for the year		0	0	0	6 874	0	6 874
Other comprehensive income		0	0	0	0	0	0
Total comprehensive income for the year		0	0	0	6 874	0	6 874
Share issuance		135	40 376	0	0	0	40 511
Expenses related to share issuance		0	-1 485	0	0	0	-1 485
Share-based payments (options)		0	0	272	0	0	272
Balance at 31 December 2017	*15*	**438**	**141 486**	**3 284**	**-41 904**	**-5 124**	**98 180**

In thousands of USD	*Note*	Group 2017	Group 2016	Parent 2017	Parent 2016
Cash flows from operating activities					
Profit / (Loss) before tax		9 895	-12 507	8 564	-12 006
Adjustment for:					
Income tax and withholding tax paid	*10*	-4 447	-1 133	-2 721	0
Deferred lease discount amortisation	*13, 14*	-438	- 470	- 438	- 470
Depreciation and amortisation	*12,13,14*	15 611	12 179	13 589	12 179
Impairment		233	7 441	233	7 441
Share based payments expense		272	382	272	382
Interest expense		1 347	1 452	1 083	771
Interest income		-23	- 15	- 16	- 10
Working capital adjustments:					
(Increase) / decrease in current assets		2 368	-9 395	5 632	-15 670
Increase / (decrease) in trade and other payables and accruals		-660	- 51	3 916	-7 119
Net cash from operating activities		**24 157**	**-2 117**	**30 113**	**-14 503**
Cash flows from investing activities					
Interest received		23	15	16	10
Investment in subsidiary	*22*	0	0	-4 666	0
Acquisition of equipment	*13*	-44 366	-13 906	-44 110	-13 813
Payments for capitalised development and intangibles	*14*	-214	-2 572	-214	-2 572
Multi-client library investments	*12*	0	0	0	0
Net cash used in investing activities		**-44 557**	**-16 463**	**-48 973**	**-16 375**
Cash flows from financing activities					
Proceeds from loan	*11*	934	20 306	934	12 266
Payment of finance lease obligation and loan		-7 412	-4 431	-2 171	-1 338
Proceeds from issue of share capital	*15*	40 511	12 183	40 511	12 183
Expenses related to issue of share capital	*15*	-1 485	- 485	-1 485	- 485
Interest paid		-1 347	-1 452	-1 083	- 771
Net cash from financing activities		**31 201**	**26 120**	**36 707**	**21 855**
Net change in cash and cash equivalents		10 802	7 540	17 847	-9 023
Cash and cash equivalents at 1 January		18 974	11 432	2 372	21 560
Cash and cash equivalents at 31 December		**29 776**	**18 972**	**20 219**	**2 372**

NOTES TO THE FINANCIAL STATEMENTS

1 Reporting entity

Magseis ASA is a public limited liability company listed on Oslo Axess and incorporated in Bærum, Norway. The address of the Company's registered office is Strandveien 50, 1366 Lysaker. These consolidated financial statements comprise Magseis ASA (referred to as the "Company" or "Parent") and its subsidiaries (together referred to as "Magseis" or "the "Group"). The Group is primarily involved in marine seismic operations and seismic related activities. The Group's Ocean Bottom Seismic (OBS) acquisition system and our automated handling system provides efficient OBS operations.

These financial statements have been approved for issue by the Board of Directors 25 April 2018 and will be finally approved in the ordinary general meeting 23 May 2018.

2.1 Basis of preparation

(a) Statement of compliance

The Parent and consolidated financial statements for the Group (together the "financial statements") have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union and their interpretations adopted by the International Accounting Standards Board (IASB).

(b) Basis of measurement

The 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 management continuously evaluates the Group's and the Parent's working capital using cash flow forecasts that are based on contracted work orders and anticipated backlog as well as the fixed cost base and planned investments. When concluding on the going concern assumption, management uses the cash flow forecasts for the 12 months following the release date of the financial report, as the basis.

When assessing the appropriateness of the going concern assumption various assumptions are made by management, which depend on factors beyond the Group's and the Parent's control and are subject to certain risks and uncertainties. Accordingly, actual results may differ materially from those contained in forward looking statements.

The consolidated annual financial report has been prepared on a going concern basis, which contemplates the continuity of normal business activity and the settlement of liabilities in the normal course of business. In 2017 the Group incurred a profit after tax of USD 6.7 million and ended with a cash balance of USD 29.8 million and a working capital surplus of USD 3.1 million as of 31 December 2017. As of 31 December 2017, the Parent incurred a profit after tax of USD 6.9 million and ended with a cash balance of USD 20.2 million and a negative working capital of USD 4.0 million.

The Group has contracted backlog for 50-60 % of the planned revenue of USD 100 million.

The Parent company has at the end of January 2018 successfully raised new equity capital of NOK 300 million. The new issue has been approved at an extraordinary general meeting in February 2018.

Based on the Company's ability to generate operational profits and the successful capital issue in January 2018, to fund the Company's growth, It's the opinion of the Board that both the Group and the Parent will be able to continue its operations on a 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.

2.2 Basis for consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2017. 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.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Lease classification

The Group has entered into several lease agreements. The Group determines the classification of the lease based on an evaluation of the terms and conditions of the arrangements. This includes among others, judgements of whether the lease term constitutes a major part of the economic life of the leased asset and whether the present value of lease payments amounts to all or substantially all of the fair value of the leased asset at inception of the lease. Refer to note 18 Leases for further information.

Capitalisation of development costs

Development costs are capitalised in accordance with the accounting policy. Initial capitalisation of costs is based on management's judgement that technical and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining

the amounts capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits. Quantitative information about capitalisation of development costs is disclosed in Note 13.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment of non-financial assets

When identifying internal indicators of impairment, the Group assesses a number of key factors. The Group's backlog, cash flow forecasts from operations and strategy will impact the value of an asset. Since Magseis seismic equipment is based on new technology, the actual compared to the intended function of a specific asset will impact the value. Management also take into account the physical condition when estimating the value of an asset.

Magseis is exposed to the economic cycle and macro-economic fluctuations, since changes in the general economic environment could affect the demand for seismic technology and services. This may indicate the need for impairment. To assess whether one or more external indicators of impairment are present, the Group's management continuously monitor the demand for the Group's services. Management also considers any expected changes in regulations of the industry. When assessing external indicators, management assume that its perception of current and future expectations is correct.

Useful lives of equipment and intangible assets

When the Group recognises new equipment and intangibles, the management assess the useful life of the individual equipment and intangible. A significant part of the Group's equipment and intangibles are considered unique, and management obtains information from specialists inside the organisation with the applicable expertise when assessing the useful lives. In cooperation with the specialists, management estimate the wear and other factors for different components before grouping them and determining their useful life.

Management uses its best estimates and assumptions when assessing the amounts that reflect the equipment's or intangible's value. Numerous internal and external factors impact the calculation. Hence a change in the assumptions may have a material impact on the Group's financial position as well as profit and loss. Refer to note 13 Equipment and 14 Intangible assets for further information.

Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share- based payment transactions are disclosed in Note 17 Share- based payments.

Provisions

Provisions are based on the management's best estimate. Provisions are reviewed at each reporting date to reflect the best estimate of liabilities.

Amortisation of multi-client library

The management forecasts future sales on each multi-client survey for the purpose of determining the amortisation rate in the work in progress (WIP) period and the amount of impairment, if any. In forecasting future-sales management considers past experience, market developments, geographical prospects, political risk and timing of licensing rounds.

Amortisation rates could deviate significantly from year to year due to inherent uncertainty about future sales. Furthermore, future sales of multi-client library may not be sufficient to cover the carrying amount. In the case that actual revenue is less than forecasted revenue the future reporting periods will reflect lower profit due to increased amortisation rate and/or impairment of multi-client library.

The Group applies a straight-line amortisation policy after the project is completed to reduce the risk of an increase of future amortisation rate or impairment. The straight-line amortisation will be assigned over the project's remaining useful life, which for most projects is expected to be 4 years. The minimum amortisation policy is described in note 2.4(e).

Revenue recognition

The Group renders seismic OBS services for customers on marine exclusive contracts. Revenue from these services is recognised by use of the percentage of completion method. This method requires the Group to estimate the services performed to date as a proportion of the total contractual services to be performed.

2.4 Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the Group's and the Parent's financial statements, unless otherwise indicated.

(a) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The revenue is measured at fair value of the consideration received, net of discounts and sale taxes and duty.

(I) Exclusive contracts

The Group performs seismic services under contract for a specific customer, whereby the seismic data is owned by that customer. Revenue can be based on various parameters, such as length of cable deployed and acquisition of source-lines. The Group recognises contract revenue as the services are performed and become chargeable to the customer on a proportionate performance basis over the term of each contract. Progress is measured in a manner generally consistent with the physical progress of the project, and revenue is recognised based on the ratio of the project's progress to date (percentage of completion),

provided that all other revenue recognition criteria are satisfied.

(II) Multi-client surveys

Multi-client surveys consist of surveys to be licensed to customers on a non-exclusive basis. All costs directly incurred in acquiring, processing and otherwise completing seismic surveys are capitalised into the multi-client surveys. The carrying amount of multi-client library on the balance sheet date is shown at historical costs less accumulated amortisation and accumulated impairments.

Revenues related to multi-client surveys generally falls into two categories:

Pre-commitment arrangements - When the Group obtains pre-funding from customers before a seismic project is started or during the project period. These pre-commitments cover specific areas or license blocks. In return for the commitment, the customer obtains early access to the data, favourable pricing compared to late sales and a degree of influence over the project. Advance payments from customers are deferred and recognised over the project period from the time the project commences based on the ratio of project cost incurred during that period to total estimated project cost.

Late sales – When the Group grants a license entitling non-exclusive access to complete and ready for use, specially defined portions of multi-client data library in exchange for a fixed and determinable payment. Revenue is recognised at the time of the transaction when the customer executes a valid license agreement and has been granted access to the data.

(III) Mobilisation revenue and cost

Mobilisation revenue and the related mobilisation costs relates to moving the seismic vessel and its crew from one location to the next location specified by the contract. Mobilisation costs are allocated and included in the multi-client survey or exclusive contract to which they belong. The mobilisation costs related to multi-client survey are capitalised as a part of the multi-client library as mentioned. Mobilisation costs on exclusive surveys are deferred and charged to expense based upon the percentage of completion of the specific project, season or period of moving to a region.

If the mobilisation period is prolonged, then the mobilisation cost will increase. The estimated probable future economic inflows are documented at inception and cover the costs capitalised or deferred. If the projects are not able to cover all of the costs which could be capitalised or deferred, then only those costs that are recoverable are capitalised/deferred.

(b) Foreign currency

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit or loss.

Non-monetary assets measured at historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transaction. Any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at the closing rate.

(c) Financial instruments

(I) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, restricted cash, trade and other payables and finance lease obligation.

Non-derivative financial instruments are recognised initially at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured at amortised cost using the effective interest rate method.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised if the Group's contractual rights to the cash flows from the financial asset expire, or the Group transfers the financial asset to another party without retaining control of substantially all of the risks and rewards of the asset. Financial liabilities are de-recognised if the Group's obligation specified in the contract expire or are discharged or cancelled.

Financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the Group in the management of its short-term commitments.

(II) Share capital

Ordinary shares are classified as equity. All shares have equal voting rights and equal rights to dividends. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(d) Property, plant and equipment

Items of equipment are measured at historical cost less accumulated depreciation and any accumulated impairment losses.

Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the assets to a working condition for their intended use. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Items of equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date the asset is completed and ready for use.

If an indication of impairment exists, an impairment test is performed. If the recoverable amount of a tangible non-current asset is lower than book value, the asset will be written down to the higher of fair value less cost to sell and value in use. An item

of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gains or losses on de-recognising of the asset calculated as the difference between the net disposal and the carrying amount of the asset is included in the income statement in the year the asset is de-recognised.

Depreciation is calculated over the depreciable amount, which is the cost of an asset less its residual value. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

- Seismic equipment 3 - 7 years
- Fixtures and Fittings 3 years
- IT Equipment 3 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Equipment under construction are classified as non-current assets and recognised at the cost, it is not depreciated until the non-current asset is taken into use.

(e) Intangible assets

Intangible assets, except for multi-client library

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically, and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development is considered to have a finite life and expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is calculated over the cost of the asset less its residual value. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

- Capitalised development costs 3 - 6 years Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Multi-client library

Multi-client library includes both completed seismic data and projects in work which is licensed on a non-exclusive basis to oil and gas search/production companies. Costs directly incurred during acquiring, imaging and otherwise completing seismic surveys are capitalised to the multi-client library. Costs incurred while mobilisation of a vessel from one location to another and imaging phases of the survey are also capitalised to the multi-client library.

A project remains in surveys-in-progress until imaging is complete, at which point it is transferred to finished library.

The company have adopted the amendment to IAS 38 “Intangible assets” effective form January 1, 2017; during the work in progress (WIP) phase, amortisation will continue to be based on total cost versus forecasted total revenue of the project. After a project is completed and ready for sale, a straight-line amortisation will apply. The straight-line amortisation will be assigned over the project’s remaining useful life, which for most projects is expected to be 4 years. The straight-line amortisation will be distributed evenly through the financial year independently of sales during the quarters.

The Company expects additional, non-sales related, impairment expense to occur because each individual survey is evaluated at least annually for impairment or when specific indicators exist. Also see impairment (i).

Magseis did not have any multi-client project being completed in 2017, the value of multi-client library as of December 2017 is zero.

(f) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation, such as contingencies, claims and other uncertain liabilities, including tax contingencies. These accruals are adjusted periodically as assessment change or new additional information becomes available. The Group’s provisions comprise vacation pay to employees which will be settled 1 July the year after the reporting date. The provisions carrying amount is measured at cost.

(g) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Finance leases

Finance leases that transfer to the Group substantially all of the risks and benefits incidental to ownership of the leased item, are recognised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. For the purpose of calculating the present value, the interest rate implicit in the lease is used as the discount factor. Lease payments made under finance leases are apportioned between finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Leased assets are

depreciated over the shorter of the lease term and their useful life, unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

Operating leases
Assets held under other leases are classified as operating leases and are not recognised in the Group's statement of financial position. Operating lease payments are recognised as an operating expense in the income statement on a straight-line basis over the lease term. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(h) Trade receivables
Trade receivables are carried at their anticipated realisable value, which is the original invoice amount less an estimated valuation allowance for impairment of these receivables. A valuation allowance for impairment of trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable.

(i) Impairment
(I) Financial assets
Financial assets which are valued at amortised cost are written down when it is probable that the Group will not recover all the amounts relating to contractual receivables. The amount of the impairment loss is recognised in the profit or loss as a finance cost. Any reversal of previous impairment losses is recognised when a reduction in the need to write down the asset can be related to an event after the impairment loss has been recognised. The decrease in impairment loss is reversed through profit or loss.

(II) Non-financial assets
The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. The Group test intangible assets which are under production at the reporting date regardless of indications of impairment. An asset's recoverable amount is the higher of an asset's or a cash-generating-unit's (CGU) fair value less costs of disposal and its value in use.
Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the profit or loss.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators. The Group bases its impairment calculation on detailed budgets and forecast calculations. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

The Group will work on new technology and new generation MASS equipment. In 2017 the Group converted G1 into G2 nodes and impaired the residual value of G1 in the balance sheet due to the fact that the Group does not have any G1 nodes left.

(j) Employee benefits
(I) Short-term employee benefits
Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(II) Share-based payment transactions
The Group operates an equity-settled, share-based compensation plan. The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service conditions at the vesting date. All grants given include a total vesting period of up to three years.

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

Management believes this gives the employees incentive to be part of the organisation for a longer period.

(III) Defined contribution plan
The Group is required to maintain a pension plan in accordance with the Norwegian Pension Benefit Act. The pension plans of the Group comply with the requirements set forth in the Norwegian Pension Benefit Act. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior period. The Group has therefore no further payment obligations once the contributions have been paid.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity for pension, based on obligatory, agreed on or voluntary basis. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(k) Government grants
Government grants are recognised where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. Grants that compensate the Group for expenses incurred are offset in profit or loss in the same periods in which the expenses were originally recognised. Grants that compensate the Group for the cost of an asset are offset in balance sheet and then recognised in profit or loss as a reduced depreciation over the useful life of the assets.

(l) Finance income and finance costs
Finance income comprises interest income on funds invested

and gains on foreign currency transactions that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise of interest expense, impairment losses recognised on financial assets, losses on foreign currency transactions and fair value measurement of financial transactions that are recognised in profit or loss.

(m) Income tax

Income tax expense comprises current and deferred tax. Cur- rent tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes when probable. Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised. The carrying amount of deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are not recognised for temporary differences from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting, nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority.

(n) Earnings per share

The Group present its basis earnings per share and diluted earnings per share after dilution. Ordinary earnings per share are calculated as the ratio between the net profit/(loss) for the year that accrues to the ordinary shareholders and the weighted average number of shares outstanding. The figure for diluted earnings per share is the result that accrues to the ordinary shareholders, and the number of weighted average number of shares outstanding has been adjusted for all diluting effects related to share options.

(o) Events after the balance sheet date

A distinction is made between events both favourable and unfavourable that provide evidence of conditions that existed at the balance sheet date (adjusting events) and those that are indicative of conditions that arose after the balance sheet date (non-adjusting events). Financial statements will only be adjusted to reflect adjusting events (although there are disclosure requirements for non-adjusting events).

(p) Cash flow statement

The cash flow statement is presented using the indirect method. Cash and cash equivalents includes cash, bank deposits and other short term highly liquid placement with original maturities of three months or less. The cash flows are divided into operating activities, investing activities and financing activities

(q) Fair value measurement

When measuring the fair value of an asset or a liability, the management uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1:
Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2:
Inputs other than quoted prices included within Level 1 that are, observable for the asset or liability either directly or indirectly.

Level 3:
Unobservable inputs for the asset or liability.

(r) New standards and interpretations not yet effective and not early adopted

Standards and interpretations that are issued up to the date of issuance of the consolidated financial statements, but not yet effective are disclosed below. The company's intention is to adopt the relevant new and amended standards and interpretations when they become effective, subject to EU approval.

IFRS 9 Financial instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 becomes mandatory for annual periods beginning on or after 1 January 2018, and shall be applied retrospectively. The standard is not expected to have any significant impact on the consolidated financial statements of Magseis.

IFRS 15 Revenue from Contracts with Customers

The IASB has issued a new standard for revenue recognition, IFRS 15 Revenue from Contracts with Customer. The new standard replaces the current revenue recognition guidance in IAS 11 Construction Contracts and IAS 18 Revenue. IFRS 15 introduces a new five-step model that applies to revenue from contracts with customers. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018.

The Company will adopt IFRS 15 on 1 January 2018, and plan to apply the modified retrospective method for transition. This method requires the cumulative effect of initially applying IFRS

15 to be recognised in the opening balance (1 January 2018), with no restating of comparative periods.
The Company has analysed possible effects from implementing the standard. The standard is not expected to have material effects for revenue recognition on contract acquisition or late sales of completed multi-client data. While not yet concluded, it is likely that the percentage of completion method no longer will apply to revenue arising from multi-client prefunding agreements. Instead, pre-funding revenue would be recognised at point in time when the data is transferred to the client. Magseis will work to achieve a consistent practice for such reporting across the industry.
Magseis did not have any multi-client operation (prefunding) or late sales on existing multi-client data in 2017.

IFRS 16 Leases
IFRS 16 replaces existing guidance in IAS 17 Leases. IFRS 16 eliminates the current dual accounting model for leases and will establish a single, on-balance sheet accounting model that is similar to the current finance lease accounting under IAS 17. The standard will primarily affect the accounting of Magseis ASA's operating leases. The most significant contract related to operating leases that would be affected by the new standard is related to the lease of the vessel Artemis Athene. However, the current lease contract is set to expire before the new standard applies. Magseis is in the process of further evaluating the potential impact of IFRS 16. The standard becomes mandatory for annual periods beginning on or after 1 January 2019.

(s) 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 2017. 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.

For reconciliation between statement of comprehensive income and APMs' EBITDA and EBIT see page 11.

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
When Magseis use working capital this is defined as Trade receivables minus Trade payables.

3. Financial risk management

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including currency risk and interest rate risk). The Group's overall risk management programme considers the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through their training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board of Directors oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Credit risk
Credit risk is the risk of financial loss to the Group if a customer or counter-party to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers. Lack of payments from customers/ clients may significantly and adversely impair the Group's liquidity. The concentration of the Group's customers in the oil and gas industry may impact the Group's overall exposure to credit risk as customers may be similarly affected by prolonged changes in economic and industry conditions as well as by the general constraints on liquidity resulting from the recent drop in oil price. Further, laws in some jurisdictions in which the Group operates could make collection difficult or time consuming. The Group undertakes due consideration to the credit quality of its potential clients during contract negotiations to minimise the risk of payment delinquency, but no assurance can be given that the Group will be able to fully avoid this risk.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with minimum rating "A" are accepted.

Credit exposure as of 31 December

	GROUP	GROUP	PARENT	PARENT
In thousands of USD	Carrying amount/ fair value	Carrying amount/ fair value	Carrying amount/ fair value	Carrying amount/ fair value
Year	*2017*	*2016*	*2017*	*2016*
Financial assets				
Cash and cash equivalents	29 776	18 974	20 219	2 372
Trade receivables	9 137	10 681	64	546
Other receivables	0	0	0	0
Total	**38 913**	**29 656**	**20 283**	**2 918**

The aging of trade receivables at the reporting date was:

GROUP				
In thousands of USD	Carrying amount	Impairment	Carrying amount	Impairment
Year	*2017*	*2017*	*2016*	*2016*
Past due 0-30 days	2 255	0	10 135	0
Past due 31-120 days	839	0	63	0
More than 120 days	5 743	0	483	0
Total	**9 137**	**0**	**10 681**	**0**

PARENT				
In thousands of USD	Carrying amount	Impairment	Carrying amount	Impairment
Year	*2017*	*2017*	*2016*	*2016*
Past due 0-30 days	64	0	0	0
Past due 31-120 days	0	0	63	0
More than 120 days	0	0	483	0
Total	**64**	**0**	**546**	**0**

During 2017, the Group had no loss on receivables. As at 31 December 2017, the Group's and Parent's trade receivables comprise substantially of receivables from BGP, which is an international oil company. The receivables are considered recoverable, and thus no provision has been made for the receivables. In comparison, the group suffered no losses on receivables in 2016, and no provisions were made for losses at 31.12.16.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group uses cash flow forecasts, which assists it in monitoring cash flow requirements and optimising its cash return on investments.

Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 2-3 months. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.
If the Group were to be unemployed for a longer period, it would need to manage its cost base and would, inter alia, seek to reduce costs or negotiate a grace period from some of its largest cost sources such as the time charter vessel. Management believes this, in addition to the Group's cash on demand and ability to raise additional financing, lowers the liquidity risk to a satisfactory level.

The following are remaining contractual maturities at the end of the reporting period of financial liabilities including interest payments:

GROUP							
In thousands of USD	Carrying amount	Contractual cash flow	3 months or less	3-12 months	1-2 years	2-5 years	More than 5 years
At 31 December 2017							
Non-derivative financial liabilities							
Trade payables	6 010	6 010	6 010	0	0	0	0
Non-trade payables	1 734	1 734	388	1 346	0	0	0
Accrued expenses	4 220	4 220	4 220	0	0	0	0
Finance lease obligations	951	1 002	270	732	0	0	0
Secured loan facility	8 071	8 933	792	1 372	2 098	4 671	0
Unsecured loan facility	0	0	0	0	0	0	0
Non-current finance arrangement	7 140	12 852	0	0	0	5 322	7 530
Total	**28 127**	**34 751**	**11 680**	**3 450**	**2 098**	**9 992**	**7 530**
At 31 December 2016							
Non-derivative financial liabilities							
Trade payables	5 870	5 870	5 870	0	0	0	0
Non-trade payables	1 012	1 012	388	624	0	0	0
Accrued expenses	4 879	4 879	4 879	0	0	0	0
Finance lease obligations	1 891	2 097	270	825	1 002	0	0
Secured loan facility	9 135	10 457	554	970	2 164	6 768	0
Unsecured loan facility	5 236	5 236	3 125	2 113	0	0	0
Non-current finance arrangement	6 207	15 489	0	0	1 384	14 105	0
Total	**34 230**	**45 040**	**15 086**	**4 532**	**4 550**	**20 873**	**0**

PARENT							
In thousands of USD	Carrying amount	Contractual cash flow	3 months or less	3-12 months	1-2 years	2-5 years	More than 5 years
At 31 December 2017							
Non-derivative financial liabilities							
Trade payables	4 126	4 126	4 126	0	0	0	0
Non-trade payables	2 774	2 774	1 963	811	0	0	0
Accrued expenses	3 079	3 079	3 079	0	0	0	0
Finance lease obligations	951	1 002	270	732	0	0	0
Secured loan facility	8 071	8 933	792	1 372	2 098	4 671	0
Non-current finance arrangement	7 140	12 852	0	0	0	5 322	7 530
Total	**26 142**	**32 766**	**10 230**	**2 915**	**2 098**	**9 992**	**7 530**
At 31 December 2016							
Non-derivative financial liabilities							
Trade payables	1 754	1 754	1 754	0	0	0	0
Non-trade payables	986	986	392	594	0	0	0
Accrued expenses	1 149	1 149	1 149	0	0	0	0
Finance lease obligations	1 891	2 097	270	825	1 002	0	0
Unsecured loan facility	9 135	10 457	554	970	2 164	6 768	0
Non-current finance arrangement	6 207	15 489	0	0	1 384	14 105	0
Total	**21 122**	**31 932**	**4 119**	**2 389**	**4 550**	**20 873**	**0**

In addition to balance sheet items listed above, Magseis has entered into a 5-year time charter treated as an operating lease which has a significant impact on the liquidity risk. The remaining cash outflows the following year are USD 18.6 million with an equal exposure each month (Group and Parent). At 31.12.16, the remaining cash outflows were USD 34.3 million. Refer to note 18 Leases for further information.

Currency risk

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currency of the Group, United States dollar (USD). The currencies in which these transactions primarily are denominated are Norwegian krone (NOK), Euro (EUR), Pound Sterling (GBP), Singapore Dollars (SGD), Malaysian Ringgit (MYR), Swedish krona (SEK) and Saudi Arabian Riyal (SAR).

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying forwards or options or buying or selling at spot rates when necessary to address short-term imbalances.

Contractual cash flow in denominated currencies.

CURRENCY RISK GROUP							
In thousands	SEK	GBP	NOK	SGD	EUR	SAR	MYR
At 31 December 2017							
Trade payables	0	178	34 714	0	0	330	397
Accruals and provisions	88	9	0	9	0	0	47
Financial statement position exposure	**88**	**187**	**34 714**	**9**	**0**	**330**	**444**
Capital commitments	1 424	2 265	9 976	0	0	0	0
Forecast transaction exposure	**1 424**	**2 265**	**9 976**	**0**	**0**	**0**	**0**
Total	**1 511**	**2 451**	**44 690**	**9**	**0**	**330**	**444**

Contractual cash flow in denominated currencies

CURRENCY RISK GROUP							
In thousands	SEK	GBP	NOK	SGD	EUR	SAR	MYR
At 31 December 2016							
Trade payables	2 488	320	33 304	37	24	510	447
Accruals	150	0	10 510	0	0		0
Financial statement position exposure	**2 638**	**320**	**43 814**	**37**	**24**	**510**	**447**
Capital commitments	13 189	0	51 230	0	418	1	0
Forecast transaction exposure	**13 189**	**0**	**51 230**	**0**	**418**	**1**	**0**
Total	**15 827**	**320**	**95 044**	**37**	**442**	**511**	**447**

The table below shows a sensitivity of exposure to currency risk at the reporting date. This analysis assumes that all other variables remain constant and ignores any impact of forecast transactions.

	Change in exchange rate*	Effect on P&L before tax						
In thousands		SEK	GBP	NOK	SGD	EUR	SAR	MYR
2017	(+) 10%	-18	-331	-544	-1	0	-9	-11
	(-) 10%	-18	-331	-544	1	0	9	11
2016	(+) 10%	-175	-40	-1 102	-3	-47	-14	-10
	(-) 10%	175	40	1 102	3	47	14	10

** Plus (+) indicates depreciation and minus (-) appreciation of USD against foreign currency.*

Contractual cash flow in denominated currencies.

CURRENCY RISK PARENT							
In thousands	SEK	GBP	NOK	SGD	EUR	SAR	MYR
At 31 December 2017							
Trade payables	0	156	35 789	0	0	12	0
Accruals	0	0	0	0	0		0
Financial statement position exposure	**0**	**156**	**35 789**	**0**	**0**	**12**	**0**
Capital commitments	0	0	0	0	0	0	0
Forecast transaction exposure	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total	**0**	**156**	**35 789**	**0**	**0**	**12**	**0**

CURRENCY RISK PARENT							
In thousands	SEK	GBP	NOK	SGD	EUR	SAR	MYR
At 31 December 2016							
Trade payables	1 831	253	30 158	40	24	510	124
Accruals	109	0	10 510	0	0	0	0
Financial statement position exposure	**1 941**	**253**	**40 668**	**40**	**24**	**510**	**124**
Capital commitments	13 189	0	51 230	0	418	1	0
Forecast transaction exposure	**13 189**	**0**	**51 230**	**0**	**418**	**1**	**0**
Total	**15 130**	**253**	**91 898**	**40**	**442**	**511**	**124**

The table below shows a sensitivity of exposure to currency risk at the reporting date. This analysis assumes that all other variables remain constant and ignores any impact of forecast transactions.

	Change in exchange rate*	Effect on P&L before tax						
In thousands		SEK	GBP	NOK	SGD	EUR	SAR	MYR
2017	(+) 10%	0	-21	-436	0	0	0	0
	(-) 10%	0	21	436	0	0	0	0
2016	(+) 10%	-167	-31	-1 066	-3	-47	-3	-11
	(-) 10%	167	31	1 066	3	47	3	11

** Plus (+) indicates depreciation and minus (-) appreciation of USD against foreign currency.*

Interest rate risk

The Group currently has two long-term interest-bearing loan and a finance lease where both have a constant interest rate throughout the term. In addition, the company has engaged in a cooperation agreement related to a development project. The funds received from this partner is treated as a finance arrangement and interest is calculated based on an annuity method. The cash flow is based on a forecast of expected future receipt of funds and instalments and interest expense rate and amount will vary each quarter when these forecasts are updated. The Group has interest bearing assets. Long-term strategy is to place parts of the cash and cash equivalents in high interest deposits for periods to secure higher returns, while balancing the need to access funds as required.

The table below shows a sensitivity of exposure to interest rate risk at the reporting date. This analysis assumes that all other variables remain constant and ignores any impact of forecast transactions.

	Group	Group	Parent	Parent
In thousands of USD	Carrying amount	Carrying amount	Carrying amount	Carrying amount
Year	*2017*	*2016*	*2017*	*2016*
Interest bearing debt except finance lease	15 212	20 219	15 212	14 983
Effect on 1% increase in interest rate	152	202	152	150
Cash and cash equivalents	29 776	18 974	20 219	2 372
Effect on 1% increase in interest rate	298	190	202	24

Capital management

The Board's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain the future development of the business. The Group manages its capital to ensure it will be able to continue as a going concern while maximising shareholder wealth and financial stability. Based on the strong organic growth, working capital requirement and large investment programs, the Group's financial strategy has been to maintain a solid equity ratio, focus on increasing cash flow from operations and hire seismic vessels rather than purchase and finance seismic vessels onto the Group's balance sheet. The Group defines its capital as equity, share capital and reserves.

Financial instruments

At December 31 2017 there are no differences between the carrying amount and fair value upon initial recognition for any financial assets or financial liabilities. The corresponding applies to 2016.

The table below provides an overview of the carrying amounts and fair values of financial assets and financial liabilities, including their level in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Group	Group	Parent	Parent	Group and Parent
In thousands of USD	Carrying amount /fair value	Carrying amount /fair value	Carrying amount /fair value	Carrying amount /fair value	Fair value level
Year	*2017*	*2016*	*2017*	*2016*	
Financial liabilities					
Finance lease obligation	951	1 891	951	1 891	Level 2
Non-current finance arrangement	7 140	6 207	7 140	6 207	Level 3
Non-current secured loan	5 908	7 543	5 908	7 543	Level 2
Total	**13 999**	**15 641**	**13 999**	**15 641**	

Non-current secured loan/ Finance lease obligation (level 2)

Level 2 is defined as, assets and liabilities whose values are based on quoted prices in the markets that are not active or model inputs that are observable either directly or indirectly.

Non-current finance arrangement (Level 3)

The carrying amount/fair value of the non-current financial arrangement is a function of expected future cash flows and a contractual repayment schedule which is dependent on the Group's future revenues, see note 19 for further information. The carrying amount is on a present value technique using estimated future cash flows. The cash flows reflects the expected market development and the risk inherent in future revenues.

4. 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. In 2017 the Group's operating revenue only relates to contract OBS acquisition.

Geographically, the operations are divided into 6 locations, being the Barents Sea (Norway), Malaysia, Singapore, the Red Sea, United Kingdom and Sweden. The allocation of revenue to the geographical segments can be illustrated as follows:

GEOGRAPHICAL SEGMENTS				
In thousands of USD	Group	Group	Parent	Parent
Year	***2017***	***2016***	***2017***	***2016***
Norway	6 864	1 845	9 100	3 538
Malaysia	34	23 932	0	14 760
Singapore	0	0	269	0
Red Sea	66 916	33 119	29 383	20 814
Sweden	63	0	269	0
United Kingdom	0	9	0	9
Total revenue and other income	**73 877**	**58 905**	**39 022**	**39 122**

5. Revenue and other income

In thousands of USD	Group	Group	Parent	Parent
Year	***2017***	***2016***	***2017***	***2016***
Contract revenue	73 334	57 059	0	9
Multi- client revenue	0	1 845	0	1 845
Intercompany revenue	0	0	38 581	37 268
Other income	543	0	442	0
Total revenue and other income	**73 877**	**58 905**	**39 022**	**39 122**

6. Operating expenses

In thousands of USD	Group	Group	Parent	Parent
Year	***2017***	***2016***	***2017***	***2016***
Cost of sales				
Charter hire and running expenses	15 232	19 008	3 226	9 395
Crew cost and travel	11 215	9 253	0	2 726
Fuel costs	393	1 811	82	367
Batteries and other instruments	3 330	5 557	3 215	5 435
Other cost of sales	5 531	3 410	-674	2 150
Total cost of sales	**35 700**	**39 038**	**5 849**	**20 074**
Research and development cost				
Corporate and consultant costs	2 002	2 022	1 084	1 724
Total research and development cost	**2 002**	**2 022**	**1 084**	**1 724**
Selling, general and administrative costs				
Salary and social expenses	7 415	6 263	7 195	6 240
Administrative expenses	2 233	1 600	1 963	1 529
Total selling, general and administrative cost	**9 648**	**7 863**	**9 159**	**7 768**
Salary and social expenses				
Salary	5 512	4 791	5 185	4 753
Social security tax	897	625	883	658
Pension	378	261	364	253
Equity-settled share-based payment transactions	287	382	287	382
Other payments	342	205	326	193
Total salary and social expenses	**7 415**	**6 263**	**7 045**	**6 240**

Details for the expense to the auditor of the Group, Deloitte, and its related practices for audit and non-audit services provided during the year are set out below.

AUDITORS' REMUNERATION				
In thousands of USD	Group	Group	Parent	Parent
Year	***2017***	***2016***	***2017***	***2016***
Audit services				
Audit of annual financial statements	151	93	106	81
Other services				
Other assurance services	10	27	0	23
Total	**161**	**120**	**106**	**103**

7. Finance income and cost

In thousands of USD	Group	Group	Parent	Parent
Year	*2017*	*2016*	*2017*	*2016*
Interest income	23	15	16	10
Currency gains	3 681	1 578	3 110	1 268
Other financial items	0	0	0	0
Total finance income	**3 703**	**1 593**	**3 126**	**1 279**
Interest expense	1 192	1 203	927	521
Currency losses	2 754	1 526	2 224	1 144
Finance charges payable under finance lease	155	250	155	250
Other financial expenses	0	7	0	0
Total finance cost	**4 101**	**2 986**	**3 307**	**1 915**
Net finance costs	**397**	**1 393**	**181**	**636**

8. Cash and cash equivalents

In thousands of USD	Group	Group	Parent	Parent
Year	*2017*	*2016*	*2017*	*2016*
Unrestricted cash balances	29 410	18 741	19 882	2 145
Employee tax withholding accounts	366	234	337	227
Cash and cash equivalents	**29 776**	**18 974**	**20 219**	**2 372**

9. Other current assets

In thousands of USD	Group	Group	Parent	Parent
Year	*2017*	*2016*	*2017*	*2016*
Prepayments	5 629	449	5 179	172
Deposits	186	179	186	179
Intercompany receivables	0	0	16 578	13 829
Other receivables	2 654	6 517	333	8 043
Fuel stock	654	491	361	361
Battery stock	1 097	800	1 097	800
Total other current assets	**10 220**	**8 436**	**23 735**	**23 383**

10. Income tax

In thousands of USD	Group 2017	Group 2016	Parent 2017	Parent 2016
Current tax expense				
Current period	3 199	4 188	1 690	1 241
Total	**3 199**	**4 188**	**1 690**	**1 241**
Deferred tax expense				
Origination and reversal of temporary differences	368	-2 027	-183	-2 027
Benefit of tax losses and other deferred tax benefits not recognised	-368	2 027	183	2 027
Total	**0**	**0**	**0**	**0**
Numerical reconciliation between tax expense and pre-tax accounting profit				
Profit / (loss) before tax	**9 895**	**-12 507**	**8 564**	**-12 006**
Income tax at 24%	2 375	-3 127	2 055	-3 002
Adjusted for other tax regimes	-85	7	35	0
Non-deductible expenses	-713	235	-665	219
Use of witholding tax	-145	0	0	0
Losses (recognised) / not recognised	-1 516	3 561	-1 390	2 853
Withholding tax paid	3 563	3 512	1 655	1 171
Change previous years	-280	0	0	0
Total income tax expenses / (benefit)	**3 199**	**4 188**	**1 690**	**1 241**

The Group and Parent have unutilised tax losses of USD 17,6 million (2016: USD 23,7 million) available to be offset against future taxable income. The deductible temporary difference and tax losses do not expire under current tax legislation. The net deferred tax asset for the Group and Parent has not been recognised on the basis that it does not meet the criteria for asset recognition as the Group currently cannot document that the future taxable income can be utilised against available tax losses. The Norwegian tax rate (attributable to the Parent) is 24 percent. (23% from 2018)

Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following, and none have been recognised:

In thousands of USD	Group 2017	Group 2016	Parent 2017	Parent 2016
Non-current assets	63	447	63	447
Current assets	0	0	0	0
Non-current liabilities	-1 847	-2 049	-1 847	-2 049
Current liabilities	0	0	0	0
Tax loss carry-forwards	-4 045	-5 683	-4 045	-5 683
Tax (assets) liabilities	-5 830	-7 285	-5 830	-7 285
Set off of tax	5 830	7 285	5 830	7 285
Net tax (assets) liabilities	**0**	**0**	**0**	**0**

11. Other current liabilities

In thousands of USD	Group	Group	Parent	Parent
Year	***2017***	***2016***	***2017***	***2016***
Other payables	694	385	541	367
Accrued expenses	2 982	4 879	2 076	1 149
Intercompany payables	0	0	1 963	0
Provisions holiday day	1 346	624	811	594
Other current liabilities	68	3	250	25
Total other current liabilities	**5 090**	**5 890**	**5 642**	**2 135**

12. Multi-client library

In thousands of USD		
Year	***2017***	***2016***
Cost		
Balance at 1 January	4 383	4 383
Additions	0	0
Disposals	0	0
Balance at 31 December	**4 383**	**4 383**
Amortisation		
Balance at 1 January	4 383	3 506
Amortisation for the year	0	877
Disposals	0	0
Impairment	0	0
Balance at 31 December	**4383**	**4 383**
Carrying amounts		
at 1 January	0	877
at 31 December	**0**	**0**

13. Equipment

GROUP					
In thousands of USD	Office machines	Seismic equipment	Seismic equipment under finance lease	Under construction	Total
Cost					
Balance at 1 January 2016	391	56 228	4 063	4 617	65 299
Asset completed and ready for intended use	0	10 327	0	-10 327	0
Additions	29	1 425	0	12 359	13 813
Disposals	0	0	0	0	0
Impairment	0	-15 985	0	0	-15 985
Balance at 31 Dec. 2016	**419**	**51 996**	**4 063**	**6 649**	**63 127**
Balance at 1 January 2017	419	51 996	4 063	6 648	63 127
Additions	261	657	0	38 742	39 660
Disposals	0	0	0	0	0
Impairment	0	-1 178	0	0	-1 178
Reclass- asset under construction	0	20 509	0	-20 509	0
Balance at 31.Dec. 2017	**680**	**71 984**	**4 063**	**24 882**	**101 609**
Depreciation and impairment losses					
Balance at 1 January 2016	252	15 931	1,769	0	17 952
Depreciation for the year	82	11 321	786	0	12 190
Disposals	0	0	0	0	0
Impairment	0	-10 007	0	0	-10 007
Balance at 31 Dec. 2016	**335**	**17 245**	**2 556**	**0**	**20 136**
Balance at 1 January 2017	335	17 245	2 556	0	20 136
Depreciation for the year	95	12 272	786	0	13 153
Reversed depreciation sold/ scrappped capex (Disposals)	0	0	0	0	0
Impairment	0	-762	0	0	-762
Balance at 31.Dec. 2017	**430**	**28 754**	**3 342**	**0**	**32 527**
Carrying amounts					
at 1 January 2016	139	40 298	2 294	4 617	47 346
at 31 Dec. 2016	**85**	**34 750**	**1 507**	**6 649**	**42 991**
at 1 January 2017	85	34 750	1 507	6 649	42 991
at 31 Dec. 2017	**250**	**43 229**	**721**	**24 882**	**69 083**
Depreciation of the year	95	12 272	786	0	13 153
Depreciation capitalised and deferred - net	0	1 994	0	0	1 994
Depreciation charged to expense at 31 Dec 2017	95	14 266	786	0	15 147

PARENT					
In thousands of USD	Office machines	Seismic equipment	Seismic equipment under finance lease	Under construction	Total
Cost					
Balance at 1 January 2016	391	56 228	4 063	4 617	65 299
Asset completed and ready for intended use	0	10 327		-10 327	0
Additions	29	1 425	0	12 359	13 813
Disposals	0	0	0	0	0
Impairment	0	-15 985	0	0	-15 985
Balance at 31 December 2016	**419**	**51 996**	**4 063**	**6 649**	**63 127**
Balance at 1 January 2017	419	51 996	4 063	6 649	63 127
Asset completed and ready for intended use	0	20 509	0	-20 509	0
Additions	207	657	0	38 742	39 606
Disposals	0	0	0	0	0
Impairment	0	-1 178	0	0	-1 178
Balance at 31.December 2017	**626**	**71 984**	**4 063**	**24 882**	**101 555**
Depreciation and impairment losses					
Balance at 1 January 2016	252	15 931	1 769	0	17 952
Depreciation for the year	82	11 321	786	0	12 190
Disposals	0	0	0	0	0
Impairment	0	-10 007	0	0	-10 007
Balance at 31 December 2016	**335**	**17 245**	**2 556**	**0**	**20 136**
Balance at 1 January 2017	335	17 245	2 556	0	20 136
Depreciation for the year	86	12 272	786	0	13 144
Disposals	0	0	0	0	0
Impairment	0	-762	0	0	-762
Balance at 31 December 2017	**420**	**28 754**	**3 342**	**0**	**32 517**
Carrying amounts					
at 1 January 2016	139	40 297	2 294	4 616	47 346
at 31 December 2016	**85**	**34 750**	**1 507**	**6 649**	**42 991**
at 1 January 2017	85	34 750	1 507	6 649	42 991
at 31 December 2017	**206**	**43 230**	**721**	**24 882**	**69 038**
Depreciation of the year	86	12 272	786	0	13 144
Depreciation capitalised and deferred - net	0	-18	0	0	-18
Depreciation charged to expense at 31 Dec 17	86	12 254	786	0	13 126

GROUP AND PARENT

Useful life of equipment

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

Capitalisation

In 2017 Magseis has capitalised cost relating to the development of the seismic equipment of USD 150 thousands (2016: USD 0.0 million)

Impairment

Magseis has in 2017 recorded an impairment of USD 233 thousands (2016: USD 6 748 thousands).

14. Other intangible assets

Intangibles are recognised in the Parent, thus, there are no differences between the Group and the Parent.

In thousands of USD	Group	Group
Year	***2017***	***2016***
Cost		
Balance at 1 January	7 160	4 588
Additions	214	2 572
Disposals	0	0
Adjustment currency conversion	0	0
Balance at 31 December	**7 373**	**7 160**
Amortisation		
Balance at 1 January	1 577	1 045
Amortisation for the year	463	533
Disposals	0	0
Adjustment currency conversion	0	0
Balance at 31 December	**2 040**	**1 577**
Carrying amounts		
at 1 January	5 583	3 543
at 31 December	**5 333**	**5 583**

Development costs
Capitalisation of USD 0.2 million in 2017 and USD 2.6 million was capitalised in 2016.

15. Share capital and reserves

The shares of Magseis are listed on Oslo Axess.

Ordinary shares - Issued and fully paid		Number of shares	Share capital USD '000	Share premium reserve USD '000
At 1 January 2016		29 818 014	254	90 945
06 May 2016	Private placement of 6 800 000 shares at NOK 12.50 per share	6 800 000	42	10 345
	Capital raising costs	0	0	-397
30 May 2016	Subsequent offering of 1 200 000 shares at NOK 12.50 per share	1 200 000	7	1 789
	Capital raising costs	0	0	-88
At 31 December 2016		**37 818 014**	**303**	**102 594**
At 1 January 2017		37 818 014	303	102 594
30 March 2017	Private placement of 22 650 000 shares at NOK 15.00 per share	22 650 000	132	39 651
	Capital raising costs			-1 282
20 April 2017	Private placement of 424 377 shares at NOK 15.00 per share	424 377	2	726
	Capital raising costs			-203
At 31 December 2017		**60 892 391**	**438**	**141 486**

No dividends were paid during the period ended 31 December 2017.

20 LARGEST SHAREHOLDERS AS AT 31 DECEMBER 2017		
Shareholder	**Holdings**	
ANFAR INVEST AS	6 030 190	9.9 %
WESTCON GROUP AS	5 661 436	9.3 %
GEO INNOVA AS	4 571 716	7.5 %
AS CLIPPER	3 612 689	5.9 %
JPMORGAN CHASE BANK, N.A., LONDON	2 401 152	3.9 %
BARRUS CAPITAL AS	2 292 351	3.8 %
KLP AKSJENORGE	2 264 615	3.7 %
JPMORGAN CHASE BANK, N.A., LONDON	2 245 638	3.7 %
REDBACK AS	1 833 333	3.0 %
VPF NORDEA NORGE VERDI	1 728 453	2.8 %
KOMMUNAL LANDSPENSJONSKASSE	1 548 780	2.5 %
CITY FINANCIAL ABSOLUTE EQUITY FD	1 280 399	2.1 %
VPF NORDEA KAPITAL	1 268 065	2.1 %
INVESCO PERP EURAN SMLER COMPS FD	1 253 660	2.1 %
VERDIPAPIRFONDET PARETO INVESTMENT	1 181 920	1.9 %
STATOIL PENSJON	943 697	1.5 %
VPF NORDEA AVKASTNING	942 507	1.5 %
GNEIS AS	924 825	1.5 %
HAWK INVEST AS	853 723	1.4 %
DANSKE INVEST NORGE VEKST	824 000	1.4 %
Total 20 largest shareholders	**43 663 149**	**71.7 %**
Other shareholders	17 229 242	**28.3 %**
Total outstanding shareholders	**60 892 391**	**100.0 %**

16. Earnings per share

Group		
Year	*2017*	*2016*
Basic earnings/ (loss) per share on ordinary shares	**0.11**	**-0.44**
The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders number of ordinary shares outstanding		
Basic earnings/ (loss) per share on weighted average number of shares	**0.12**	**-0.48**
The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding		
Diluted earnings / (loss) per share	**0.12**	**-0.48**
The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding after adjustments for the effect of all dilutive potential ordinary shares. Loss will not be diluted.		

Reconciliation of earnings used in calculating earnings / (loss) per share

in thousands		
Basic earnings / (loss) per share		
Profit / (loss) for the year	6 696	-16 695
Number of ordinary shares outstanding	60 892	37 818
Profit/ (loss) for the year	6 696	-16 695
Weighted average number of ordinary shares outstanding	55 242	34 963
Diluted earnings / (loss) per share		
Profit / (loss) for the year	6 696	-16 695
Weighted average number of ordinary shares outstanding (diluted)	55 340	34 976

17. Share-based payments

Share based payment plan (equity-settled)

In 2012 the Group established a share option programme that entitles key management personnel, senior employees and some members of the board to purchase shares in the Company. In accordance with this programme options are exercisable at the market price of the shares at the end of the grant and all options are equity settled.

In 2017, 116 000 share-options were granted to employees. The grant have a strike price of NOK 15.65, and vesting criteria of which 20% become exercisable after one year, 30% become exercisable after two years and 50% become exercisable after three years.

2017			
Grant date / employees entitled	**Number of granted instruments**	**Vesting conditions**	**Contractual life of options**
As of 1 January 2017	2 514 520		1.34
Option grant to key management on 1 March 2017	116 000	*20% vest on 1 March 2018, 30% vest on 1 March 2019 and 50% vest on 1 March 2020*	3.30
As of 31 December 2017	**2 630 520**		

2016			
Grant date / employees entitled	**Number of granted instruments**	**Vesting conditions**	**Contractual life of options**
As of 1 January 2016	1 984 520		1.62
Option grant to key management on 1 July 2016	280 000	*20% vest on 1 July 2017, 30% vest on 1 July 2018 and 50% vest on 1 July 2019*	3.50
Option grant to key management on 1 November 2016	250 000	*20% vest on 1 November 2017, 30% vest on 1 November 2018 and 50% vest on 1 November 2019*	3.84
As of 31 December 2016	**2 514 520**		

Reconciliation of oustanding share option				
Prices in USD	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**	**Number of options**
Year	***2017***	***2017***	***2016***	***2016***
Outstanding at 1 January	2.31	2 466 520	2.43	1 984 520
Forfeited during the period	0	0	2.63	-34 000
Exercised during the period	1.16	-23 000	0	0
Expired during the period	2.44	-1 439 520	2.53	-14 000
Granted during the period	1.88	116 000	1.53	530 000
Outstanding at 31 December	**2.13**	**1 120 000**		**2 466 520**
Exercisable at 31 December	2.54	460 500	2.38	1 627 820

The options outstanding at 31 December 2017 have an exercise price in the range of USD 1,5 to USD 3,05 and a weighted average contractual life of 2.02 years. . The Group recognised a share-based payment expense of USD 0.3 million in the period ended 31 December 2017 (2016: USD 0.4 million) in relations to share options issued.

Inputs for measurement of grant date for fair values

The grant date for fair value of all share-based payments plan was calculated using the Black-Scholes-Merton option pricing model. Expected volatility is estimated by consider historic average share price volatility of comparable listed entities. The inputs used in the measurement of the fair values at grant date of the 2017, 2016 and 2015 share-based payments plan are as following:

2017	
Prices in USD	
Fair value of share options and assumptions	***1 March 2017***
Fair value at grant date (weighted average)	0.79
Share price at grant date	1.88
Exercise price	1.88
Expected volatility	60.00%
Option life (years)	3.30
Expected dividends	0
Risk-free interest rate (weighted average)	0.83%

2016		
Prices in USD		
Fair value of share options and assumptions	***01 July 2016***	***01 November 2016***
Fair value at grant date (weighted average)	0.72	0.53
Share price at grant date	1.62	1.39
Exercise price	1.77 and 1.45	1.59
Expected volatility	60.00 %	60.00 %
Option life (years)	4.00	4.00
Expected dividends	0	0
Risk-free interest rate (weighted average)	0.50 %	0.80 %

18. Leases

Operating leases

In 2013 the Group entered into a non-cancellable vessel lease with Westcon Group (related party). The lease term is 5.25 years with an option for a 2 year extension. At 31 December 2017 the remaining life of the lease is 1.0 years. For the first 3 months of the lease, the Group paid a discounted rate which is recognised as a reduction to the operating lease expense on a straight line basis over the lease term. The balance of this deferred lease discount is USD 0.4 million at 31 December 2017 (2016: 0.9 million). The Group has entered into two leases on commercial property. The leases are non-cancellable operating leases and have average remaining lives of 2.25 years. Future minimum lease payments under non-cancellable operating leases are as follows:

FUTURE MINIMUM LEASE PAYMENTS		
In thousands of USD	31 December 2017	31 December 2016
Less than one year	18 195	17 497
Between one and five years	3 313	17 560
More than five years	0	0
Total	**21 508**	**35 056**

OPERATING LEASE COST EXPENSED IN PROFIT AND LOSS		
In thousands of USD	31 December 2017	31 December 2016
Time charter leases	17 380	17 868
Office leases	612	496
Total	**17 991**	**18 364**

Finance lease

In 2013, the Group entered into a sale & leaseback agreement with Westcon Group (related party) regarding some of its seismic equipment. The lease term is 5 years and 2 months which reflects the leased assets economic life. The interest rate implicit in the lease (yearly effective interest rate) is 10.6%. The sale resulted in a gain of NOK 0.6m which is amortised on a straight-line basis over the lease term. At 31 December 2017 the remaining life of the sale & leaseback agreement is 11 months.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

FUTURE MINIMUM LEASE PAYMENTS				
	31 December 2017		31 December 2016	
In thousands of USD	Future minimum lease payments	Present value of minimum lease payments	Future minimum lease payments	Present value of minimum lease payments
Less than one year	1 002	951	1 095	987
Between one and five years	0	0	1 002	904
More than five years	0	0	0	0
Total minimum lease payments	**1 002**	**951**	**2 097**	**1 891**
Less amounts representing finance charges	51	0	206	0
Present value of minimum lease payments	**951**	**951**	**1 891**	**1 891**

19. Other non-current financial liabilities

Other non-current financial liabilities are recognised in the Parent, thus there are no differences between the Group and the Parent.

	Booked value	
In thousands of USD	31 December 2017	31 December 2016
Amortisation grace period time charter *	0	438
Secured loan facility	5 908	7 543
Non-current finance arrangement	7 140	6 207
Total other non-current financial liabilities	**13 049**	**14 188**
Related financial liabilities classified as current portion of long-term debt		
Current portion of long-term debt	3 249	6 470
Current lease obligations	0	1 411
Total current portion of obligations under finance lease and loan	**3 249**	**7 881**

** Refer to note 18 Leases for details.*

Debt covenants	**In Compliance 31.12.2017**
Export Credit Norway	
Ratio (Net debt to EBITDA) equal or lower than 5	yes
Equity ratio min 30%	yes
Min. liquidity greater or equal to MUSD 5	yes
Innovation Norway	
Equity ratio min 30%	yes
Working capital min MNOK 25	yes

Secured loan facility

During 2016 Magseis increased non-current financial liabilities with debt financing received from Export Credit Norway and Innovation Norway, totalling USD 9.1.
Export Credit Norway liabilities relates to USD 4.1 millions with a duration to 2021 and Innovation Norway liabilities relates to USD 5.0 millions with duration to 2022.
The principal includes accumulated interest. The interest is in range of 4,15% to 5,5% for the loan facilities.

Non-current finance agreement

In September 2015 Magseis and Shell Global Solutions ("Shell") entered into a cooperation agreement related to their joint development program, where Shell funds parts of the development cost borne by Magseis. Due to the content of the arrangement, the funding is treated as a financial liability in the financial statements under Other non-current financial liabilities and amounts to USD 7.1 million at 31 December 2017 (2016: USD 6.2 million). The principal includes accumulated interest. The liability assumes successful commercialisation of the developed product. If the development for any reason is cancelled or the product never commercialises, Magseis has no obligation to repay the liability. The royalty scheme ensures that Shell will receive its original investment back plus an agreed return upon that investment. If the project for some reason is not commercialised then there will be no royalty payments due and the liability will be reversed.

During 2017 an interest expense of USD 0.6 million (2016: USD 0.4 million) has been recognised in the profit and loss related to the agreement.

Current Portion of long-term debt

Pre-funding from BGP is included in 2016 with USD 5.3 million.

20. Capital commitments

Future minimum payments relating to equipment are as follows:

In thousands of USD	31 December 2017	31 December 2016
Contracted but not yet provided for and payable:		
Within one year	36 323	10 987
One year later and no later than five years	0	0
Later than five years	0	0
Total	**36 323**	**10 987**

21. Related parties

Shares and options held by members of the Board and management, as at 31 December

Name	Position	Shares	Share options
Period		*31 December 2017*	*31 December 2017*
J P Grimnes (Redback)	Chairman/Non-Executive Director	1 833 333	0
J B Gateman	Executive Director and SVP R&D	4 571 716	15 000
B R Bachmann	Non-Executive Director	2 245 638	0
J M Drange	Non-Executive Director	0	0
G G Haatvedt	Non-Executive Director	0	0
I Horstad	CEO to 30 Nov	0	250 000
P C Grytnes	Acting CEO from 30 Nov	0	0
M Ektvedt	CFO	40 333	75 000
B Jensen	COO	0	125 000
N H Heieren	CTO	0	28 000
J B Gateman	SVP	4 571 716	15 000
S Penty	VP	0	28 000
P Steen Hansen	VP	0	30 000
C R Berg	Chief Geophysicist	0	8 000
I Gimse	SVP	924 825	295 000
H Dessagne	General Counsel from Mar	0	0
C Bretzeg	SVP HR from Jun	0	0
Total*		**9 615 845**	**854 000**

**Jan B Gateman is included in the Total above only once.*

Name	Position	Shares	Share options
Period		*31 December 2016*	*31 December 2016*
J P Grimnes (Redback)	Chairman/Non-Executive Director	1 000 000	0
J B Gateman	Executive Director and SVP R&D	3 905 050	175 000
B R Bachmann	Non-Executive Director	1 501 947	0
J M Drange	Non-Executive Director	0	0
I Gimse	CEO to 15 Aug 2016	924 825	515 000
I Horstad	CEO from 15 Aug 2016	16 000	250 000
M Ektvedt	CFO	0	281 580
B Jensen	COO	0	105 000
N H Heieren	CTO	0	56 000
J B Gateman	SVP	3 905 050	175 000
S Penty	VP	0	56 000
P Steen Hansen	VP	0	30 000
C R Berg	Chief Geophysicist	0	79 600
Total*		**7 347 822**	**1 548 180**

*J B Gateman is included in the total above only once.

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 follows:

In thousands of USD	*Transactions*	*Note*	Transaction value		Balance outstanding	
Year			*31 December 2017*	*31 December 2016*	*31 December 2017*	*31 December 2016*
Name						
J B Gateman	Consultant costs	(I)	167	167	0	0
Westcon Group	Leases	(II)	19 783	21 928	1 586	3 470
Westcon Group	Other services	(II)	0	891	0	0
Total			**19 950**	**22 986**	**1 586**	**3 470**

(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 2017 the remaining time charter lease term is 1 year and the sale and leaseback is 11 months.*

Investments in and transactions with subsidiaries (Parent)

During 2017 and 2016 Magseis ASA has transacted with its subsidiaries. The terms and conditions of the transactions between Group companies were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions non-related entities on an arm's length basis. The table below sets out the transaction value and outstanding balance as at 31 December:

In thousands of USD	*Transactions*	*Note*	**Transaction value**		**Balance outstanding**	
Year			***31 December 2017***	***31 December 2016***	***31 December 2017***	***31 December 2016***
Name						
Magseis Operations AS	Purchased crew services / liability/ receivable	(I)	-3 082	-1 343	0	0
	Sold accounting services / receivable	(III)	4 042	28	0	0
	Sold lease of equipment and seismic services / liability	(IV)	34 000	20 824	0	0
	Net receivable +/ liability		0	0	-6 502	7 951
Magseis Singapore Services Pte. Ltd.	Purchased administration services / liability	(II)	-652	308	0	0
	Sold TC and crew services / receivable	(II)	0	12 703	0	0
	Sold accounting services	(III)	269	24	0	0
	Net receivable +/ liability		0	0	0	1 265
Magseis Malaysia SDN BHD	Purchased administration services / liability		0	0	0	0
	Sold administration services / liability		0	0	0	0
	Sold accounting services	(III)	0	37	0	0
	Net receivable +/ liability		0	0	0	0
Magseis Technology AB	Purchased administration services / liability	(V)	-2 993	-171	0	0
	Sold administration services / liability		0	0	0	0
	Sold accounting services	(III)	269	0	0	0
	Net receivable +/ liability		0	0	0	0
Total			**31 854**	**32 409**	**-6 502**	**8 856**

(I) During 2017 and 2016 Magseis Operations AS has hired crew personnel to Magseis ASA and Magseis ASA has provided accounting services to Magseis Operations AS.

(II) Magseis Singapore Services Pte. Ltd. has during 2017 and 2016 provided administration services to Magseis ASA. Magseis ASA has provided time charters and crew services to Magseis Singapore Services Pte. Ltd during first of 2016 while operations in Malaysia.

(III) Magseis ASA has provided accounting services to both Magseis Operations AS, Magseis Singapore Services, Magseis Malaysia and Magseis Technology during 2017 and 2016.

(IV) Magseis ASA provided lease of equipment and seismic services to Magseis Operations AS from Mid May 2016 and 2017 while operations in Saudi Arabia.

(IV) Magseis Technology AB has during 2017 and 2016 reimbursed Magesis ASA for Technical and R&D services

All intercompany transactions are based on the cost-plus method with a mark-up of 5%, except for lease of equipment based on DCF method.

MANAGEMENT REMUNERATION					
In thousands of USD		Remuneration	Options	Pension	Total
2017					
Name	*Position*				
Per C Grytnes	Acting CEO from 30 Nov	22	0	0	22
I Horstad	CEO to 30 Nov	212	77	9	299
M Ektvedt	CFO	203	8	10	220
B Jensen	COO	165	19	10	194
N H Heieren	CTO	167	9	10	185
J B Gateman	SVP	0	4	0	4
S Penty	VP	145	9	12	166
P Steen Hansen	VP	152	8	10	169
C R Berg	Chief Geophysicist	169	2	10	181
I Gimse	SVP	204	69	11	285
H Dessagne	General Counsel from Mar	102	0	7	110
C Bretzeg	SVP HR from Jun	68	0	6	74
Total		**1 609**	**204**	**95**	**1 908**
2016					
I Gimse	CEO to 15 Aug 2016	183	42	10	234
I Horstad	CEO from 15 Aug 2016	135	45	3	184
M Ektvedt	CFO	165	57	8	230
B Jensen	COO	157	38	9	204
N H Heieren	CTO	139	13	8	160
J B Gateman	SVP	0	13	0	13
S Penty	VP	135	5	11	151
P Steen Hansen	VP	126	11	8	145
C R Berg	Chief Geophysicist	163	6	9	178
Total		**1 203**	**230**	**66**	**1 499**

All management receive their remuneration in NOK and calculated to USD by using the currency rate as of December 2017.

Severance pay
The chief executive officer is entitled to a severance pay equivalent to three months' salary, commencing at the end of the notice period, when the resignation is at the request from the Company. Any other payment earned during this period will be fully deducted.

REMUNERATION BOARD OF DIRECTORS, NOMINATION COMMITTEE AND AUDIT COMMITTEE

In thousands of USD

2017		
Name	*Position*	
Board of director's		
J P Grimnes	Chairman, Non-Executive	21
J P Grimnes	Non-Executive Director	13
J M Drange	Non-Executive Director	30
J B Gateman	Director and Senior Vice President	30
B R Bachmann	Non-Executive Director	0
Nomination committee		
A Farestveit	Committee member	2
R Brekke	Committee member	2
Audit committee		
J P Grimnes	Chairman, Non-Executive	4
J P Grimnes	Committee member	2
Total		**103**

2016		
Board of director's		
A Farestveit	Chairman, Non-Executive (Jan- May 16)	35
M Thjømøe	Chairman, Non-Executive (May - Sept 16)	44
J P Grimnes	Chairman, Non-Executive (Sept - Dec 16)	0
N Matre	Non-Executive Director	29
J B Gateman	Director and Senior Vice President	29
B R Bachmann	Non-Executive Director	0
Nomination committee		
A Farestveit	Chairman, Non-executive	2
J Bleie	Committee member	2
Audit committee		
M Thjømøe	Chairman, Non-executive	3
Total		**143**

22. Investments in Subsidiaries

The Magseis Group consists of:

Company name	Country	Main Business
Magseis ASA (The Parent Company)	Norway	Geophysical services
Magseis Operations AS	Norway	Geophysical services
Magseis Technology AB	Sweden	Product development
Magseis Malaysia Sdn. Bhd.	Malaysia	Geophysical services
Magseis Singapore Services Pte. Ltd.	Singapore	Geophysical services
Magseis Do Brasil Ltda	Brazil	Geophysical services
Magseis USA LLC	USA	Geophysical services

PARENT COMPANY

					In USD		
Company name	Country	Main Business	Ownership	Voting Power	Net book value	Equity	Net profit 2017
Magseis Operations AS (MOAS)	Norway	Geophysical services	100 %	100 %	4 670 881	1 893 383	-822 775
Magseis Technology AB	Sweden	Product development	100 %	100 %	5 982	174 792	189 362
Magseis Malaysia Sdn. Bhd.	Malaysia	Geophysical services	100 %	100 %	1 237 320	620 274	49 068
Magseis Singapore Services Pte. Ltd.	Singapore	Geophysical services	100 %	100 %	3 696	158 857	76 024
Magseis Do Brasil Ltda (under establishment)	Brazil	Geophysical services	100 %	100 %	5 000	5 000	0
Magseis USA LLC (owned by MOAS)	USA	Geophysical services	100 %	100 %	0	0	0

23. Subsequent events

24 January 2018 Magseis was awarded contract for leasing of MASS nodes in South East Asia.

26 January 2018 Magseis successfully raised MNOK 300 in new equity.

22 February 2018 Magseis has a Letter of intent (LOI) for node lease contract in NE Asia (MASS Modular).

27 February 2018 Magseis has strengthening the team with CFO, VP Sales and Chief Geophysicist.

24. Government Grants

In 2017 Magseis ASA has been awarded government grants from Innovation Norway.
KUSD 442 was recognised in the income statement as other income.

25. Supporting information for the cash flow statement

Non-cash transactions from financing activities are shown in the reconciliation of liabilities from financing transactions below.

	Group	Group	Parent	Parent
In thousands of USD	Non-current liabilities	Current loans and borrowings	Non-current liabilities	Current loans and borrowings
2017				
At 1 January	15 139	7 881	15 139	2 644
Cash flows	-1 237	-5 237	-1 237	0
Non-cash flows				
- Amortised cost	190	0	190	0
- Amortised leasing	-438	0	-438	0
- Reclassified to current	-605	605	-605	605
At 31 December	**13 049**	**3 249**	**13 049**	**3 249**
2016				
At 1 January	6 293	1 320	6 293	1 320
Cash flows	10 627	5 236	10 627	0
Non-cash flows				
- Amortised cost	13	0	13	0
- Amortised leasing	-470	0	-470	0
- Reclassified to current	-1 324	1 324	-1 324	1 324
At 31 December	**15 139**	**7 881**	**15 139**	**2 644**

magseis
Strandveien 50, N-1366 Lysaker NORWAY, Phone: +47 23 36 80 20

Deloitte AS
Dronning Eufemias gate 14
Postboks 221 Sentrum
NO-0103 Oslo
Norway

Tel.: +47 23 27 90 00
Fax: +47 23 27 90 01
www.deloitte.no

To the General Meeting of Magseis ASA

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Magseis ASA. The financial statements comprise:

- The financial statements of the parent company, which comprise the balance sheet as at 31 December 2017, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The financial statements of the group, which comprise the balance sheet as at 31 December 2017 and income statement, statement of changes in equity, cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements present fairly, in all material respects, the financial position of the parent company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.
- The accompanying financial statements present fairly, in all material respects, the financial position of the group as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Going concern and assessment of carrying amount of equipment and intangible assets

Key audit matter	How the matter was addressed in the audit
As described in note 13 and 14, Magseis has capitalised USD 74 million in equipment and intangible assets as of 31 December 2017. As described in note 2.1 and 2.3 and in the Board of Directors report; (i) Magseis is exposed to the economic cycle and macroeconomic fluctuations, since changes in the general economic situation affect the demand for seismic technology and services. The group's operations and value of equipment and intangible assets depend heavily upon development and production spending by the oil and gas companies. (ii) The group's performance can be affected by the ability to enter into new contracts on satisfactory terms. The group has historically a single source of revenue on a contract basis and limited backlog and there is inherent uncertainty about future sales. (iii) There is funding risk as Magseis might require funding to develop the technology. Management and the Board of Directors prepare cash flow forecasts to verify that Magseis can operate as a going concern for the next 12 months from the balance sheet date and assess whether there are indicators of impairment relating to the tangible and intangible assets on the balance sheet. In making these assessments, management makes assumptions regarding the demand for the group's seismic technology services, anticipated contract awards and expected future cash flows from the projects. We focused on this area due to the significant management judgement involved, and due to the impact lack of contracts, funding and other risks as described in the Board of Directors report and note 2.1 and 2.3 might have on the company's operations and the carrying amount of the tangible and intangible assets.	The following procedures were performed, among others, to address the matter: • We obtained management's cash flow projections for the 12-month period from the balance sheet date and compared the key input assumptions to underlying sources or historical information where relevant, or external sources where available. • We evaluated what forecast expenditure is committed and what could be considered discretionary. • We tested the arithmetic integrity of the calculations. • We evaluated management's assessment of indicators of impairment. • We considered the consistency of assumptions used in the going concern assessment with those used in the assessment of indicators of impairment. • We evaluated the assumptions in management's future business plan with reference to current market conditions, ongoing tendering activities by the group and any other corroborating evidence. We evaluated the adequacy of the disclosure made in the Financial Statements regarding impairment assessments and going concern.

Other information

Management is responsible for the other information. The other information comprises the Board of Directors' report, the statements on Corporate Governance and Corporate Social Responsibility, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements *(ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company and the Group's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 25 April 2018
Deloitte AS

Jørn Borchgrevink
State Authorised Public Accountant (Norway)