Q3 2020

report

magseis fairfield

Summary

Progressing according to plan

- Safe, efficient and reliable execution - strong operational performance on ongoing projects
- Zero recordable safety events in Q3 (TRCF at 0.0), and no Covid-19 cases offshore
- Continuing to win new projects in a difficult market
- Cost consciousness and continued financial improvement amidst Covid-19 and low oil price environment
- Preserving cash and ensuring business continuity with lean organization preparing for market rebound

Q3 financial results

- Revenue of USD 46.9 million and gross margin of 35%
- EBITDA of USD 10.4 million and margin of 22%, marking the third sequential quarter of EBITDA improvement
- Operating profit of USD 3.7 million
- Net profit after tax of USD 3.1 million
- Positive cash flow from operating activities of USD 10.9 million
- Cash balance increased to USD 61.8 million

Cost and capex cuts on target

- On target to reduce annual SG&A cost level by ~60% from 2019 to ~USD 25 million
- On target to reduce annual capex level by ~80% from 2019 to ~USD 15 million, excluding multi-client investments

Order backlog increasing

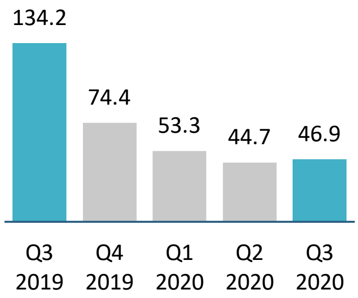
- Awarded 7 new contracts so far this year, with wins in all quarters
- Secured additional pre-funding for the ongoing multi-client project in the North Sea
- Signed conditional LOA for four-month OBN contract in Gulf of Mexico from April 2021
- Awarded deepwater 4D Baseline OBN survey in Gulf of Mexico from late 2020
- Total backlog of USD 170 million, up from USD 151 million at the end of the second quarter
- USD 50million of backlog for delivery in 2020 and USD 120 million in 2021 and beyond

Market and Outlook

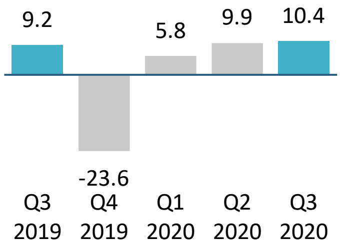
- Tender activity and market research indicate a very modest increase in OBN activity in 2021 and resumed growth from 2022
- Magseis Fairfield adapting to the near-term market outlook with cost and capex containment
- Clients continue to focus on cash and value generation from development of already explored fields and assets already in production. Magseis Fairfield is uniquely positioned for this new client focus area
- Clear market advantage with differentiated technology and a lean organization well positioned for a market rebound

USD millions

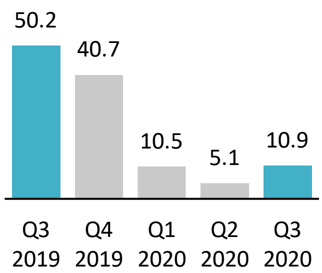
Revenues



EBITDA



Cash flow from operations



Key financials

USD million	Q3 2020	Q3 2019	YTD 2020	YTD 2019	FY 2019
As per IFRS					
Revenues	46.9	134.2	144.9	385.2	459.6
Gross profit	16.2	27.5	47.5	91.0	85.3
Gross margin	*35%*	*20%*	*33%*	*24%*	*19%*
EBITDA	10.4	9.2	26.2	45.1	21.5
EBITDA after multi-client amortization	10.4	9.2	26.2	45.1	21.5
EBITDA after multi-client amortization and excluding special items	10.4	16.1	26.2	59.2	53.6
EBITDA %	*22%*	*12%*	*18%*	*15%*	*12%*
EBIT	3.7	(103.6)	(7.3)	(101.7)	(150.4)
Net profit/(loss)	3.1	(104.1)	(11.8)	(105.6)	(151.5)
Segment reporting					
Revenues	50.8	134.2	154.4	385.2	459.6
Gross profit	19.7	22.3	47.6	78.9	68.5
Gross margin	*39%*	*17%*	*31%*	*20%*	*15%*
EBITDA	13.6	3.5	25.3	31.5	2.7
EBITDA after multi-client amortization	11.0	3.5	19.0	31.5	2.7
EBITDA after multi-client amortization and excluding special items	11.0	10.4	19.0	45.6	34.8
EBITDA %	*22%*	*8%*	*12%*	*12%*	*8%*
EBIT	3.9	(9.7)	(6.2)	(7.1)	(151.9)
Other key figures					
Net cash from operating activities	10.9	50.2	26.5	105.8	144.7
Net cash used in investing activities	(1.0)	(49.4)	(28.2)	(93.7)	(112.6)
Net cash from financing activities	(5.3)	(6.0)	9.5	(31.1)	(46.8)
Total assets	333.1	415.3	333.1	415.3	356.5
Equity ratio	60%	55%	60%	55%	52%
Cash and cash equivalents	61.8	49.1	61.8	49.1	53.4
Net interest-bearing debt/(cash)	(29.0)	(8.5)	(29.0)	(8.5)	(20.9)
Book value multi-client library IFRS	19.6	-	19.6	-	-
Book value multi-client library Segment	13.4	-	13.4	-	-

Comment from the CEO

Despite lower year-on-year revenue both due to a significant node sale in 2019 and the Covid-19 pandemic and the low oil price 2020, we have delivered another strong quarter. From an HSE perspective, we had zero recordable safety events and continue to have no employees infected by the coronavirus on our crews. Our testing and screening program for Covid-19 continues to work well and has ensured uninterrupted operations.

From a financial perspective, we delivered 35% gross margin, increased our backlog by 13% to USD 170 million, and improved our cash position by 9% to USD 62 million in the quarter. EBITDA improved sequentially for the third consecutive quarter, and on a like-for-like basis the EBITDA was higher than in the third quarter last year despite a much more challenging market environment and significantly lower revenue. As a result, we report a positive operating profit of USD 3.7 million for the quarter.

The previously announced cuts to SG&A and capital expenditure are being executed as planned, and we maintain the reported SG&A guidance of USD 25 million and reported CAPEX of USD 15 million for the full year 2020.

From an operational perspective, the ZXPLR1 crew in the Gulf of Mexico continued to perform well in the third quarter, with the only interruption caused by several hurricanes moving through the area. Proactive, evasive action by the crew ensured that all personnel were safe and resumed operations as soon as the storms had passed.

The crew on the Cornerstone Multi-Client project also performed well and started execution of the additional area on the back of the additional pre-commit we secured during the quarter.

Our Reservoir Monitoring and Source team successfully mobilized for the fall projects in Norway. Last, but not least, we successfully demobilized for the Q35 hybrid streamer and node project in the North Sea using our MASS1 technology, and successfully mobilized for an equipment rental contract in the Caspian Sea.

From an environmental perspective, average daily fuel consumption increased by 20% from the second quarter, due to a greater number of working days. Overall SOx emissions were nevertheless reduced by 87%, as the vessels completed the transition to the new USLD fuels specified in the new IMO-2020 fuel standard.

Overall, good operational execution and cost management means we continue to deliver on our key priority to protect and preserve our cash position. I want to highlight the tremendous performance by the whole Magseis Fairfield team in achieving this.

New backlog

We announced multiple contract awards in the quarter and secured additional pre-commit for the ongoing Cornerstone Multi-Client survey in the North Sea. The Gulf of Mexico remains one of our core areas, where we were awarded a baseline deepwater project for a repeat customer with start-up in Q4 2020, and a conditional award for a four-month survey in 2021.

One client has requested to delay the execution of an OBN program in the North Sea from 2021 to 2022, and we are currently working with the customer to formalize this. While this does not impact our overall backlog, it obviously affects the 2021 backlog and serves as a further sign that our clients continue to adjust and adapt to the ongoing market dynamics. So must we.

Globally, there are no further projects being tendered for start in 2020. The key focus areas in the final quarter of the year are therefore safe, efficient and reliable execution of our existing 2020 backlog, while continuing to work with clients on securing additional pre-commits for Multi-client and to build the backlog for 2021 and beyond.

Clients focusing on existing fields

In the current market environment, our clients continue to move away from exploration and rather concentrate their efforts on appraisal and development of already explored fields, and on cash and value generation from existing fields.

Magseis Fairfield continues to be uniquely positioned to offer OBN solutions in this new focus area for our clients. Our market view is supported by the types of projects which are currently being tendered. The primary tendering activity is in the

North Sea, Gulf of Mexico and Brazil, with one-off projects in other geographical areas.

In the current market environment, it is more important than ever to manage the elements we control. This has been my motto since I joined Magseis Fairfield. Through an in-depth market understanding, and driven by our financial objectives, we restructured the organization in Q4 2019, and proactively changed the organization again when the Covid-19 pandemic started to impact our industry. In recognition of the more challenging business environment in 2021, we will make further changes to the organization in Q4 2020 to ensure that we remain competitive in 2021.

Based on discussions with our clients and the general E&P market outlook, we are forecasting a significantly improved market from 2022 onwards. The leaner structure we are putting in place allows us to swiftly capitalize on the expected market upswing.

Consistent delivery of our strategy

In summary, we continue to consistently execute our strategy to protect and preserve our cash position to give us a good entry into 2021. We are now also taking proactive measures to ensure our continued success into 2021 and take full benefit from a market recovery from 2022 onwards. I am confident about the future and how our continued technology differentiation, our asset light model and our people will deliver success and value to our shareholders.

Carel Hooijkaas
CEO Magseis Fairfield

Financial review

Figures in brackets reflect figures for the corresponding period in the previous year.

Revenue

Revenue for the third quarter 2020 was USD 46.9 million (134.2), slightly above the USD 44.7 million reported for the second quarter 2020.

The year-on-year decline reflects that the company had significant revenue from node sales in the third quarter 2019 and adverse impacts from Covid-19 and lower oil price in 2020. Also note that the activity in the ongoing multi-client (MC) project which commenced in March is yet not recognized in the P&L, see note 3 for further details.

The order backlog stood at USD 170 million at the end of the third quarter 2020, of which USD 50 million is scheduled for delivery in 2020. This compares to a total backlog of USD 151 million at the end of second quarter, of which USD 82 million was scheduled for delivery in 2020. The higher backlog mainly reflects new awards for 2021.

Operational costs

Group cost of sales amounted to USD 30.7 million in the third quarter of 2020 (106.7), compared to USD 25.8 million in the second quarter 2020.

As a result, the gross profit amounted to USD 16.2 million (27.5), compared to USD 18.9 million in the second quarter. The gross margin was 35% (20%), compared to 42% in the previous quarter.

The year-on-year improved gross margin reflects better project margins as a result of better operational cost control and improved operational execution. Note that changes in gross margin from quarter-to-quarter must be expected due to project mix and phasing, but also share of long-term (>1 year) vessel leases, which according to the IFRS 16 accounting standard is a right-of-use asset to be reflected in depreciation and not cost of sales.

Selling, general and administrative expenses (SG&A) and R&D costs amounted to USD 5.8 million in the third quarter of 2020 (18.3), compared to USD 9.0 million in the previous quarter. The underlying SG&A level thus continued to decline, in line with the company's cost reduction program.

The new management announced in late 2019 significant cuts in costs and capex as part of the restructuring of the company. Following the deteriorating market situation with Covid-19 and lower and more volatile oil price scenarios, the company in April announced further cost and capex reductions to preserve cash, ensure operational flexibility, and safeguard business continuity. As a result, the company expects a total SG&A cost level of around USD 25 million for the full year 2020, which corresponds to a decline of around 60% from the full-year SG&A cost level in 2019.

Depreciation, amortization and impairment

Depreciation and amortization amounted to USD 6.7 million in the third quarter (17.5), compared to USD 12.8 million in the previous quarter.

Depreciation charge in the quarter was significantly lower than in the previous quarters. This reflects recalculation of cost allocation related to capitalization of long-term vessel lease (IFRS 16) for the ongoing multi-client project. Please see note 5 for further details.

Results

EBITDA

Reported EBITDA was USD 10.4 million in the third quarter 2020 (9.2), compared to USD 9.9 million in the previous quarter. The positive results reflect the ongoing turnaround of the company following the reorganization and restructuring in late 2019, as well as strong operational execution despite the logistic challenges with lockdowns and travel restrictions due to the Covid-19 pandemic.

The quarter marks the third sequential EBITDA improvement and reflects higher project margins, improved operational execution and cost reductions, in line with the targets for the restructuring and reorganization of the company.

Operating result (EBIT)

The operating profit in the third quarter of 2020 was USD 3.7 million, which compares with an operating loss of USD 2.9 million in the second quarter. In the third quarter 2019, the company reported a loss of USD 103.6 million reflecting goodwill impairment, write offs and restructuring costs of USD 102.1 million.

Net financial items

Net financial items were a positive USD 0.6 million in the third quarter, compared to a negative USD 0.8 million in the third quarter last year.

Net profit/ loss

Net profit before tax was USD 4.3 million in the third quarter 2020 (-104.3), compared to a loss before tax of USD 2.7 million in the second quarter 2020.

Income tax expense was USD 1.3 million (+0.2) and net profit after tax was hence USD 3.1 million (-104.1). The tax charge in the quarter reflects tax provisions for projects in foreign jurisdictions.

The Group is currently not recognising any tax losses carried forward as tax assets.

Balance Sheet

Total assets for the Group was USD 333.1 million at the end of the third quarter 2020, compared to USD 356.5 million at the end of 2019.

Property, plant and equipment (PPE) amounted to USD 146.6 million at the end of third quarter, down from USD 172.1 million at the end of 2019.

The company is currently working on a multi-client project that commenced late in the first quarter. The multi-client library was recognised at USD 19.6 million at the end of the quarter.

Other intangible assets stood at USD 59.8 million at the end of the second quarter 2020, down from USD 65.4 million at the end of 2019. There is no goodwill on the balance sheet.

Total non-current assets amounted to USD 226.1 million, compared to USD 237.5 million at the end of 2019.

Current assets were USD 107.0 million at the end of the quarter, compared to USD 119.0 million at the end of 2019.

The company has performed an impairment test considering the shift in market fundamentals due to Covid-19 and lower and more volatile oil price scenarios, with the conclusion that no impairments are required.

Cash and cash equivalents amounted to USD 61.8 million at the end of the third quarter, up from USD 53.4 million at year-end 2019, and up from USD 56.6 million at the end of the first half of 2020. The increase in the quarter was mainly driven by cash flow from operating activities.

Inventories decreased to USD 7.9 million from USD 18.9 million at the end of 2019, mainly reflecting a node sale in the first half 2020. Trade receivables decreased to USD 21.5 million from USD 24.4 million at the end of 2019. Other current assets decreased to USD 15.8 million from USD 22.3 million at the end of 2019.

The Group's equity amounted to USD 200.1 million at the end of the third quarter, up from USD 184.6 million at the end of 2019. Equity change in the year was positively impacted by the private placement completed in the first quarter. The equity ratio increased to 60.1% from 51.8% at the end of 2019.

Non-current liabilities amounted to USD 44.2 million at the end of the quarter, compared to USD 30.8 million at the end of 2019. The change reflects the refinancing completed in first quarter 2020.

The non-current liabilities comprised interest-bearing liabilities of USD 31.1 million, lease liabilities of USD 9.1 million, and non-interest-bearing liabilities of USD 4.0 million.

Current liabilities amounted to USD 88.8 million at the end of the third quarter, compared to USD 141.1 million at the end of 2019. Trade payables decreased to USD 13.0 million from USD 29.0 million at the end of 2019. The current portion of interest-bearing liabilities was reduced to USD 1.8 million following refinancing and down-payment of USD 3.3 million in addition to received US loan program of USD 3.6 million. The current portion of obligations under finance leases was USD 4.1 million, compared to USD 16.2 million at the end of 2019. Current tax payable was USD 7.2 million. Other current liabilities were USD 62.7 million, comprising project accruals, restructuring accruals, warranty accruals, deferred revenue and other operational accruals.

Cash Flow and Investments

Cash inflow from operating activities was USD 10.9 million in the third quarter (50.2), compared to USD 5.1 million in the second quarter of 2020. The inflow reflects cash earnings in the period.

Net cash used for investing activities amounted to USD 1.0 million in the third quarter, of which USD 0.5 million was acquisition of equipment and USD 0.5 million investment in multi-client library. This compares to a net cash outflow of USD 49.4 million for investments in the third quarter 2019, and USD 11.1 million in the previous quarter.

As part of the company's new initiatives to reduce cash spending in 2020, the expected capex level for 2020 was cut to USD 15 million for 2020, excluding the investments in the multi-client library. This corresponds to a decline of around 80% from the full-year capex level in 2019.

Cash outflow from financing activities was USD 5.3 million in the third quarter of 2020, compared to a cash outflow of USD 6.0 million in the third quarter 2019, and USD 4.9 million in the previous quarter. The cash outflow mainly reflects payments of lease obligations and paid interest.

As a result, the company's net cash position increased to USD 61.8 million from USD 56.6 million at the end of the second quarter 2020.

Funding and liquidity

The financial results for the Group in 2019 were characterised by financial and operational challenges, resulting in significant impairment, restructurings, write offs and other special items that impacted the numbers negatively. Last October, the new management initiated a company turn-around and implemented significant restructuring measures, as well as capex and cost cuts to restore profitability.

The company carried out a private placement raising gross proceeds of USD 28 million in February, and at the same time refinanced a term loan into a USD 30 million revolving credit facility (RCF) with a new covenant structure to strengthen the balance sheet and liquidity position. Magseis Fairfield continues to comply with all financial covenants as of 30 September 2020. See note 9 for details.

Further cost measures were announced in April as a response to a weaker market environment, and included furloughs, headcount reductions, and other cost and capex reductions. In recognition of the more challenging business environment in 2021, further changes will be made to the organization in Q4 2020 to further reduce the overall cost base of the company.

At the end of the first nine months of 2020, Magseis Fairfield held USD 61.8 million in cash and cash equivalents. Given the SG&A cost reductions and lower capital expenditure, it is the Board of Directors' view that this provides a sufficient liquidity buffer even in the lower revenue scenarios brought about by the Covid-19 situation and the lower and more volatile oil price levels. The Board and management are therefore of the opinion that the going concern assumption is appropriate and the accounts are prepared under the going concern assumption.

Operations

Safety and welfare the main priority

Magseis Fairfield's primary concern is the safety and welfare of its employees, their families and local communities during the Covid-19 pandemic.

During the third quarter, the company's Covid-19 task force continued to monitor the pandemic and apply learnings and regulatory changes from the different independent regimes to the company's Risk Management Plan.

Strict routines to mitigate infections

Magseis Fairfield maintained offshore operations free from Covid-19 in a quarter where the company started three Reservoir Monitoring and Source projects and transitioned the Gulf of Mexico deepwater crew to a new project. For operational continuity it is critical to enable the crews to work Covid-19-free on the vessels.

The company continued its focus on the protocols and strict testing regimes established in the Risk Management Plan. The testing regime continued to prove effective and was well received by both crews and clients.

The task force is currently reviewing new testing regimes which would provide faster results and allow for shortened quarantine periods.

The Headquarters at Lysaker outside Oslo had returned to more normal working conditions early in third quarter, but an uptick in confirmed Covid-19 cases in the greater Oslo community late in the quarter resulted in a general return to remote working conditions for the office staff. Office personnel in other locations also generally continue to work remotely, with location specific plans put in place to monitor office use and ensure number limitations, proper social distancing, and strict hygiene practices for those who need to work from the offices.

QHSE Management System

Implementation of the integrated QHSE Management System continued throughout the third quarter, with the addition of the Technology group. The Management System provides the necessary framework and underpinnings for safe and successful operations and development of the *One Team* culture in full support of the asset light working model.

Furthermore, the management team and corporate QHSE team conducted a comprehensive review of enterprise risk management during the quarter, including an updated view of the current top company level risks for the organization.

A supplier and timeframe for ISO certification gap analysis (14001/45001 & 9001) has been prepared for the fourth quarter. The gap analysis will be a desktop review and will not require substantial resource from management at this stage. The certification audit will check the implementation of the Management System when this is rescheduled.

Exposure hours and TRCF

During the third quarter of 2020 Magseis Fairfield registered 820,234 exposure hours, a decrease of 4% from the previous quarter due to fewer FTEs.

The company had zero industry recordable events, and two first aid cases this quarter. Total Recordable Case Frequency (TRCF) for the quarter was therefore zero, reducing the 12-month rolling average TRCF to 1.25. Year-to-date 2020 TRCF is 0.80.

Environmental footprint

Magseis Fairfield is measuring its operational carbon footprint for 2020. Measurement of operational carbon emissions in third quarter, showed an increase of average daily fuel consumption of 19.9%, due to a greater number of working days compared to second quarter. Despite this, overall SOx emissions were reduced by 87% compared to last quarter, as a result of the vessels completing the transition to the new USLD fuels specified in the new IMO 2020 fuel standard.

Social health campaign

The planned health campaign was redefined to focus on mental health awareness in response to the increased stress and impacts that are associated with the pandemic, furloughs and the general industry downturn. The campaign was developed through the quarter and is scheduled to be rolled-out in the fourth quarter. It will focus on awareness training and the provision of support materials and personnel for the organization.

Operations in the quarter

Operations continued according to plan in the third quarter. Magseis Fairfield worked on nine projects during the quarter, including seismic acquisition, multi-client, node rentals and node sales.

The ZXPLR 1 crew continued operations in the Deepwater Gulf of Mexico in North America. The crew started and completed a project in the Gulf of Mexico on-time and on-budget. Afterwards, the crew transitioned to a second project for the same customer. The crew saw some minor interruptions from a very active tropical storm and hurricane season but was able to resume operations shortly after each weather period. The ZXPLR 1 crew currently has backlog into next year.

The ZXPLR 2 crew began preparations for a project in the Gulf of Mexico for a repeat client. The project is scheduled to begin in the fourth quarter 2020 and complete in the first quarter of 2021.

The Z700 node-on-a-rope crew continued work on the Cornerstone multi-client project in the UK sector of the North Sea, successfully completing one phase and moving on to the next during the quarter. The crew is set to continue throughout the season and ramp down in the fourth quarter. The remaining backlog will take place in the next season of 2021.

All three Reservoir Monitoring and Source (RMS) crews saw activity in the Norwegian sector of the North Sea during the fall season. The RMS operations will wrap up for maintenance in the fourth quarter before returning in the spring.

The MASS1 crew successfully demobilized for the Q35 hybrid streamer and node project in the North Sea using our MASS modular technology.

In rental support, the Z700 campaign in the Caspian Sea continued with the crew mobilizing and getting into production after some delays during the summer related to Covid-19.

In addition, maintenance and readiness work on the low-frequency source continued in preparation for a 2021 project.

Technology

During the quarter, Magseis Fairfield continued its efforts to transition from in-house to contract manufacturing. The first articles have been received and the company has qualified a key supplier in the US to produce the Z100 node. Transfer of the remaining products and inventory to the manufacturing partner continues, and we expect to see efficiency gains late in 2021. We expect all remaining product manufacturing and repairs will be moved to our contract manufacturer by the end of H1 2021.

We have been working to continuously improve and concentrate our supplier base and reduce dependency on smaller suppliers that pose a risk to our supply chain.

In the short term our priority is to focus on technology projects to improve gross profits on existing and upcoming projects. At the same time we continue to work on the next generation OBN-nodal system, combining our experiences from both the MASS-technology and the Z-technology with our innovations and views of what our customers will require from a next generation nodal system.

Employees and contractors

As per 30 September 2020, the Group had a total of 421 FTEs, with 338 employees and 83 contractors. This compares to 449 FTEs at the end of the second quarter 2020, 622 FTEs at the end of 2019 and 686 FTEs as at 30 September 2019.

Risks and uncertainties

As described in the Annual Report for 2019, Magseis Fairfield's ongoing business activities entails exposure to a variety of risk factors, including risk related to global economic growth and demand for and prices of oil and gas products. These factors affect the oil and gas companies' capital spending for exploration and development expenditures such as seismic services.

The outbreak and spreading of Covid-19 highlighted these risk factors. The reduction in economic activity led to a sharp and significant reduction in oil demand and has since generated an oversupply situation with lower and more volatile oil prices.

The risks and uncertainties regarding the extraordinary Covid-19 measures and the economic effects continue to limit the visibility going forward. Several oil and gas companies have announced significant reductions in capital spending. The impact on the outlook for the ocean seismic market has been significant.

As described in the Annual Report, the Group's backlog estimates are based on certain assumptions and may be subject to unexpected adjustments and cancellations. The backlog may thus not be timely converted to revenues or be indicative of the Group's actual operating results for any future period. Contracts for the provision of seismic services can be cancelled at the sole discretion of the client without payment of significant cancellation costs to the service provider. This indicates that there can be no assurance that such contracts will be wholly executed. While Magseis Fairfield is committed to deliver quality execution of all projects, there can be no guarantee that the company will be able to meet customers' contractual terms and conditions in a timely manner. This may also have an adverse effect on the Group's operations and financial position.

Magseis Fairfield has taken actions to protect and preserve its cash position in response to the increased market uncertainty. The company's cost measures are designed to lower SG&A to approximately USD 25 million and capital expenditure to USD 15 million for 2020. These levels are 60% and 80%, respectively, lower than the corresponding levels in 2019.

The company's business continuity plans have ensured that the company complies with all regulations and recommendations from local authorities in all locations, with a strict Covid-19 testing regime and high sanitation standards for both offshore and onshore operations.

For other risk factors, please refer to the Board of Directors report in the Annual Report for 2019.

Outlook

Magseis Fairfield conducted an in-depth market analysis together with Rystad Energy during the third quarter, bringing together deep E&P and OBN market understanding. While market uncertainty obviously remains, we felt it crucial to extend our market view on which to build our business plans going forward.

Before going into the OBN market outlook, it is important to understand the high level offshore upstream outlook. Due to Covid-19 and the decline in energy demand, clients have cut their 2020-2021 upstream capex by approximately 30% compared to previous plans.

At the same time, hydrocarbon demand is already recovering in Asia and a demand rebound is forecasted for other areas in the medium term. Combined with the underinvestment in 2020 and 2021, this is expected to lead to a significant rebound in industry capex spend from early 2022 onwards.

The expected rebound in industry capex is however unevenly distributed. While global offshore exploration capex is expected to stay below the 2019 level over the next five years, annual capex spend is expected to increase by double digits for greenfield projects and by single digits for brownfield projects in 2021-2025.

The market outlook for the OBN market shows a small increase from 2020 to 2021 but the activity will still be below the 2019 levels. However, the OBN market is also forecasted to see good growth beyond 2021, on the back of the forecasted growth in offshore exploration spend in green- and brownfields.

Magseis Fairfield continues to be uniquely positioned to offer OBN solutions in the appraisal, development and production space, as our clients move away from exploration and prioritize cash and value generation from existing fields.

We are encouraged by the forecasted OBN market rebound beyond 2021, especially since we see significant additional upside from technology advancements. New technology will drive down the cost of acquiring OBN data and is the key to grow our addressable market significantly. Our differentiated technology position and strategy therefore gives us a clear market advantage that is not available to others who offer commoditized solutions.

The key to success for Magseis Fairfield in this market environment is to protect and preserve our cash position during 2020 and 2021 and retain a capital structure that allows us to fully benefit from the market rebound. It is therefore extremely important to continue to adjust the organization to the forecasted activity level to maintain our competitiveness.

We are well-positioned for the future, and the opportunities for Magseis Fairfield, our clients, and our shareholders. The company will maintain a sharp focus on safe, efficient, and reliable project execution of the existing backlog, and continue to position itself to win new projects for 2021.

We intend to maintain our leading market position in core areas, and utilize our asset light business model, key differentiated technology, and experienced people. This will position us well for the growth opportunity we see beyond 2021.

Board of Directors and CEO of Magseis Fairfield ASA,
Lysaker, 9 November 2020

Condensed consolidated statement of comprehensive income

USD thousands	Note	Quarter ended Q3 2020 (unaudited)	Q3 2019 (unaudited)	Nine months ended YTD 2020 (unaudited)	YTD 2019 (unaudited)	Full Year 2019 (audited)
Revenues and other income						
Revenues and other income	3	46 916	134 190	144 945	385 231	459 625
Operating expenses						
Cost of sales		(30 680)	(106 711)	(97 477)	(294 192)	(374 308)
General and administrative costs		(5 809)	(18 318)	(21 280)	(45 923)	(63 812)
Depreciation	5,6	(4 493)	(15 191)	(26 946)	(44 545)	(56 686)
Amortization	7	(2 191)	(2 301)	(6 538)	(7 084)	(8 960)
Impairment	12	-	(95 231)	-	(95 231)	(106 245)
Total operating expenses		(43 174)	(237 752)	(152 240)	(486 974)	(610 011)
Operating profit/(loss)		3 743	(103 562)	(7 296)	(101 743)	(150 386)
Finance income and costs						
Finance income		1 472	1 673	3 743	6 027	14 394
Finance costs		(880)	(2 435)	(6 373)	(7 442)	(7 373)
Net finance income/(costs)	4	592	(762)	(2 629)	(1 415)	7 021
Net profit/(loss) before tax		4 334	(104 324)	(9 925)	(103 158)	(143 365)
Income tax expense	13	(1 267)	188	(1 917)	(2 417)	(8 176)
Net profit/(loss) and total comprehensive income		3 068	(104 136)	(11 842)	(105 575)	(151 541)
Earnings per share						
Basic (USD)		0.01	(0.56)	(0.05)	(0.57)	(0.82)
Diluted (USD)		0.01	(0.56)	(0.05)	(0.57)	(0.82)

Condensed consolidated statement of financial position

USD thousands	Note	30-Sep 2020 (unaudited)	30-Sep 2019 (unaudited)	31-Dec 2019 (audited)
Non-current assets				
Goodwill	7	-	-	-
Property, Plant and Equipment	5	146 621	170 724	172 091
Multi-client library	7	19 623	-	-
Other intangible assets	7	59 831	67 306	65 406
Total non-current assets		226 075	238 030	237 496
Current assets				
Cash and cash equivalents		61 798	49 140	53 432
Trade receivables		21 468	59 986	24 353
Inventories		7 922	33 085	18 928
Other current assets		15 834	35 016	22 310
Total current assets		107 022	177 227	119 021
Total assets		333 098	415 257	356 518
Equity				
Share capital	8	1 578	1 167	1 167
Share premium	8	407 662	382 148	382 148
Other equity		(209 142)	(153 416)	(198 721)
Total shareholders' equity		200 097	229 899	184 594
Non-current liabilities				
Lease liabilities	6	9 129	14 143	10 707
Interest bearing liabilities	9	31 053	23 946	15 824
Non-interest-bearing liabilities		4 000	14 167	4 263
Total non-current liabilities		44 182	52 256	30 794
Current liabilities				
Trade payables		13 005	35 733	29 003
Current tax payable	13	7 239	2 690	7 895
Current portion of interest-bearing liabilities	9	1 783	16 667	16 667
Current portion of lease liabilities	6	4 104	14 764	16 195
Other current liabilities		62 687	63 248	71 369
Total current liabilities		88 818	133 101	141 129
Total liabilities		133 001	185 358	171 923
Total equity and liabilities		333 098	415 257	356 518

Condensed consolidated statement of changes in equity

For the nine months ended 30 September 2020

USD thousands	Share capital	Share premium reserve	Share based payments reserve	Other equity	Total
Balance at 1 January 2020	1 167	382 148	5 784	(204 505)	184 594
Share issuance tranche 1	199	13 301	-	-	13 500
Expenses related to tranche 1	-	(683)	-	-	(683)
Share issuance tranche 2	213	14 249	-	-	14 462
Expenses related to tranche 2	-	(1 354)	-	-	(1 354)
Share based payments	-	-	1 455	-	1 455
Other changes	-	-	-	(34)	(34)
Profit/(Loss) for the period	-	-	-	(11 842)	(11 842)
Balance at 30 September 2020	1 578	407 662	7 239	(216 381)	200 097

For the nine months ended 30 September 2019 and year ended 31 December 2019

USD thousands	Share capital	Share premium reserve	Share based payments reserve	Retained earnings	Total
Balance at 1 January 2019	1 166	382 152	3 244	(52 988)	333 574
Share issuance	1	(4)	-	-	(3)
Share based payments	-	-	1 906	-	1 906
Other changes	-	-	-	(3)	(3)
Profit/(loss) for the period	-	-	-	(105 575)	(105 575)
Balance at 30 September 2019	1 167	382 148	5 150	(158 566)	229 899
Share based payments	-	-	634	-	634
Other changes	-	-	-	27	27
Profit/loss for the period				(45 966)	(45 966)
Balance at 31 December 2019	1 167	382 148	5 784	(204 505)	184 594

Condensed consolidated statement of cash flow

USD thousands	Note	*Quarter ended* Q3 2020 (unaudited)	Q3 2019 (unaudited)	*Nine months ended* YTD 2020 (unaudited)	YTD 2019 (unaudited)	Full Year 2019 (audited)
Cash flows from operating activities						
Profit/(loss) before tax		4 334	(104 324)	(9 925)	(103 158)	(143 364)
Income tax paid	13	(1 022)	(921)	(1 673)	(3 225)	(4 332)
Depreciation, amortization and impairment	5,6,7,12	6 684	112 723	33 484	146 859	171 892
Share-based payments expense		591	428	1 455	1 906	2 540
Finance costs	4	880	2 435	6 373	7 442	7 373
Finance income	4	(1 472)	(1 673)	(3 743)	(6 027)	(14 394)
Cost of sales of nodes		-	14 412	-	30 322	29 058
Other non-cash effects		-	3 900	-	9 500	-
(Increase)/decrease in current assets		11 912	19 762	20 137	9 063	91 961
Increase/(decrease) in current liabilities		(10 959)	3 416	(19 576)	13 123	4 007
Net cash from operating activities		10 948	50 158	26 532	105 806	144 740
Cash flows from investing activities						
Interest received	4	1	185	77	579	735
Investment in multi-client library	7	(475)	-	(15 401)	-	-
Investment in other intangibles	7	(52)	-	(962)	-	-
Acquisition of equipment	5	(454)	(27 396)	(11 959)	(72 115)	(91 204)
Investment in subsidiaries		-	(22 170)	-	(22 170)	(22 170)
Net cash used in investing activities		(979)	(49 381)	(28 245)	(93 707)	(112 639)
Cash flows from financing activities						
Down payments of interest-bearing liabilities	9	-	-	(3 333)	(14 040)	(22 374)
Net proceeds from new loan	9	-	-	3 568	-	-
Payment of finance lease liabilities	6	(4 871)	(5 674)	(13 669)	(13 621)	(18 775)
Net proceeds from issue of share capital	8	-	-	25 513	(2)	(2)
Interest paid	4	(452)	(283)	(2 591)	(3 406)	(5 629)
Net cash from financing activities		(5 323)	(5 957)	9 488	(31 069)	(46 780)
Net change in cash and cash equivalents		4 647	(5 180)	7 774	(18 970)	(14 679)
Currency effects on cash		536	-	591	-	-
Cash and cash equivalents at period start		56 615	54 320	53 432	68 110	68 110
Cash and cash equivalents at period end*		61 798	49 140	61 798	49 140	53 432

**Restricted cash as of 30 September 2020 is USD 1.3 million*

Notes to the condensed consolidated Interim financial statements

1. Reporting entity

Magseis Fairfield ASA (the Company) is a public limited liability company listed on the Oslo Stock Exchange main list and domiciled in Norway. The condensed consolidated interim financial statements ("interim financial statements") comprise the company and its subsidiaries.

2. Basis of preparation

2.1 Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with the International Financing Reporting Standards (IFRS) and IAS 34 Interim Financial Reporting as adopted by the European Union and additional Norwegian regulations.

2.2 Significant accounting judgements, estimates and assumptions

In preparing these interim financial statements, management has made judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revision to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In preparing these condensed consolidated interim financial statements, significant judgements made by management in applying the Group's accounting policies and key sources of uncertainty in the estimates were consistent with those applied for the period ended 31 December 2019.

2.3 Accounting principles

The interim financial statements are condensed and do not include all the information required by IFRS for a complete set of financial statements and should be read in conjunction with the full year consolidated financial statements for Magseis Fairfield ASA. The 2019 consolidated financial statements for the Group are available at www.magseisfairfield.com.

The accounting polices applied in these interim financial statements are the same as those applied in the 2019 Group's Annual accounts.

2.4 Other

The interim financial statements have not been subject to audit.

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in USD which is Magseis Fairfield ASA's and all other Group entities' functional currency and the Group's presentation currency.

Numbers are rounded to the nearest USD thousands, unless otherwise stated. As a result of rounding differences, numbers or percentages may not add up to the total.

Operating results for the periods presented are not necessarily indicative of the results that may be expected for any subsequent interim period or annual accounts.

3. Revenue and segment information

The Group is operating in one segment being geophysical surveys with respect to products and services. The financial results from this segment are equivalent to the financial statements of the Group as a whole.

For internal reporting purposes, payments for long-term lease contracts under IFRS 16 are recognized as operating cost and included in EBITDA to have consistent accounting treatment for payments of short and long-term leases. Under IFRS 16, long-term leases are capitalized, and the cost of the leases are shown as depreciation and interest expense.

Multi-client revenue are for internal reporting purposes recognized in accordance with industry practice prior to implementation of IFRS 15 where revenue is calculated using a percentage of completion method and the related amortization of multi-client library is based upon the ratio of aggregate capitalized survey costs to forecasted sales. Under IFRS 15, any prefunding amount collected from customers prior to completion of the project is recognized as contract liability and revenue is recognized at the point in time when the data access is transferred to the customer.

The below tables reconcile internal (segment) and external (IFRS) reporting.

Q3 2020

	Quarter ended 30-Sep-20			*Quarter ended 30-Sep-19*		
USD thousands	Segment	Adj.	As reported	Segment	Adj.	As reported
Acquisition	32 398	-	32 398	82 859	-	82 859
Systems	9 311	-	9 311	42 428	-	42 428
Reservoir Monitoring/Source	5 207	-	5 207	8 903	-	8 903
Multi-client prefunding	3 885	(3 885)	-	-	-	-
Multi-client aftersales	-	-	-	-	-	-
Total revenues	50 801	(3 885)	46 916	134 190	-	134 190
Cost of sales	(31 068)	388[1]	(30 680)	(111 893)	5 182[1]	(106 711)
SG&A and R&D costs	(6 150)	341[2]	(5 809)	(18 810)	492[2]	(18 318)
EBITDA	13 584	(3 157)	10 427	3 487	5 674	9 161
Multi-client amortization	(2 565)	2 565	-	-	-	-
EBITDA after multi-client amortization	11 019	(592)	10 427	3 487	5 674	9 161
Depreciation and amortization	(7 083)	399[3]	(6 684)	(13 149)	(4 343)[3]	(17 492)
Impairments	-	-	-	-	-	(95 231)
EBIT	3 936	(193)	3 743	(9 662)	1 331	(103 562)

[1] Vessel lease payments
[2] Office lease payments
[3] Depreciation right of use assets (IFRS 16)

USD thousands	Nine months ended 30-Sep-20 Segment	Adj.	As reported	Nine months ended 30-Sep-19 Segment	Adj.	As reported
Acquisition	94 629	-	94 629	226 968	-	226 968
Systems	37 841	-	37 841	130 512	-	130 512
Reservoir Monitoring/Source	12 475	-	12 475	25,576	-	25 576
Multi-client prefunding	9 464	(9 464)	-	-	-	-
Multi-client aftersales	-	-	-	2 175	-	2 175
Total revenues	154 409	(9 464)	144 945	385 231	-	385 231
Cost of sales	(106 840)	9 363	(97 477)	(306 338)	12 146	(294 192)
SG&A and R&D costs	(22 286)	1 007	(21 280)	(47 399)	1 476	(45 923)
EBITDA	25 283	906	26 189	31 494	13 622	45 116
Multi-client amortization	(6 247)	6 247	-		-	-
EBITDA after multi-client amortization	19 036	7 152	26 189	31 494	13 622	45 116
Depreciation and amortization	(25 191)	(8 293)	(33 484)	(38 595)	(13 034)	(51 629)
Impairments	-	-	-	-	-	(95 231)
EBIT	(6 155)	(1 141)	(7 296)	(7 101)	588	(101 743)

FY 2019

USD thousands	Year ended 31-Dec-19 Segment	Adj.	As reported
Acquisition	289 507	-	289 507
Systems	137 466	-	137 466
Reservoir Monitoring/Source	30 477	-	30 477
Multi-client aftersales	2 175	-	2 175
Total revenues	459 625	-	459 625
Cost of sales	(391 115)	16 807[1]	(374 308)
SG&A and R&D costs	(65 780)	1 968[2]	(63 812)
EBITDA	2 730	18 775	21 505
Depreciation and amortization	(48 421)	(17 225)[3]	(65 646)
Impairments	(106 245)	-	(106 245)
EBIT	(151 936)	1 550	(150 386)

4. Finance income and expenses

USD thousands	Quarter ended Q3 2020	Q3 2019	Nine months ended YTD 2020	YTD 2019	Full Year 2019
Finance income					
Foreign exchange gains	1 473	299	3 404	698	1 160
Revaluation of warrants	(1)	1 197	262	4 757	6 482
Interest income	0	178	77	572	728
Other financial items	-	-	-	-	6 024
Total finance income	1 472	1 673	3 743	6 027	14 394
Finance costs					
Foreign exchange losses	(538)	(532)	(3 601)	(965)	(1 257)
Interest expense loan facility	(346)	(820)	(1 620)	(2 925)	(2 177)
Interest expense leases	(378)	(469)	(1 222)	(1 647)	(2 381)
Capitalized lease interests (MCL)	220	-	220	-	-
Other financial expenses	161	(613)	(150)	(1 905)	(1 558)
Total finance costs	(880)	(2 435)	(6 373)	(7 442)	(7 373)
Net finance income/(costs)	592	(762)	(2 629)	(1 415)	7 021

5. Property, Plant & Equipment (PPE)

2020

USD thousands	Seismic equipment	Asset under construction	Office machines etc.	Right-of-use assets (IFRS 16)	Total
Accumulated Investment					
Balance at 1 January 2020	176 093	56 443	5 672	43 392	281 600
Additions	1 707	10 205	48	-	11 959
Disposals/retirement	(23 013)	-	(423)	-	(23 435)
Reclass- asset under construction	3 595	(3 665)	69	-	0
Other changes	711	27	(105)	35	669
Balance at 30 September 2020	159 093	63 010	5 262	43 427	270 794
Accumulated depreciation and impairment					
Balance at 1 January 2020	(85 205)	(1 806)	(4 559)	(17 939)	(109 509)
Depreciation for the period	(23 106)	-	(318)	(13 047)	(36 471)
Accumulated depreciation disposed/retired	21 403	-	406	-	21 809
Impairment	-	-	-	-	-
Balance at 30 September 2020	(86 908)	(1 806)	(4 472)	(30 986)	(124 172)
Net carrying amounts					
Balance at 1 January 2020	90 888	54 637	1 112	25 453	172 091
Balance at 30 September 2020	72 186	61 204	790	12 441	146 621

Reconciliation of depreciation in income statement

USD thousands	YTD Q3-20
Depreciation of property plant and equipment	36 471
Depreciation capitalized to multi-client library	(9 525)
Depreciation in income statement	26 946

2019

USD thousands	Seismic equipment	Asset under construction	Office machines etc.	Right-of-use assets (IFRS 16)	Total
Accumulated Investment					
Balance at 1 January 2019	153 647	38 092	1 898	-	193 637
PPA adjustments	7 400	5 291	-	-	12 691
Revised balance at 1 January 2019	161 047	43 383	1 898	-	206 328
IFRS 16 implementation	-	-	-	19 937	19 937
Additions	33 309	57 390	407	23 455	114 562
Disposals/retirement	(42 243)	(19 135)	(68)	-	(61 446)
Reclass - asset under construction	23 980	(28 804)	4 824	-	-
Other changes	-	3 610	(1 389)	-	2 221
Balance at 31 December 2019	176 093	56 443	5 672	43 392	281 600
Accumulated depreciation and impairment					
Balance at 1 January 2019	(44 338)	-	(701)	-	(45 039)
Depreciation for the period	(48 791)	-	(669)	(17 225)	(66 685)
Accumulated depreciation disposed/retired	23 184	-	9	-	23 193
Impairment	(15 261)	(1 806)	(3 197)	(714)	(20 978)
Balance at 31 December 2019	(85 205)	(1 806)	(4 559)	(17 939)	(109 509)
Net carrying amounts					
Balance at 1 January 2019	116 709	43 383	1 197	-	161 289
Balance at 31 December 2019	90 888	54 637	1 113	25 453	172 091

Capital commitments

The Group has contractual commitments for the acquisition of seismic equipment amounting to USD 5 million as of 30 September 2020. Below are the capital commitments as per balance sheet dates.

USD thousands	Total
Capital commitments as of 31 Dec 2019	19 800
Capital commitments as of 30 June 2020	5 000
Capital commitments as of 30 September 2020	5 000

6. Leases

Extension and termination options have not been included per the reporting date as these are primary used to maximize operational flexibility in terms of managing the assets used in the Group's operations. The assessment to whether utilize extension and termination options are done by management on a contract by contract basis in line with operational requirements for each project.

2020

Right-of-use assets

USD thousands	Vessels	Offices and warehouses	Total
Carrying value			
Balance 1 January 2020	14 797	10 656	25 453
Additions	-	-	-
Depreciation	(11 369)	(1 678)	(13 047)
Other adjustments	-	35	35
Balance 30 September 2020	3 428	9 013	12 441

Lease Liabilities

USD thousands	Non-current	Current	Total
Carrying value			
Balance 1 January 2020	10 707	16 195	26 902
Additions	-	-	-
Lease payments	-	(13 669)	(13 669)
Reclassification	(1 578)	1 578	-
Other adjustments	-	-	-
Balance 30 September 2020	9 129	4 104	13 233

2019

Right-of-use assets

USD thousands	Vessels	Offices and warehouses	Total
Carrying value			
Balance 1 January 2019	-	-	-
Implementation of IFRS 16	11 870	8 067	19 937
Additions	16 415	3 145	19 560
Depreciation	(11 630)	(1 404)	(13 034)
Impairment	-	-	-
Other adjustments	(590)	453	(137)
Balance 30 September 2019	16 065	10 261	26 326
Additions	2 221	1 577	3 798
Depreciation	(4 176)	(15)	(4 191)
Impairment	-	(714)	(714)
Other adjustments	687	(453)	234
Balance 31 December 2019	14 797	10 656	25 453

Lease Liabilities

USD thousands	Non-current	Current	Total
Carrying value			
Balance 1 January 2019	-	-	-
Implementation of IFRS 16	10 731	9 212	19 943
Additions	10 207	9 353	19 560
Lease payments	-	(13 621)	(13 621)
Reclassification to current	(9 820)	9 820	-
Other adjustments	3 024	-	3 024
Balance 30 September 2019	14 142	14 764	28 906
Additions	3 798	-	3 798
Lease payments	-	(5 154)	(5 154)
Reclassification to current	(6 585)	6 585	-
Other adjustments	(648)		(648)
Balance 31 December 2019	10 707	16 195	26 902

7. Intangibles

The multi-client library consists of seismic data surveys which are licensed to customers on a non-exclusive basis. For multi-client projects, Magseis Fairfield may invest in the project with other parties and has cooperation agreements whereby revenues will be shared with other companies. These agreements are initiated and agreed as joint operations where both parties have rights to the assets and share in the liabilities. Magseis Fairfield recognizes its investment net of partner cost sharing as multi-client library and will recognize its 50 percent share of revenues generated by the library. Any pre-funding amount collected from customers prior to completion of the project is recognized as contract liability as revenue is recognized at the point in time when the data access is transferred to the customer.

The costs of seismic data acquisition and processing for multi-client surveys are being capitalized. Such costs include vessel charter hire, fuel, crew and operational support costs and depreciation of nodes. For vessels on long-term charter hire recognized according to IFRS 16, the depreciation of right of use asset and lease interests are capitalized rather than the charter hire payment.

A multi-client project remains in progress until all data has been fully acquired and processed. When the project has been completed, straight-line amortization is applied.

Variances between the cash flow invested in a multi-client project and capitalized multi-client library should be expected. This is due to non-cash capitalized costs (e.g. depreciation) and timing of cost sharing payments from partners.

2020

USD thousands	Other intangibles	Multi-client library	Total
Accumulated investment			
Balance at 1 January 2020	81 296	-	81 296
Additions	962	19 623	20 586
Balance at 30 September 2020	82 258	19 623	101 882
Accumulated amortization and impairment			
Balance at 1 January 2020	(15 890)	-	(15 890)
Amortization for the period	(6 538)	-	(6 538)
Balance at 30 September 2020	(22 428)	-	(22 428)
Net carrying amounts			
Balance at 1 January 2020	65 406	-	65 406
Balance at 30 September 2020	59 831	19 623	79 454

Other intangible assets are mainly related to technology acquired through business combinations (Fairfield in 2018). The useful life of the acquired technology is 10 years.

Magseis Fairfield have ongoing research and development projects. Such costs are expensed as incurred until a program has completed the concept phase.

2019

USD thousands	Goodwill	Other intangibles	Multi-client library	Total
Accumulated investment				
Balance at 1 January 2019	81 131	81 296	-	162 427
Balance at 30 September 2019	81 131	81 296	-	162 427
Balance at 31 December 2019	81 131	81 296	-	162 427
Accumulated amortization and impairment				
Balance at 1 January 2019	-	(2 816)	-	(2 816)
Amortization for the period	-	(7 084)	-	(7 084)
Impairment for the period	(81 131)	(4 090)	-	(85 221)
Balance at 30 September 2019	(81 131)	(13 990)	-	(95 121)
Amortization for the period	-	(1 877)	-	(1 877)
Impairment for the period	-	(22)	-	(22)
Balance at 31 December 2019	(81 131)	(15 889)	-	(97 020)
Net carrying amounts				
Balance at 1 January 2019	81 131	78 480	-	159 611
Balance at 30 September 2019	-	67 306	-	67 306
Balance at 31 December 2019	-	65 406	-	65 406

8. Share Capital and Reserves

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

Share capital issued

USD thousands	Number of shares	Share price at NOK	Share capital USD '000	Share premium reserve USD '000
Ordinary shares - Issued and fully paid				
Balance at 1 January 2019	184 982 362		1 166	382 151
Private placement 14 January 2019	2 019	17.0	-	3
Private placement 24 April 2019	186 211	0.1	1	(6)
Balance at 30 September 2019 & 31 December 2019	185 170 592		1 167	382 148
Private placement 17 February 2020	37 034 118	3.4	199	12 618
Private placement 17 March 2020	44 565 882	3.4	213	12 895
Balance at 30 September 2020	266 770 592		1 578	407 662

9. Interest bearing liabilities

USD thousands	30 Sep 2020	30 Sep 2019	31 Dec 2019
Nominal value bank facility	30 000	41 666	33 333
Prepaid fees bank facility	(746)	(1 054)	(843)
Nominal value other loans	3 583	-	-
Total carrying value	32 837	40 613	32 490
Repayment profile at balance sheet date:			
2019	-	8 333	-
2020	-	16 666	16 666
2021	2 548	16 666	16 666
2022	31 035	-	-
Total	33 583	41 666	33 333

The financial covenants as of 1 April 2020:

- Net interest-bearing debt/Last Twelve Months (LTM) EBITDA < 1.25x. LTM EBITDA calculation is excluding IFRS 16 impacts
  - If LTM EBITDA is negative and the net interest-bearing debt is negative (i.e. net cash position), alternative cash buffer headroom calculation is applied
  - If LTM EBITDA is negative and the net interest-bearing debt is positive (i.e. net debt position), the leverage ratio is breached
- Equity Ratio > 50 percent
- Clean Down mechanism
  - NIBD shall not for a period of 5 successive business days in each quarter exceed:
    - USD 10 million in Q2-Q4 2020
    - USD 5 million in 2021
    - USD 0 in 2022

Magseis Fairfield is in compliance with all financial covenants as of 30 September 2020.

In April 2020, the Company received U.S. loan program of USD 3.6 million. The loan is payable over two years at an interest rate of 1%, with an expected deferral of payments for the first ten months. The loan and accrued interest can be partially forgiven on certain conditions.

10. Onerous contracts

The Group has no onerous contracts as per third quarter 2020.

11. Related parties

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:

USD thousands		Transaction value			Accounts payable		
Name	Note	Sep-20	Sep-19	Dec-19	Sep 20	Sep 19	Dec 19
Westcon Group (shareholder)	(I)	9 766	9 654	34 095	1 230	815	3 547
Fairfield Geotechnologies (shareholder)	(II)	567	3 447	4 254	20	952	104
J B Gateman (Geo Innova AS) (shareholder)	(III)	92	313	270	-	-	59

(I) Relates to time charters (TC) for vessels. As part of the TC agreements for Artemis Athene, Artemis Angler and Artemis Arctic. Westcon Group also delivers Marine Management services

(II) During 2020, only services related to sublease apply. In 2019, transactions were related to sublease, consultancy and other operating services. The lease agreement ends in October 2030 and the total lease liability is USDS 3.5 million as of 30 September 2020

(III) J B Gateman is engaged as an independent consultant

12. Impairment of non-current assets

Impairment of assets

Intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Judgement and estimates

Impairment charges of USD 106.2 million was recognized in 2019. This was related to goodwill (81.1), seismic equipment (15.5), US manufacturing (5.5) and previously capitalized development costs (4.1).

At the end of third quarter 2020, several impairment indicators were present. The outbreak and spreading of the coronavirus have led to a reduction in the economic activity and a rapid and significant reduction in oil demand and generated an oversupply situation with significantly lower and more volatile oil prices. The impact on the E&P industry has been profound and is likely to last for some time. Magseis Fairfield's clients have cut their capex and cancelled or postponed their investment plans to preserve cash. Consequently, management has conducted an impairment test.

The impairment test is based on a value-in use calculation in accordance with IAS 36, where assumptions about future market development, cashflows, the weighted average cost of capital (WACC), growth rate and other factors are subject to management's judgement.

Key assumptions when assessing the recoverable amounts were:

- Cash flow projections based on low case revenue scenario with conservative growth for the period including 2024, with an estimation of terminal value in subsequent periods. Market uncertainty and recovery is reflected in these projections
- Terminal value reflects long term steady state revenue and margin levels based on a combination of historic levels and judgements applied
- Lower cost base following reorganization is reflected in the model
- Capex levels are aligned with revenue assumptions

The test suggests no impairment required for third quarter, but it must be emphasised that the model is highly sensitive to its assumptions, such as timing of market recovery which is difficult to predict in the current challenging market situation.

13. Tax

The Group is operating in different parts of the world and is thus subject to income taxes in numerous jurisdictions with complex tax laws. Judgement may be involved when determining whether the Group's operation constitute a permanent establishment, and consequently the taxable amounts pertaining to certain projects. Tax authorities in different jurisdictions may challenge calculation of taxes payable from prior periods, and the Group could potentially be liable for income tax relating to prior reporting periods.

One of the Group entities is currently undergoing a tax audit for prior years where certain claims for tax deductibility have been challenged by local tax authorities. Based on management's assessment of local tax laws and available information provided by local tax experts, a provision for the uncertain tax position was recognised in fourth quarter 2019, reflecting management's best judgement and estimates. This assessment is unchanged. However, the outcome of such proceedings will always be subject to uncertainties until a final tax statement has been issued by the local tax authorities.

14. Alternative Performance Measures (APMs)

The Group reports its financial results in accordance with accounting principles (IFRS) as issued by the IASB and as endorsed by the EU. However, management believes that certain non-GAAP financial measures provide management and other users with additional meaningful financial information that should be considered when assessing the group's ongoing performance.

Management, the board of directors and the long-term lenders regularly uses supplemental non-GAAP financial measures to understand, manage and evaluate the business and its operations. These non-GAAP measures are among the factors used in planning for and forecasting future periods, including assessment of financial covenants compliance.

Profit measures

EBITDA and EBIT terms are presented as they are used by financial analysts and investors. Special items are excluded from EBITDA and EBIT as alternative measures to provide enhanced insight into the financial development of the business operations and to improve comparability between different periods.

Gross profit refers to revenue less cost of sales. Gross margin is calculated dividing the gross profit by revenue.

EBITDA is a measure of earnings (operating profit/loss) before deducting interest expense, taxes, depreciation, amortization and impairment. See note 3 for further details. The margin is calculated dividing the EBITDA by revenue.

Special items may not be indicative of the ongoing operating result or cash flows of the company. Profit measure excluding special items is presented as an alternative measure to improve comparability of the underlying business performance between the periods.

Segment revenue is based on those reported but excluding the impact of IFRS 15, so accounted for based on the revenue recognition principles prevailing before the mandatory adoption of IFRS 15 on 1 January 2018. See note 3 for further details.

Segment EBITDA is a measure of earnings (operating profit/loss) using segment revenue before deducting interest expense, taxes, depreciation, amortization and impairment. Special items are added back. Payments for long-term lease contracts under IFRS 16 are recognized as operating cost. Revenues from multi-client prefunding are recognized based on industry practice prior to implementation of IFRS 15. See note 3 for further details. The margin is calculated dividing the segment EBITDA by segment revenue.

EBITDA after multi-client amortization and special items is a measure using segment EBITDA, but deducting multi-client amortization applying industry practice prior to implementation of IFRS 15 where revenue is calculated using a percentage of completion method and the related amortization of multi-client library is based upon the ratio of aggregate capitalized survey costs to forecasted sales. See note 3 for further details. The margin is calculated dividing by segment revenue.

EBIT is a measure of earnings (operating profit/loss) before deducting interest expense and taxes. See note 3 for further details. The margin is calculated dividing the EBIT by revenue.

Segment EBIT is a measure of earnings using segment revenue before deducting interest expense and taxes. See note 3 for further details. The margin is calculated dividing the segment EBIT by segment revenue.

Backlog represents remaining expected revenue from signed contracts. Backlog is a transparent indicator of the company’s revenues and operations in the future.

Financing and investment measures

Alternative financing and equity measures are presented as they are indicators of the company’s ability to obtain financing and service its debts.

Working capital is a measure of the current capital necessary to maintain operations. Working capital includes trade receivables, inventory, other current assets, trade payables and other current liabilities.

Net interest-bearing debt/(cash) is defined as interest-bearing liabilities less cash.

Equity ratio is calculated as total equity divided by total assets.

Capital Expenditures (capex) means investments in property, plant and equipment and intangible assets (excluding multi-client library), irrespective of the whether the amount is paid for in the period.

Book value multi-client library Segment is reflecting amortization of multi-client library applying industry practise prior to IFRS 15. See note 3 for further information.

Magseis Fairfield ASA

Strandveien 50
N-1366 Lysaker NORWAY

Phone: +47 23 36 80 20