Q4 2014

Magseis ASA

Fourth quarter

magseis

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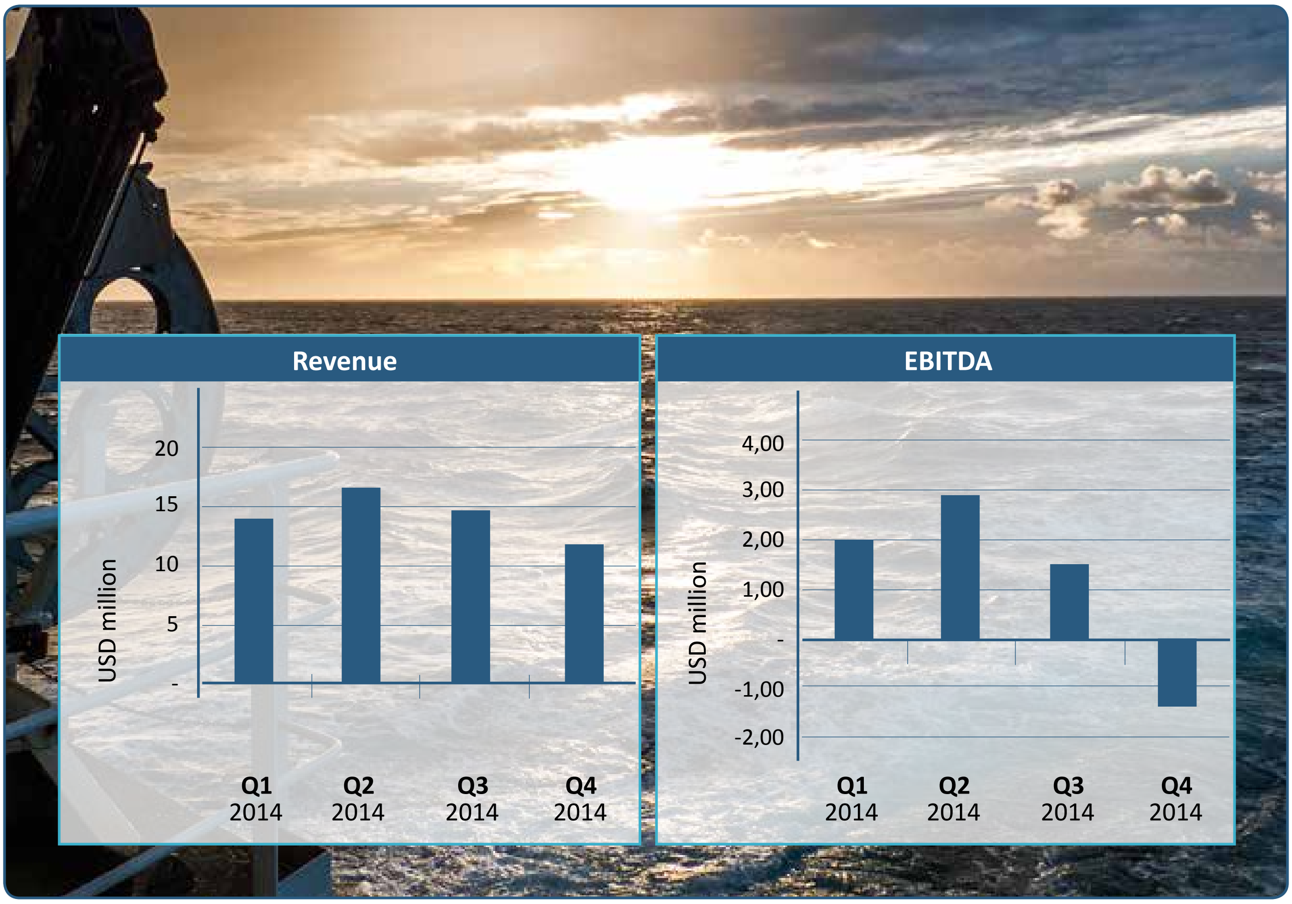
HIGHLIGHTS

Fourth quarter 2014

- Successfully completed work on the South Arne Field on the Danish Continental Shelf for Hess Denmark.
- Investments in the upgrade of our first crew Artemis Athene, to enhance operational capacity and efficiency continued in Q4
- In December, Magseis started on a new multi- client acquisition project in the Barents Sea for Lundin Norway.
- Revenues of USD 11.8 million, compared to USD 14.6 million during Q3 2014.
- EBITDA for the quarter ended at USD - 1.4 million compared to USD 1.5 million in Q3 2014.
- EBITDA in the quarter would be positive if adjusted for the loss recognised on the Barents Sea multi-client project and a high level of R&D expensed in the quarter.
- EBIT of USD -3.5 million compared to USD -1.2 million during Q3 2014.
- Net Income of USD -4.1 million compared to USD -2.0 million during Q3 2014.

Preliminary full year 2014

- Revenues of USD 56.6 million, compared to USD 12.2 million in 2013.
- EBITDA of USD 4.9 million compared to USD -6.8 million in 2013.
- Adjusted for one-off items during the year and R&D costs that have been refunded the adjusted EBITDA is USD 6.7 million.
- EBIT of USD -3.8 million compared to USD -8.8 million in 2013.
- Net Income of USD -5.6 million compared to USD -8.7 million.



CEO STATEMENTS

During the fourth quarter Magseis successfully completed the South Arne survey for Hess Denmark. Operating performance was strong despite challenging survey conditions. This continues to build on our track-record of executing challenging 4D surveys and it has been rewarding to receive the positive feedback from our client.

Our results for the quarter have been impacted by low rates for winter acquisition but thanks to a strong performance by the crew we managed to generate positive EBITDA for the project as a whole. However, the loss recognized on our Barents Sea multi-client project combined with significant R&D expenditure during the quarter has resulted in a negative EBITDA of USD -1.4 million for the quarter (adjusted EBITDA of USD -1.0 million [1]).

This is the first year of operations for our proprietary Marine Autonomous Seismic System (MASS) and, even as technical performance and operational efficiency have improved tremendously during the year, this also means that we have not captured the full earnings potential of the system during the “shakedown” period. In addition, the time it takes to establish sufficient track-record and the required international presence has impacted our rate levels towards the latter part of the year. Despite this, we still managed to generate a full-year EBITDA of USD 4.9 million (adjusted EBITDA of USD 6.7 million [1]) and we believe this is quite an achievement for our first full year of operations.

With the recent decline in the oil price, conditions are challenging for the seismic industry as a whole. However, Magseis holds a stronger position than ever with what is now one of the industry’s most cost-efficient crews, a rapidly growing list of satisfied clients and an international presence that is expanding month by month.

We firmly believe the production-oriented nature of ocean bottom seismic will enable the continued growth of this segment. Based on the recent award of the survey for Chevron in the North Sea and the number of contract opportunities we are working on for 2015, I am confident that we will secure good utilization for the remainder of the year. And with the increase in capacity on Athene combined with the cost reductions our second crew can facilitate, I remain very optimistic for the prospects ahead.

Ivar Gimse - **CEO Magseis ASA**

[1] *Refer to table “Earnings and normalised earnings” on page 6 for further information.*

KEY FINANCIALS

In thousands of USD

Profit and loss	Q4 2014	Q4 2013	YTD 2014	YTD 2013
Revenues	11 760	12 239	56 606	12 239
Cost of sales	9 969	9 885	39 217	9 885
EBITDA	-1 411	-716	4 928	-6 830
EBIT	-3 531	-2 560	-3 798	-8 811
Net profit	-4 124	-2 817	-5 555	-8 695
Basic earnings per share	-0,15	-0,13	-0,22	-0,41
Financial position				
Total assets			81 705	58 662
Total liabilities			19 460	14 482
Total equity			62 245	44 180
Equity ratio			76,2%	75,3%
Cash flow				
Net cash flow from operating activities			5 948	-7 169

BOARD OF DIRECTORS REPORT

Operational comments

The Artemis Athene was primarily occupied in the Danish sector of the North Sea performing a complex operation in the midst of an operating oil field. The expectations imposed on the crew were high, both with regards to HSE and operational performance, coordinating simultaneous operations with all the other activity in the oil field as well as tackling inclement weather. This was mastered to the great satisfaction of our client.

The fourth quarter also brought us closer to the fully automated back deck with the installation of a new handling machine, allowing our MASS nodes to be deployed and recovered virtually without any manual interaction. This system is now fully operational and is an efficient tool for further improvment of our performance.

Finally, during the quarter we made a big step forward in the internationalization of Magseis through establishing a partnership with the Chinese seismic company BGP for work in the Red Sea region as well as securing representatives in key markets such as Brazil and Mexico.

Artemis Athene at South Arne Field

FINANCIAL REVIEW

New functional and presentation currency

Magseis has changed its functional and presentation currency from Norwegian Kroner (NOK) to United States Dollars (USD) with effect from 1 July 2014. This change has been implemented to better reflect the profile with revenues, costs and cash flows primarily generated in USD.

Revenues

Fourth quarter revenues were USD 11.8 million compared to USD 12.2 in the fourth quarter of 2013. Revenues for 2014 amounted to USD 56.6 million compared to USD 12.2 in the same period in 2013. The increase can be attributed to a full year of operations in 2014 compared to only three months operations in 2013. Revenue decreased by USD 2.8 million in the fourth quarter 2014 compared to the third quarter in 2014 due to less favourable rates for winter acquisition, more weather standby and no revenue in the second half of December due to a short yard stay to install handling equipment and steaming to the Barents Sea multi-client project.

Operational costs

Cost of sales amounted to USD 10.0 million in the fourth quarter of 2014 compared to 9.7 million in the third quarter of 2014 and 9.9 million in the fourth quarter of 2013. Cost of sales in the fourth quarter 2014 includes a loss of USD 1.1 million relating to a multi-client project for Lundin in the period from end of December 2014 to mid-January 2015. The remaining components of operational costs are mainly related to the time charter for the Artemis Athene, fuel and battery consumption and salary costs for the seismic personnel.

Selling, general and administration expenses (SG&A) and other expenses in the fourth quarter of 2014 amounted to USD 2.6 million compared to USD 2.5 million in the same period in 2013. SG&A and other expenses increased from a total of USD 7.8 million in 2013 to USD 10.9 million in 2014. The increase in SG&A from 2013 to 2014 reflects the gradual growth of the organisation.

Research and development

Research and development expense (R&D) for the fourth quarter of 2014 was USD 0.6 million compared to USD 0.6 million in the same period in 2013 and USD 0.4 million in Q3 2014. Please refer to note *9 Research and development* for further information.

Depreciation, amortisation and impairment

Depreciation and amortisation was USD 2.0 million in the fourth quarter of 2014 and USD 7.6 million for the whole year compared to USD 1.8 million and USD 2.0 million in the respective periods in 2013. The major part of the Company's seismic equipment was developed in 2013 and was depreciated and amortised from the fourth quarter of 2013 and onwards.

From the third to the fourth quarter in 2014 amortisation and depreciation increased from USD 1.8 million to USD 2.0 million. This is due to delivery of new equipment in the fourth quarter.

An impairment of USD 0.1 million was recognised in the fourth quarter compared to USD 0.8 in the third quarter. Recognised impairment for the full year 2014 was 1.1 million and relates mainly to equipment damaged during the "shakedown period". No impairment was recognised in 2013.

EBITDA and EBIT

The EBITDA was USD -1.4 million in the fourth quarter of 2014 and USD 4.9 million in 2014 compared to USD -0.7 million and USD -6.8 million in the respective periods in 2013. The decrease in EBITDA of USD 2.9 million from the third to the fourth quarter in 2014 is primarily due to lower revenue and a multi-client project as explained above. EBIT was USD -3.5 million in the fourth quarter of 2014 and USD -3.8 million in 2014 compared to USD -2.6 million and USD -8.8 million in the respective periods in 2013. The decrease in EBIT of USD 2.3 million from the third to the fourth quarter is related to the same factors as the decrease in EBITDA.

Balance Sheet and Cash Flow

As at 31 December 2014 the equity was USD 62.2 million of which USD -5.1 million relates to a currency translation reserve which reflects the currency differences triggered by the change of presentation currency from NOK to USD. The equity as at 31 December 2013 amounted to USD 44.2 of which USD -4.0 million relates to currency translation reserve. The increase in equity is mainly due to the capital raising of USD 20.1 million completed in April 2014 and conver- sion of loan from Shell of USD 4.0 million conducted in the second quarter of 2014, offset by the loss incurred in 2014.

Tangibles and intangible assets amounted to USD 48.3 million as at 31 December 2014 compared to USD 39.5 million at the end of 2013. The increase reflects investments made in 2014 relating to increasing the capacity on the current vessel, offset by a total depreciation and amortisation of USD 7.6 million and an impairment of USD 1.1 million in the period from 31 December 2013 to 31 December 2014.

As at 31 December 2014, current assets amounted to USD 33.4 million compared to USD 19.1 million in 2013. The increase was mainly due to net increase in cash and cash equivalents of 14.7 million.

Non-current liabilities decreased from USD 5.4 as at 31 December 2013 to USD 4.1 million in 2014. The decrease is due to amortisation of the time charter for Artemis Athene.

Current liabilities as at 31 December 2014 amounted to USD 15.4 million compared to USD 9.1 million as at 31 December 2013. The increase mainly reflects higher trade payables and accruals in 2014 related to development of new equipment in 2014.

Cash flow from operating activities was positive USD 5.9 million in 2014 compared to USD -7.2 million in the same period in 2013. Due to upgrading the capacity of the seismic equipment on-board the current vessel, cash flow from investing activities amounted to USD -13.4 in 2014. The comparable cash flow in 2013 of USD -31.6 million was a result of developing the first generation seismic equipment which is used in current operations. In 2014, cash flow from finance activities was USD 23.3 million which is a result of the capital-raise and conversion of loan conducted in second quarter of 2014. Proceeds from loan include financing of a research and development project amounting to USD 1.2 million. Refer to note *9 Research and development* for further information.

Employees

As at 31 December 2014, Magseis had a total of 77 full-time employees including 46 seismic crew.

Earnings and normalised earnings

During 2014 Magseis has incurred cost management considers not to be part of the daily operations. Magseis has also recorded cost in 2014 relating to earlier periods. To be able to measure earnings from the Goup's core business these items are eliminated in the normalised earnings in the table below:

EARNINGS AND NORMALISED EARNINGS

	Q4 2014			Full year 2014		
In thousands of USD	Actual earnings	Adjustments	Normalised earnings	Actual earnings	Adjustments	Normalised earnings
EBITDA	**-1 411**	**400**	**-1 011**	**4 928**	**1 770**	**6 698**
Deep water R&D, not capitalised		400			1 200	
Adjustment for maintenance days		0			150	
Adjustment for IPO and conv loan costs		0			420	
EBIT	**-3 531**	**483**	**-3 048**	**-3 798**	**2 806**	**-992**
Adjustments EBITDA		400			1 770	
Adjustments for impairment		83			1 036	
EBT (profit before tax)	**-4 124**	**483**	**-3 641**	**-5 555**	**3 355**	**-2 200**
Adjustments EBIT		483			2 806	
Adjustments fair value adj conversion loss		0			549	

Deep water R&D, not capitalised

Relates to a specific early stage R&D project where cost has not been capitalised. Expensed costs have been reimbursed by a partner on the project, but due to the terms of the agreement the reimbursement is recognised as a loan in the financial statements. Please refer to note *9 Research and development* for further information.

Maintenance days

Parts of accruals recorded in 2014 incurred in 2013.

Adjustment IPO cost

In June Magseis' shares listed on Oslo Axess. Includes listing fees to banks, lawyers, auditors etc.

Impairment

Related to equipment damaged in the "shakedown period".

Fair value adjustment for conversion of loan

In June 2014, the Group converted a loan into shares in Magseis ASA. At the conversion date the loan was measured at fair value which resulted in a loss for the Group.

20 LARGEST SHAREHOLDERS AS AT 20 FEBRUARY 2015		
Shareholder	**Holdings**	
WESTCON GROUP AS	5 001 920	18,41 %
GEO INNOVA AS	3 515 780	12,94 %
ANFAR INVEST AS	3 285 060	12,09 %
CLIPPER A/S	1 360 000	5,01 %
BARRUS CAPITAL AS	1 223 740	4,51 %
J.P. MORGAN CHASE BANK N.A. LONDON	1 011 101	3,72 %
GNEIS AS	904 280	3,33 %
OP-EUROPE EQUITY FUND	853 340	3,14 %
VARMA MUTUAL PENSION INSURANCE	700 000	2,58 %
VPF NORDEA KAPITAL	658 200	2,42 %
APM INVEST AS	640 800	2,36 %
STOREBRAND VEKST	602 241	2,22 %
KLP AKSJE NORGE VPF	552 250	2,03 %
STOREBRAND NORGE I	543 198	2,00 %
MP PENSJON PK	484 020	1,78 %
INVESCO PERP EUR SMALL COMP FD	400 000	1,47 %
KOMMUNAL LANDSPENSJONSKASSE	366 010	1,35 %
BARCLAYS BANK PLC	324 820	1,20 %
INVESCO FUNDS	270 000	0,99 %
VPF NORDEA AVKASTNING	266 000	0,98 %
Total 20 largest shareholders	**22 962 760**	**84,16 %**
Other shareholders	4 199 801	**15,84 %**
Total outstanding shares	**27 162 561**	**100,00 %**

Outlook

So far in 2015 we have invested our resources in two smaller surveys in the Barents Sea and Red Sea respectively. These are regions where Ocean Bottom Seismic (OBS) will be a key technology to ensure further development and we believe they hold great potential for us to secure more work during 2015 and beyond. These surveys have also enabled us to successfully prove our system in operation at more than 1,000 meters water depth which represents our first step into the ultra-deep water segment. This is a segment which we believe Magseis is uniquely suited to address and where our planned investment in the second crew and deep water R&D project will make a big impact. With the upgraded Athene as one of the OBS industry's most cost-efficient crews and the game changer that our second crew will be for OBS acquisition costs – Magseis is in a unique position. We believe that the current industry environment will enable us to secure favorable vessel terms to further support our growth strategy and continue to monitor market developments closely, so as to enable the shortest possible time to market for the next step in our development.

Statement on Financial Compliance

We confirm, to the best of our knowledge, that the condensed consolidated interim financial statements for the period 1 January to 31 December 2014 have been prepared in accordance with current applicable accounting standards and IAS 34 Interim Financial Reporting, and gives a true and fair view of the assets, liabilities, financial position and results of the group. We also confirm to the best of our knowledge that the condensed consolidated interim financial statements present a fairly view of the development and performance of the business during the period, and together with the 2013 Annual Report a description of the principal risks and uncertainties facing the Group.

Board of Directors of Magseis ASA,
Lysaker, 26 February 2015

Anders Farestveit
Chairman

Noralf Matre
Director

Jan Gateman
Director

Bettina R. Bachmann
Director

Mari Thjømøe
Director

Ivar Gimse
CEO

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In thousands of USD	*Note*	Q42014 *(unaudited)*	Q4 2013 *(unaudited)*	YTD 2014 *(unaudited)*	YTD 2013 *(unaudited)*
REVENUE AND OTHER INCOME					
Revenue	*3*	11 760	12 239	56 606	12 239
Total revenue and other income		**11 760**	**12 239**	**56 606**	**12 239**
OPERATING EXPENSES					
Cost of sales		9 969	9 885	39 217	9 885
Research and development expenses	*9*	595	587	1 591	1 378
Selling, general and administrative costs		1 994	1 711	7 916	4 813
Other expenses		613	772	2 954	2 993
Depreciation and amortisation	*4, 5*	2 037	1 844	7 607	1 981
Impairment	*4*	83	0	1 119	0
Total operating expenses		**15 291**	**14 799**	**60 404**	**21 050**
OPERATING PROFIT (LOSS)		**-3 531**	**-2 560**	**-3 798**	**-8 811**
FINANCIAL INCOME AND EXPENSES					
Finance income		439	62	3 757	659
Finance costs		-1 032	-319	-5 514	-543
Net finance items		**-593**	**-257**	**-1 757**	**116**
NET PROFIT (LOSS) BEFORE TAX		**-4 124**	**-2 817**	**-5 555**	**-8 695**
Income tax expense		0	0	0	0
NET PROFIT (LOSS)		**-4 124**	**-2 817**	**-5 555**	**-8 695**
Basic earnings (loss) per share (in NOK)		-0,15	-0,13	-0,22	-0,41
Diluted earnings (loss) per share (in NOK)		-0,15	-0,13	-0,22	-0,41
OTHER COMPREHENSIVE INCOME					
Currency exchange differences		0	-576	-1 155	-4 660
Total comprehensive income (loss) for the period, attributable to Owners of the Company		**-4 124**	**-3 393**	**-6 710**	**-13 355**

CONDENSED CONSOLIDATED BALANCE SHEET

In thousands of USD	*Note*	**YTD 2014** *(unaudited)*	**YTD 2013** *(unaudited)*
ASSETS			
Non-current assets			
Equipment	*4*	46 346	37 343
Intangible assets	*5*	1 939	2 205
Total non-current assets		**48 285**	**39 548**
Current assets			
Cash and cash equivalents		21 591	6 867
Trade receivables		7 621	9 200
Other current assets		4 208	3 047
Total current assets		**33 420**	**19 114**
TOTAL ASSETS		**81 705**	**58 662**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	*6*	237	186
Share premium	*6*	83 755	60 026
Other equity		2 039	1 044
Retained earnings		-18 663	-13 108
Currency translation reserve		-5 123	-3 968
Total equity attributable to equity holders of the Company		**62 245**	**44 180**
TOTAL EQUITY		**62 245**	**44 180**
LIABILITIES			
Non-current liabilities			
Obligation under finance lease	*8*	2 739	3 501
Other non-current financial liabilities		1 369	1 867
Total non-current liabilities		**4 108**	**5 368**
Current liabilities			
Trade payables		8 050	4 335
Current tax payable		0	34
Current portion of obligations under finance lease	*8*	761	685
Other current liabilities		6 541	4 060
Total current liabilities		**15 352**	**9 114**
TOTAL LIABILITIES		**19 460**	**14 482**
TOTAL EQUITY AND LIABILITES		**81 705**	**58 662**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of USD	Share capital	Share premium reserve	Share based payments reserve	Retained earnings	Currency trans-lation reserve	Total
Balance at 1 January 2013	**186**	**60 026**	**140**	**-4 413**	**692**	**56 631**
Profit / (loss) for the period	0	0	0	-8 695	0	-8 695
Other comprehensive income	0	0	0	0	-4 660	-4 660
Total comprehensive income for the period	0	0	0	-8 695	-4 660	-13 355
Share-based payments (options)	0	0	904	0	0	904
Balance at 31 December 2013	**186**	**60 026**	**1 044**	**-13 108**	**-3 968**	**44 180**
Balance at 1 January 2014	**186**	**60 026**	**1 044**	**-13 108**	**-3 968**	**44 180**
Profit / (loss) for the period	0	0	0	-5 555	0	-5 555
Other comprehensive income	0	0	0	0	-1 155	-1 155
Total comprehensive income for the period	0	0	0	-5 555	-1 155	-6 710
Share issuance	43	20 120	0	0	0	20 163
Conversion loan	8	3 992	0	0	0	4 000
Fair value adjustment convertible loan	0	550	0	0	0	550
Expenses related to share issuance	0	-869	0	0	0	-869
Expenses related to conversion of loan	0	-64	0	0	0	-64
Share-based payments (options)	0	0	995	0	0	995
Balance at 31 December 2014	**237**	**83 755**	**2 039**	**-18 663**	**-5 123**	**62 245**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

In thousands of USD	*Note*	**YTD 2014** *(unaudited)*	**YTD 2013** *(unaudited)*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit / (Loss) before tax		-5 555	-8 695
Adjustment for:			
Income tax paid		-34	0
Depreciation and amortisation	*4, 5*	7 607	1 981
Deferred lease discount amortisation		-498	2 234
Impairment	*4*	1 119	0
Fair value adjustment conversion of loan		550	0
Share based payments expense		995	904
Interest expense		454	115
Interest income		-242	-615
Working capital adjustments:			
(Increase) / decrease in current assets		419	-9 052
Increase / (decrease) in trade and other payables and accruals		1 133	5 959
		1 552	-3 093
Net cash from operating activities		**5 948**	**-7 169**
Cash flows from investing activities:			
Interest received		242	615
Acquisition of equipment	*4, 5*	-13 403	-31 877
Payments for capitalised development and intangibles	*5*	-198	-325
Net cash used in investing activities		**-13 359**	**-31 587**
Cash flows from financing activities:			
Proceeds from sale and leaseback		0	4 167
Proceeds from loan		5 200	0
Payment of finance lease obligation		-685	-55
Proceeds from issue of share capital		20 163	0
Expenses related to issue of share capital		-934	0
Interest paid		-454	-115
Net cash from financing activities		**23 290**	**3 997**
Net change in cash and cash equivalents		15 879	-34 759
Cash and cash equivalents at 1 January		6 867	46 286
Net foreign exchange difference		-1 155	-4 660
Cash and cash equivalents at period end		**21 591**	**6 867**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM 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 Dicks vei 10b, 1366 Lysaker. These condensed consolidated interim financial statements comprise Magseis ASA (referred to as the "Company") and its subsidiaries (together referred to as "Magseis" or "the "Group"). The Group is primarily involved in marine seismic operations and seismic-related activities.

2.1 Basis of preparation

(a) Statement of compliance

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

The condensed consolidated interim financial statements does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the annual financial statements as at 31 December 2013.

The condensed consolidated interim financial statements were authorised for issue by the Board of Directors on 26 February 2015.

(b) Basis of measurement

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

(c) Going concern

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

(d) Functional and presentation currency

The condensed consolidated interim financial statements are presented in United States Dollars (USD), which from 1 July 2014 is also the Group's functional currency. All financial information presented in USD has been rounded to the nearest thousand unless otherwise stated. Comparative figures earlier presented in NOK has been translated by using quarterly average rates for the profit and loss, closing rates for assets and liabilities, and historical transaction rates for equity and other non-monetary items. The exchange differences arising from using different currency rates are presented as currency translation reserve in equity.

2.2 Basis for consolidation

The condensed consolidated interim financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2014. Subsidiaries are entities controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Intra-group balances and transactions, and any unrealised income and expense arising from intra-group transactions, are eliminated.

2.3 Significant accounting judgements, estimates and assumptions

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

The accounting judgements, estimates and assumptions used to prepare the condensed consolidated interim financial statements are the same as those used to prepare the 2013 annual financial statements.

2.4 Summary of significant accounting policies

The accounting principles used to prepare the condensed consolidated interim financial statements are the same as those used to prepare the 2013 annual financial statements except for the new multi-client policy as set out below. There are no new standards effective in 2014 that have had a significant impact to the Group's financial statements.

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. The costs directly attributable to data acquisition are capitalised and included in the library. Amortisation is compared with the income for the different projects in proportion to the expected income per project. Minimum amortisation in addition means that the capitalised value of a project a year after completion shall not exceed 80% of the cost price, which is minimum 20% amortisation after 12 months; in addition all projects shall be entirely expensed within 5 years (20% per year) after completion.

3. Operating segments

The Group is operating in one segment being geophysical surveys with respect to products and services. Accordingly, all significant operating decisions are based upon analysis of the Group as one segment. The financial results from this segment are equivalent to the financial statements of the Group as a whole.

4. Equipment

EQUIPMENT					
In thousands of USD	Office machines	Seismic equipment	Seismic equipment under finance lease	Under construction	Total
Cost					
Balance at 1 January 2013	112	608	0	6 166	6 886
Additions	90	31 604	4 109	3 345	39 148
Disposals	0	-597	0	-6 166	-6 763
Balance at 31 December 2013	**202**	**31 615**	**4 109**	**3 345**	**39 271**
Balance at 1 January 2014	202	31 615	4 109	3 345	39 271
Additions	124	4 250	0	13 280	17 654
Disposals	0	0	0	0	0
Impairment	0	-1 075	0	-293	-1 368
Adjustment currency conversion	-2	-160	-46	-189	-397
Balance at 31 December 2014	**324**	**34 630**	**4 063**	**16 143**	**55 160**
Depreciation					
Balance at 1 January 2013	31	41	0	0	72
Depreciation for the year	57	1 600	199	0	1 856
Disposals	0	0	0	0	0
Balance at 31 December 2013	**88**	**1 641**	**199**	**0**	**1 928**
Balance at 1 January 2014	88	1 641	199	0	1 928
Depreciation for the year	83	6 290	771	0	7 144
Disposals	0	0	0	0	0
Impairment	0	-249	0	0	-249
Adjustment currency conversion	0	-9	0	0	-9
Balance at 31 December 2014	**171**	**7 673**	**970**	**0**	**8 814**
Carrying amounts					
at 1 January 2013	81	567	0	6 166	6 814
at 31 December 2013	**114**	**29 974**	**3 910**	**3 345**	**37 343**
at 1 January 2014	114	29 974	3 910	3 345	37 343
at 31 December 2014	**153**	**26 957**	**3 093**	**16 143**	**46 346**

Useful life of equipment

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

Capitalisation

During 2014 Magseis has capitalised USD 1.6 million (2013: USD 2.6 million) in cost relating to the development of the seismic equipment.

Impairment

Magseis has during 2014 recorded an impairment of USD 1.1 million (2013: USD 0) where 1.0 million was recorded in the first three quarters and relates to the shakedown period.

5. Intangible assets

INTANGIBLES		
In thousands of USD	**2014**	**2013**
Cost		
Balance at 1 January	2 321	1 996
Additions	194	325
Disposals	0	0
Balance at 31 December	**2 515**	**2 321**
Amortisation and impairment losses		
Balance at 1 January	116	0
Amortisation for the year	460	116
Disposals	0	0
Balance at 31 December	**576**	**116**
Carrying amounts		
at 1 January	2 205	1 996
at 31 December	**1 939**	**2 205**

Development costs

In the first quarter of 2014 Magseis capitalised cost related to research and development project for generation 2 electronics. In addition, intangibles as at 31 December 2014 comprise of prototypes and Magseis software for the first generation equipment which are amortised on a straight-line basis over 5.9 and 3 years respectively. The useful life of prototypes is based on the weighted average useful lives of the sensor capsules.

6. Share capital and reserves

The shares of Magseis are listed on Oslo Axess.

SHARE CAPITAL ISSUED	Number of shares	Shares capital USD '000	Share premium reserve USD '000
Ordinary shares - Issued and fully paid			
At 1 January 2013	1 053 299	186	60 026
At 31 December 2013	**1 053 299**	**186**	**60 026**
Ordinary shares - Issued and fully paid			
At 1 January 2014	1 053 299	186	60 026
10 Apr. 2014: *Placement of 254,274 at 475 NOK per share*	254 274	42	20 121
28 May 2014: *Share split - 20 for 1*	26 151 460		0
06 Jun. 2014: *4.02 million USD loan converted for 1,011,101 at 23.75 NOK per share*	1 011 101	9	4 542
Capital raising costs	0	0	-934
At 31 December 2014	**27 162 561**	**237**	**83 755**

At 1 July 2014 Magseis ASA and its subsidiaries changed their functional and presentation currency from Norwegian Krone (NOK) to United States Dollars (USD). The translation resulted in a currency translation difference arising from using different currency rates for profit and loss, assets and liabilities, equity and other non-monetary items. The effect is shown as currency translation reserve in the statement of changes in equity.

No dividends were paid during the period ended 31 December 2014 (2013: USD 0).

7. Related parties

SHARES AND OPTIONS HELD BY CURRENT MEMBERS OF THE BOARD AND MANAGEMENT:	Shares		Share options	
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013
A Farestveit	3 605 460	3 424 460	160 000	160 000
N Matre (Westcon Group)	5 001 920	4 033 500	0	0
J B Gateman	3 515 780	3 494 740	160 000	160 000
B R Bachman	1 011 101	0	0	0
M Thjømøe	0	0	0	0
I Gimse	904 280	895 860	250 000	220 000
M Ektvedt	0	0	266 580	206 580
Bjørn Jensen	0	0	100 000	0
Total	**14 038 541**	**11 848 560**	**936 580**	**746 580**

No share options have been issued during the fourth quarter of 2014. Magseis has recognised a share-based expense of USD 1.0 million in 2014 (2013: USD 0.9 million). Refer to note *7 Share-based payments* in previously issued quarterly reports for further information.

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.

RELATED PARTIES TRANSACTIONS AND OUTSTANDING BALANCES:						
In thousands of USD			Transaction value		Balance outstanding	
Name	**Transactions**	**Note**	**31 Dec 2014**	**31 Dec 2013**	**31 Dec 2014**	**31 Dec 2013**
J B Gateman	Consultant costs	(I)	227	229	58	64
N Matre/Westcon Group	Leases	(II)	18 213	4 382	3 160	1 494
N Matre/Westcon Group	Other services	(III)	1 625	332	755	5
Total			**20 065**	**4 943**	**3 972**	**1 563**

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

(II) *Relates to a time charter (TC) and a sale and leaseback arrangement. As part of the TC agreement Westcon Group also delivers Marine Management services. In 2014 this cost amounts to USD 0.4 million. As at 31 December 2014 the remaining time charter lease terms is 4 years and the sale and leaseback is 3 years and 11 months.*

(III) *In addition to the leases Westcon Group also delivered yard services during 2014.*

8. Leases

Operating leases

The TC agreement with Westcon Group (related party) is classified as an operating lease. The table below sets out the future minimum lease payments of the arrangement:

FUTURE MINIMUM LEASE PAYMENTS OPERATING LEASES		
In thousands of USD	**31 December 2014**	**31 December 2013**
Less than one year	17 155	17 155
Between one and five years	51 512	68 667
More than five years	0	0
Total	**68 667**	**85 822**

Finance lease

The sale and leaseback arrangement with Westcon Group (related party) is treated as a finance lease. Future minimum lease payments under the finance lease together with the present value of the net minimum lease payments are as follows:

FUTURE MINIMUM LEASE PAYMENTS FINANCE LEASES				
	31 December 2014		31 December 2013	
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	1 095	1 035	1 095	1 035
Between one and five years	3 195	2 466	4 290	3 152
More than five years	0	0	0	0
Total minimum lease payments	**4 290**	**3 501**	**5 385**	**4 186**
Less amounts representing finance charges	789	0	1 199	0
Present value of minimum lease payments	**3 501**	**3 501**	**4 186**	**4 186**

Refer to note 7 Related parties for further information about leases with related parties.

9. Research & Development

In 2014 Magseis has continued its innovative research and development (R&D) programme to further increase production efficiency and quality of the OBS data. During the fourth quarter Magseis entered into an agreement with a joint development partner to refund the costs incurred to date by Magseis on the project. Due to the content of the agreement in which intellectual property rights are transferred to the partner but Magseis is granted a repurchase option, the funding is treated as a liability (financing) in the financial statements. It should be noted that Magseis has no obligation to repay the liability and has already expensed the costs throughout 2014. The recognised liability amounts to USD 1.2 million.

10. Capital commitments

Future minimum commitments relating to equipment are as follows:

In thousands of USD	31 December 2014	31 December 2013
Contracted but not yet provided for and payable:		
Within one year	9 741	17 183
One year later and no later than five years	1 039	0
Later than five years	0	0
Total	**10 779**	**17 183**

magseis

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